

# The house always wins

## Analysis of the Tasmanian Liberals' gambling policy

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*The Tasmanian Liberal Party's new gambling policy would increase taxes for pubs and clubs by around \$10 million per year, while cutting taxes for the state's casinos by \$9 million per year, if the gambling industry's proposed benchmark is used. Taxpayers would also contribute an extra \$1.7 million to counter the costs of problem gambling.*

Discussion paper

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**February 2018**

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ISSN: 1836-9014

# Summary

In January 2018, the Tasmanian Liberal Party released its poker machine policy. Although most attention has focused on the proposed changes to poker machine licensing, the policy would also make significant changes to poker machine tax rates.

The Liberal Party has indicated it would increase the pub and club tax rate, seeing these venues pay about \$10 million more per year.

The policy on poker machines in casinos is less clear, with the policy document saying only that the casino tax rate will be “benchmarked” to interstate rates.

Poker machine monopoly holder Federal Group and the Tasmanian Hospitality Association (“THA”) consider a comparable interstate tax rate to be 11% (GST exclusive), down from the current rate of 25.88%.

If this rate were implemented, it would represent an \$11 million per year tax cut for the casinos.

The Liberals’ policy is also to double the size of the Community Support Levy (“CSL”), which funds recreation, charities and problem gambling work. Doubling the CSL from its current level of \$4.4 million would bring it to nearly \$9 million per year. The policy’s levy increases would collect an additional \$0.6 million from pubs and clubs and \$2.2 million from the casinos, leaving the taxpayer to make up the shortfall of about \$1.7 million.

Even with these new CSL obligations taken into account, the casinos would save about \$9 million per year if their tax rate were benchmarked to the Federal Group–THA rate.

# Introduction

Tasmania's poker machine monopoly, set to expire in 2023, is due for negotiation this year. Currently held by Federal Group, it has been the topic of competing policy proposals from Tasmanian political parties.

In December 2017, the Tasmanian Labor Party announced its policy to remove poker machines from pubs and clubs. This is supported by the Tasmanian Greens.<sup>1</sup>

In January 2018, the Tasmanian Liberal Party released its policy document, *The Future of Gaming in Tasmania*. The policy would replace the current monopoly with licensing for individual venues and lower the pub and club cap from 2,500 machines to 2,350.<sup>2</sup>

The policy also aims to retain around 48% of all player losses from pub and club poker machines, including GST and the Community Support Levy ("CSL"). With regards to casino poker machines, the policy says:

The return to Government and therefore the community, through taxes, licence fees, and the CSL from the Federal Group's licenced gaming activities will be benchmarked against comparable casino operations interstate to ensure that the returns are competitive and fair for the community, players and the casino operator.<sup>3</sup>

The policy is also to double the size of the CSL, funded through increases to the CSL for pubs and the casinos, with taxpayers to pick up any shortfall.

This paper estimates how casino and pub and club earnings, state tax revenue and the CSL are likely to be affected. It uses the Federal Group–THA benchmark rate of 20% (GST inclusive) for casino poker machine taxes, as the Liberal policy does not specify a benchmark rate.

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<sup>1</sup> See for example ABC News (2016) *Poker machines out of Tasmanian pubs, clubs by 2023 under Labor promise*, <http://www.abc.net.au/news/2017-12-13/poker-machines-to-be-out-of-pubs-clubs-under-tasmanian-labor/9254442>; Dawkins (2017) *Community pokies campaign yields fruit*, <https://tasmps.greens.org.au/content/community-pokies-campaign-yields-fruit>

<sup>2</sup> Tasmanian Liberals (2018) *The future of gaming in Tasmania*, <http://www.tas.liberal.org.au/policy>

<sup>3</sup> Tasmanian Liberals (2018) *The future of gaming in Tasmania*, p 4, <http://www.tas.liberal.org.au/policy>

For analysis of the Labor and Greens proposals to remove poker machines from pubs and clubs, see our other work.<sup>4</sup>

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<sup>4</sup> Browne and Minshull (2017) *Pokies pub test; The bearable lightness of lost revenue; Gambling on the future*; all available from <http://www.tai.org.au/content/problem-gambling>

# Current policy

Currently, all poker machines in Tasmania are subject to GST and gaming tax, with machines in pubs and clubs also subject to an additional levy (the CSL). The CSL is not currently paid by the state's two casinos. The taxes and levy are applied to annual player losses.<sup>5</sup>

## GST

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Australia's GST rate as it applies to gambling player losses is 1/11, or a little over 9%, applied to the margin between money received and prizes paid out (i.e. to player losses).<sup>6</sup>

This replicates what occurs in the sale of more conventional goods and services, where the conventional GST rate of 10% is applied to the pre-tax transaction, for a final outcome that the vendor gets 10/11 shares and the government 1/11 shares.

GST accrues to the Commonwealth Government, not the Tasmanian government directly.

## COMMUNITY SUPPORT LEVY

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The Community Support Levy funds sport and recreation, charitable organisations and a variety of problem gambling-related areas, including research, treatment and education. It is distributed by the Tasmanian Treasurer, with recommendations and reporting done by the Tasmanian Liquor and Gaming Commission.

The CSL currently applies only to poker machines in pubs and clubs at a rate of 4% of player losses.

The Liberal policy is to increase the CSL for pubs (from 4% to 5% of player losses), but to leave the clubs rate unchanged. Presumably this is intended to reflect the additional pro-social role that is attributed to clubs.

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<sup>5</sup> Note that the commission uses the term "gross profit". This is the same as player losses; it does not include other business expenses such as paying staff, electricity bills, rent, etc, but is simply the gross profit of the operation of the poker machines. Tasmanian Liquor and Gaming Commission (2017) *Annual report 2016–17*, p 9.

<sup>6</sup> See ATO (2017) *Calculating your margin*, <https://www.ato.gov.au/Business/GST/In-detail/Your-industry/GST-when-conducting-gambling-activities/?anchor=HowGSTapplies togamblingsalesyouma>

The Liberal policy would, for the first time, apply the CSL to the casinos (at 3%). It is not clear why the rate for the casinos should be lower than that paid by not-for-profit clubs or locally-owned pubs.

If the levy increases are not sufficient to double the overall size of the CSL from its current rate of \$4.4 million per year, the government (taxpayers) will make up the residual.<sup>7</sup>

## GAMING TAX

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Tasmania's gaming tax rate is 25.88%. It applies to all poker machines in the state in pubs, clubs and the casinos, and accrues directly to the state government.<sup>8</sup> It raised \$47.1 million in 2016–17, around 1% of Tasmania's government revenue.

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Taken together, GST, CSL and gaming tax represents a total rate of around 39% of player losses from pub and club poker machines accruing to government: 9% to the federal government via GST, 4% to the CSL and 25.88% to the Tasmanian government's own-source tax revenue. The remaining share goes to the venues and machine owners.

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<sup>7</sup> Tasmanian Liberals (2018) *The future of gaming in Tasmania*, p 3, <http://www.tas.liberal.org.au/policy>

<sup>8</sup> Machines on the Spirit of Tasmania vessels are subject to a lower rate, 17.91%, but they represent a small share of all machines in the state.

# Analysis of Liberal policy

## IMPLICATIONS FOR PUBS AND CLUBS

The Liberal policy is to retain 48% of all player losses, CSL and GST inclusive, from pub and club poker machines and to increase the CSL rate for pubs to 5%.<sup>9</sup>

The taxes and levy for pub and club poker machines as a result of this policy would therefore break down as follows:

- The GST rate of ~9%.
- The CSL of 4% (clubs) or 5% (pubs) (approximated at 4.5% overall).
- The gaming tax rate for pubs and clubs would therefore be around 34.5% if the government is to retain 48% of revenue in total.

A gaming tax rate of 34.5% represents an increase of about 8.5 percentage points on the current gaming tax rate of 25.88%.

Pubs and clubs can expect to pay about \$10.1 million per year more as a consequence of the tax and levy increases. Table 1 shows that the increase in the gaming tax rate is responsible for \$9.5 million, and the increase in the CSL levy for \$0.6 million.

**Table 1: Implications for pubs and clubs, based on 2016–17 figures**

	Current model	Changes to taxes and levies	Net change
<b>Player losses</b>	\$110,327,885	\$110,327,885	-
<b>Gaming tax</b>			
<b>Gaming tax rate</b>	25.88%	34.5%	8.62
<b>Gaming tax take</b>	\$28,552,857	\$38,063,120	\$9,510,264
<b>CSL</b>			
<b>CSL rate</b>	4%	4.5%	0.5
<b>CSL take</b>	\$4,413,115	\$4,964,755	\$551,639
<b>Cumulative</b>			
<b>Rate</b>	29.88%	39%	9.12
<b>Take</b>	\$32,965,972	\$43,027,875	\$10,061,903

Source: Estimated using figures from Tasmanian Liquor and Gaming Commission (2017) *Annual report 2016–17*, p 9–10

Note: An indicative rate of 4.5% for CSL was used to reflect that the pub rate would become 5% and the club rate remain at 4%.

<sup>9</sup> Tasmanian Liberals (2018) *The future of gaming in Tasmania*, p 3, <http://www.tas.liberal.org.au/policy>

## IMPLICATIONS FOR CASINOS

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The Liberal policy does not specify what rate they would apply to casinos, only that it should be “benchmarked against comparable casino operations interstate” and that there should be a 3% CSL levy introduced for the casinos.<sup>10</sup>

Although the Liberal policy does not specify what they consider a comparable rate to be, the Federal Group–THA submission to last year’s Joint Select Committee on Future Gaming Markets proposed a rate of 20%, including the GST, on the grounds that it would be “consistent with Australian regional casino rates”.<sup>11</sup>

The Federal Group–THA rate of 20% would break down as follows:

- The GST rate of ~9%
- The proposed gaming tax rate for casinos would therefore be around 11%

A gaming tax rate of 11% for casinos represents a decrease of about 15 percentage points on the current gaming tax rate of 25.88%.

Unlike the Liberal policy, the Federal Group–THA proposal did not suggest that the casinos contribute to the CSL.

In Table 2, we have estimated what the consequences would be if the rate of 11% was adopted for casino poker machines, as recommended by Federal Group–THA, in conjunction with the 3% CSL levy in the Liberal policy.

The casinos would expect to pay \$8.5 million per year less if the casino tax rate was benchmarked at 11%, even accounting for the 3% CSL levy. Table 2 shows that a decrease in the gaming tax rate from 25.88% to 11% would save the casinos \$10.7 million per year, with the CSL levy costing them \$2.2 million.

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<sup>10</sup> Tasmanian Liberals (2018) *The future of gaming in Tasmania*, p 4, <http://www.tas.liberal.org.au/policy>

<sup>11</sup> Federal Group (2017) *Submission to the Joint Select Committee*, p 5

**Table 2: Implications for casinos, based on 2016–17 figures**

	Current model	Changes to taxes and levies	Net change
<b>Player losses</b>	\$71,953,573	\$71,953,573	-
<b>Gaming tax</b>			
<b>Gaming tax rate</b>	25.88%	11%	<b>-14.88</b>
<b>Gaming tax take</b>	\$18,621,585	\$7,914,893	<b>-\$10,706,692</b>
<b>CSL</b>			
<b>CSL rate</b>	0%	3%	<b>3</b>
<b>CSL take</b>	\$ -	\$2,158,607	\$2,158,607
<b>Cumulative</b>			
<b>Rate</b>	25.88%	14%	<b>-11.88</b>
<b>Take</b>	\$18,621,585	\$10,073,500	<b>-\$8,548,084</b>

Source: Estimated using figures from Tasmanian Liquor and Gaming Commission (2017) *Annual report 2016–17*, p 9–10

## IMPLICATIONS FOR GOVERNMENT AND THE CSL

The Liberal policy would increase tax take from pubs and clubs by \$9.5 million per year, as shown in Table 1, and CSL levy revenue by about \$2.7 million, as shown in Table 3.

The policy targets a doubling of the CSL, from \$4.4 million to \$8.8 million per year, with the government making up any shortfall. On 2016–17 figures, the government would have to contribute an additional \$1.7 million per year to make up the shortfall.

The policy to benchmark the casino tax rate using comparable interstate operations will have a variable effect depending on which benchmark is used. In Table 3, we have estimated what the consequences would be if a gaming tax rate of 11% was adopted for casino poker machines, as recommended by Federal Group–THA.

Overall, this benchmark would result in a loss of gaming tax revenue of \$1.2 million. When taken with the CSL shortfall that the government would make up, the total would be a loss of \$2.9 million.

**Table 3: Effects of changes to taxes, based on 2016–17 figures**

	Current model	Changes to taxes and levies	Net change
<b>Player losses</b>	\$182,281,458	\$182,281,458	-
<b>CSL target of doubled revenue</b>	N/A	\$8,826,231	-
<b>State revenues</b>			
<b>Gaming tax take</b>	\$47,174,441	\$45,978,013	<b>-\$1,196,428</b>
<b>CSL take</b>	\$4,413,115	\$7,123,362	\$2,719,247
<b>CSL shortfall (cost to government)</b>	N/A	<b>-\$1,702,869</b>	<b>-\$1,702,869</b>
<b>CSL and gaming tax take</b>	\$51,587,557	\$53,101,375	\$1,513,819
<b>Gaming tax loss plus CSL shortfall</b>	-	-	<b>-\$2,899,297</b>

Source: Estimated using figures from Tasmanian Liquor and Gaming Commission (2017) *Annual report 2016–17*, p 9–10

# Conclusion

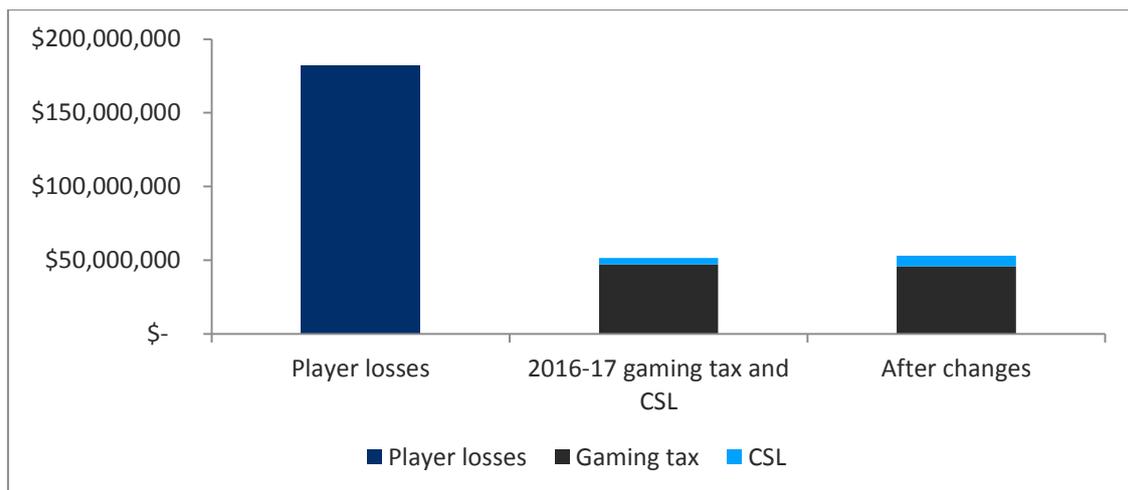
The Liberal policy is to increase taxes on pub and club poker machines, to “benchmark” taxes on casino poker machines and to raise the CSL for pubs and casinos to fund a doubling of the overall size of the CSL. The policy gives a target for pub and club poker machine tax rates and for the CSL increase. Taken together, these will cost pubs and clubs about \$10 million per year, and require a top-up to the CSL from the government.

The policy does not indicate what the casino “benchmark” might amount to, but last year Federal Group and the THA recommended a benchmark of 11% (GST exclusive), based on regional casinos interstate.

If that benchmark were applied, the result would be a tax cut for the casinos of \$11 million per year, for a total saving of \$9 million per year for the casinos once their new CSL obligations are taken into account.

For all the talk of big policy changes, millions of dollars and the doubling of the CSL, the policy only involves small changes relative to the over \$180 million lost by poker machine players each year in Tasmania. As shown in Figure 1, the flurry of changes disguises a simple truth: the house always wins.

**Figure 1: Gaming tax and CSL contributions as a share of player losses (pubs, clubs and casinos)**



Note: Using Federal Group–THA rate of 11%. The Liberal Party have not specified a benchmark.