

# **Gaming tax revenue in Tasmania**

**Pokies, keno, casinos and the GST: an analysis**

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# Introduction and summary

## GST and gaming

For almost all sources of state revenue, the Commonwealth Grants Commission calculates how much each jurisdiction is able to raise, through its own efforts, and adjusts GST distribution so all states have an equal capacity to fund their services. But some important areas are left out of this process, giving an unfair advantage to some states and an equally unfair disadvantage to the rest. Mostly, the beneficiaries of this are the larger, richer states such as New South Wales, Victoria and Queensland; smaller, poorer states like Tasmania and South Australia are disadvantaged further.

Several revenue sources are involved, including gambling, fees and fines, user charges, contributions by trading enterprises, and interest and dividend income. The contribution of gambling revenue to this situation is examined here. An argument is put that various states have substantially different capacities to support a gambling industry from their own populations, and different capacities to benefit from gambling by wealthy visitors, particularly from south and east Asia.

From 1937 until 2010, the Grants Commission calculated differences in the various states' capacities to raise money from gambling. In a continuing attempt to make this process more and more accurate, its methods became more and more complex. In the end, the system had become so complex, with so many internal contradictions, that the Commission abandoned it, saying it could not find a formula that it regarded as reliable.

So in 2010, after decades of increasing complexity, the Commission discarded a system it thought was imperfect in favour of one that does not work at all. From that point, all states and territories were regarded as having an equal capacity to raise money from gambling, despite obvious evidence that this is not so. Now, jurisdictions such as New South Wales, which have relatively richer populations that can support gaming on a vast scale and large casinos attracting overseas high-roller table gamers gained a major benefit in GST revenue at the expense of other states, like Tasmania and South Australia. This is in violation of the basic purpose of horizontal fiscal equalisation which the Commission is required by law to implement.

Successive Tasmanian governments have encountered a number of problems, many of their own making, which result in low state taxation income. Although the nation's smallest, poorest and oldest state is at an obvious structural disadvantage, that is largely addressed by fiscal equalisation. But, according to Grants Commission findings, tax rates in a number of areas need to rise for Tasmania to be able to fund services to a national standard. Details of these can be found in the appendix to this paper.

The largest area in which Tasmania falls short, though, is the portmanteau "other" category, which includes gambling, fees and fines, returns from government enterprises and other categories. All these have in common is that the Commission does not calculate relative abilities and disabilities between the states, and does not attempt to redress these through GST redistribution.

The most significant of these is gambling, of which gaming – casinos, pokies, keno, lotteries and so on – is responsible for almost all gambling taxation earnings.

Analysis of the data shows that the relativities between the states in gaming can be readily addressed by looking principally at the capacity each state and territory

population has to support gaming, and to attract overseas casino gamblers, particularly from south and east Asia. The data clearly show that states whose populations have less disposable income, such as Tasmania and South Australia are less likely to have high gaming expenditure, compared to richer states like New South Wales, Victoria and Queensland. In 2016-17, government gaming revenue per head of adult (18+) population was \$191.89 against a national average of \$302.33.

Variations from this rule can be readily explained by differing state policies, such as the WA government's refusal to sanction pokies outside of casinos and the support by a long succession of NSW governments for a very large number of "pokie barn" registered clubs. The Grants Commission's methods of "policy neutrality" require it to ignore the differences between state policies and to make its calculations instead on national averages. At the moment, NSW is able to get away with the extra tax revenue its policies create. This is in contravention of one of the main tenets of horizontal fiscal equalisation.

Over the decade to 2016-17, per capita gaming tax revenue has fallen across the nation, but much more quickly in Tasmania. When adjusted for population and inflation, Tasmania's gaming tax revenue fell by \$12.458 million a year (in 2016-17 dollars) faster than the already-dropping national average.

In the first six years after the Grants Commission dropped gambling equalisation in 2010-11, Tasmania's gaming tax revenue fell behind the rest of the nation by over \$280 million. By now, that amount is likely to have reached about \$350 million.

This paper concludes that Tasmania is likely to be disadvantaged by between \$45 million and \$60 million a year by the Commission's failure to redistribute GST for gambling.

On top of this, a similar amount is being foregone by this state's very low tax rates on gaming profits. Reform of these two areas – Grants Commission assessment and tax rates – could be expected to increase state government revenue by around \$100 million a year.

## **Tasmania's unduly low gaming tax rates**

Overall, the Tasmanian government's share of revenue from gaming is much lower than it could or should be. The areas of major concern are gaming machines and keno. Both are part of the Federal Group's gaming monopoly.

Keno is the most obvious and egregious example. Tasmania's levies tax of only 5.88% of gross profits; together with other payments, this worked out in 2015-16 to an overall government share of 6.4% of net player losses (that is, losses minus wins). In other states, tax rates on keno range from around 9% to 24% of player losses.

Overheads are not reported but are low. The Federal Group, which owns the state's two casinos as well as Network Gaming (the subsidiary set up to run the keno and gaming machine monopolies throughout the state) reports a staff of only 30 to oversee pokies and keno.

Keno forms a more significant role in overall gaming in Tasmania than in other states. In 2015-16, keno's share of total gaming net losses was 3.31% against a national average of 1.85%. In 2016-17, keno betting in Tasmania accounted for three times the proportion of per capita disposable income as in the country overall.

If keno net losses had been taxed in that year at 25%, in line with gaming products in other states, the state would have received \$8.3 million more than it did. If the rate had been 40%, which would be justified by the low overheads and high profits of operators, the tax receipts would have been \$13.3 million, or \$11.2 million more than they were.

There is also strong case for increasing the tax rate on gaming machines. As this table shows, Tasmania also has the second-lowest tax rates in the country, with operators and venues getting the second-highest return, after NSW.

**Revenue share for gaming machines (percentage of gamblers' net losses)<sup>1</sup>**

	NSW	VIC	QLD	SA	TAS
<b>State govt tax</b>	22.9%	44.9%	32.1%	39.5%	29.9%
<b>Operator/ venue</b>	68.0%	46.0%	58.8%	51.4%	61.0%

In the light of the strong growth in the gaming industry, together with much more stable overhead costs, substantially increased tax rates across the board should be imposed. In the two decades from 1995-96 to 2015-16, net gaming losses in Tasmania rose by 50.2% in real terms, after taking inflation into account.

Given the very large increase since then in expenditure and in profits, a further substantial increase is now overdue. If gaming expenditure had been taxed at 40%, the government's income would have been \$113 million, or \$31.2 million more than it was.

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1. Owen Gaming Research, *The Tasmanian Gaming Environment: Evaluation and Comparison*, p.11, 2017, quoted in Report of the Joint Committee on Future Gaming Markets, Parliament of Tasmania, p. 137, 2017.

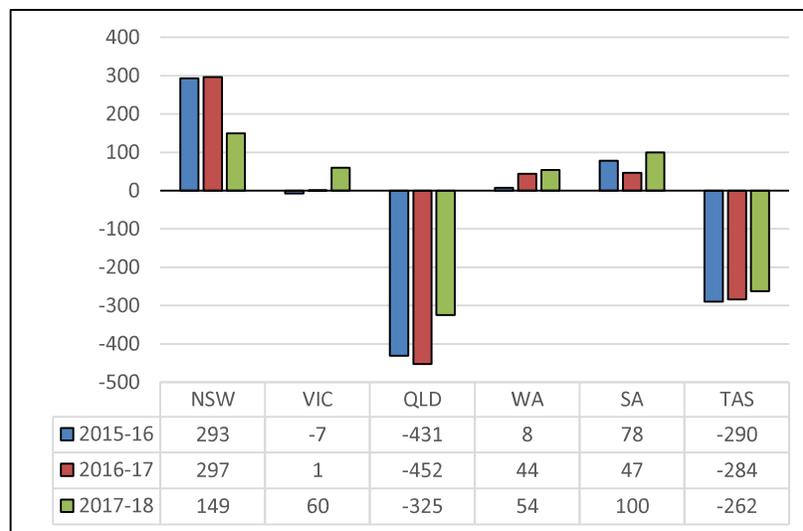
# Gaming tax revenue in Tasmania

The Tasmanian government’s taxation revenue is too low to allow the state to fund its services to a national standard. This, along with other aspects of fiscal policy, is why crucial services – and particularly public hospitals – operate at such a poor standard. Many aspects of fiscal policy and government priorities need to be addressed, but unduly low taxation rates are prominent among them.

The Commonwealth Grants Commission recognises the state’s low capacity, relative to other states, to raise its own money and redistributes GST funds from other jurisdictions. But it does not compensate the state for its below-average “taxation effort”. The result is that Tasmania’s comparative capacity to fund services is about \$150 million a year less than the Australian average.<sup>2</sup>

To see how Tasmania compares with the rest of the country, we must look at the per-capita figures. As we can see from the following chart, only Queensland is in a worse situation.

**Total tax revenue, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**

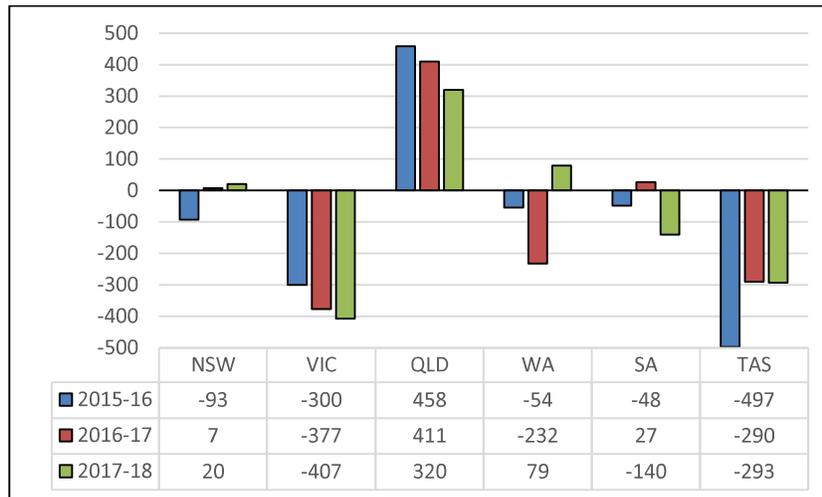


Overall, Tasmania’s shortfalls in some areas – conveyance (stamp) duty, motor taxes and mining revenue – are greater than those in which the revenue is above the amount the Grants Commission says the state needs to raise. Substantial losses are made in in the Commission’s “other” category, which includes gambling taxes, fees and fines, user charges, dividends from government enterprises, and investment income. None of the taxes in this category are subject to redistribution by the Grants Commission, regardless

2. Commonwealth Grants Commission, 2019 Update (supplementary tables): *The Assessed Budget*.

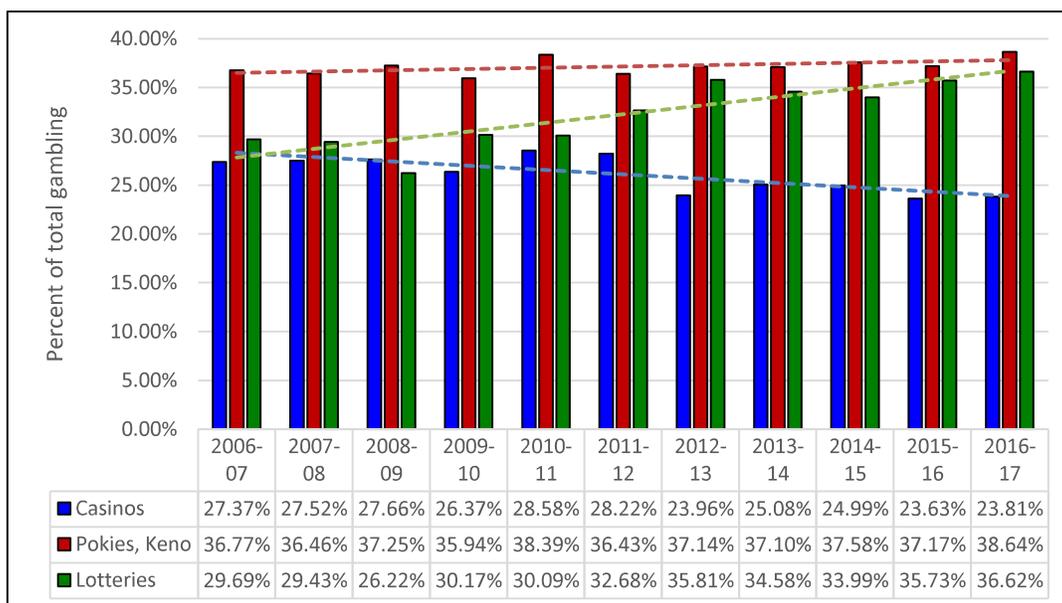
of a particular state’s capacity to raise money. The inherent disabilities of certain jurisdictions, and the relative advantages of others, are therefore not addressed. This is no small issue. For Tasmania, the annual amount actually raised in this category is over \$800 million dollars and the amount we would have to raise to meet the national standard is in excess of \$1 billion.

**‘Other’ revenue, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



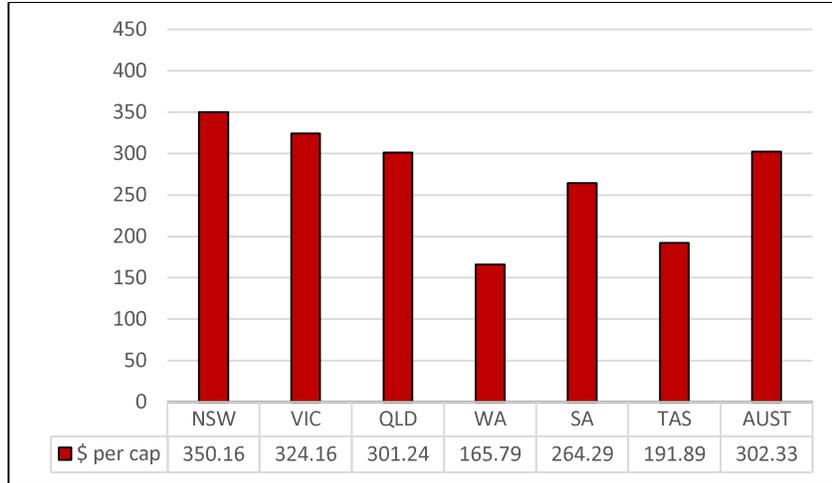
Of the various elements of the “other” category, relatively lower revenue from gambling taxes is responsible for a substantial part of this shortfall. Almost all gambling revenue comes from gaming – casinos, poker machines, lotteries and pools. Over a decade, casinos have fallen in relative significance, lotteries and pools have risen, and revenue from gaming machines has been fairly steady.

**Tasmanian government tax revenue from gaming as percentage of total gambling revenue, 2006-07 to 2016-17**



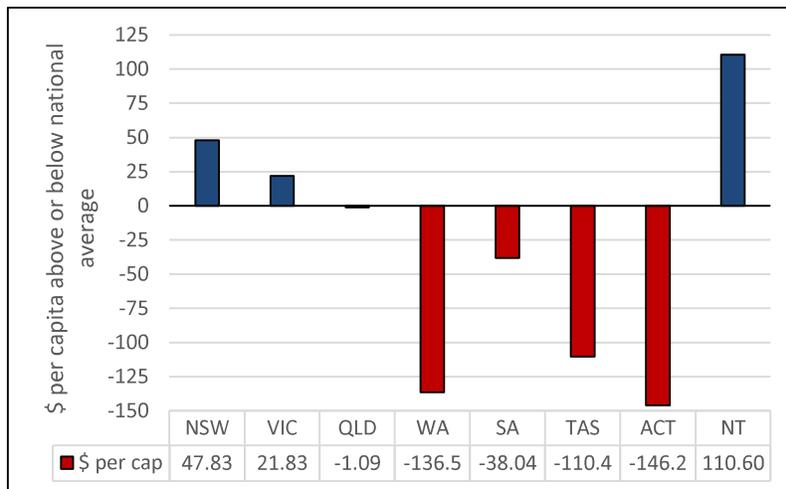
Overall, Tasmania’s per capita gaming revenue is the second lowest of any state. Only Western Australia, which does not permit gaming machines outside of casinos, secures less ...<sup>3</sup>

**Gaming revenue per head of adult (18+) population, 2016-17**



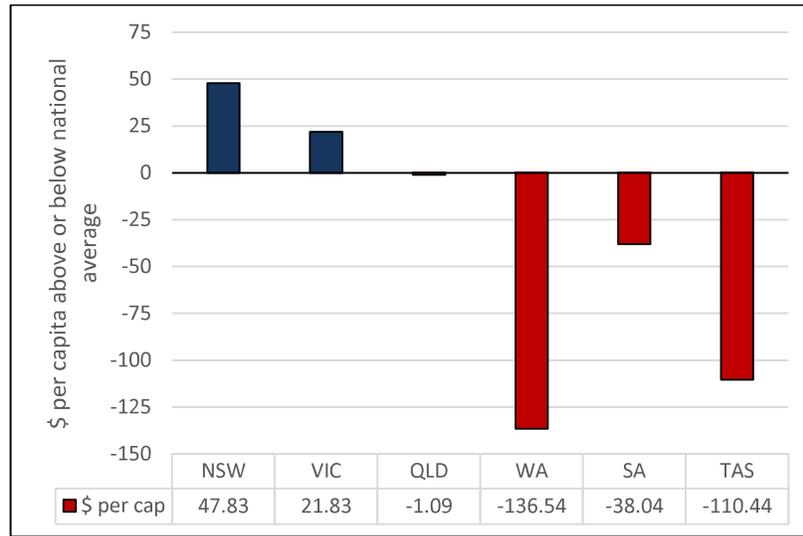
... but there is now no attempt by the Grants Commission to remedy the situation. The Commission says it has been unable to find a satisfactory way of calculating a state’s relative capacity to raise gambling revenue and does therefore not try. As with all other taxes in the “other” category, it does not redistribute GST in this area. This has produced very large continuing windfall gains for the high-gaming states and taxation deficits in others. Even when inflation is taken into account, as in the two graphs below, Tasmania’s relative disability to earn revenue in this area has fallen further and further behind the rest of the nation.

**Gaming revenue above or below the national average, per capita of adult (18+) population, states and territories, 2016-17**



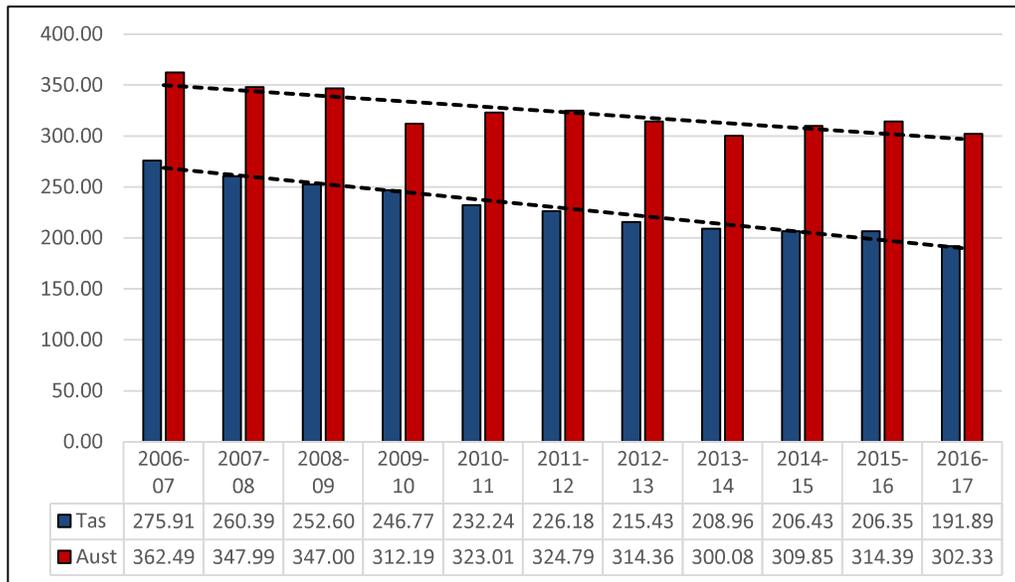
3. The territories are not included because their gaming statistics are not comparable to the states: the ACT because many gamblers live outside of the territory, and the NT because a large population not filing tax returns artificially inflates gaming statistics for the rest.

### Gaming revenue above or below national average per capita of adult (18+) population, states and territories, 2016-17



As the following graph shows, Tasmania’s per capita gaming tax revenue has fallen significantly faster than in the rest of the country. These figures have been adjusted for inflation and for population change, revealing more clearly the real situation. Over the decade 2006-07 to 2016-17, state and territory government gaming revenue in Australia generally fell by 16.6%. In Tasmania, it fell by 30.45%.

### Total gaming tax revenue, per capita of adult (18+) population, Tasmania and Australia, constant prices, 2006-07 to 2016-17

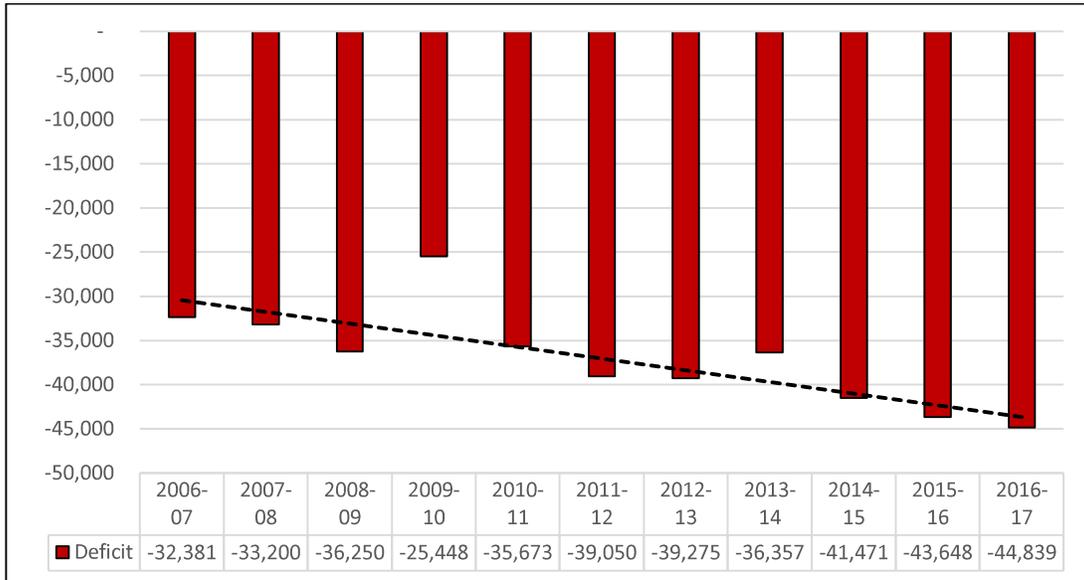


NB: In 2016-17 dollars

When calculated on the same basis, the amount that Tasmania fell behind the rest of the country in gaming tax revenue went from \$32.381 million in 2006-17 to \$44.839 million

ten years later. This represents a fall in real terms of 38.47%. The state's gaming tax revenue fell by \$12.458 million a year faster than the already-dropping national average.<sup>4</sup> In the first six years after the Grants Commission dropped gambling equalisation in 2010-11, Tasmania's gaming tax revenue fell behind the rest of the nation by over \$280 million. By now, that amount is likely to have reached about \$350 million.

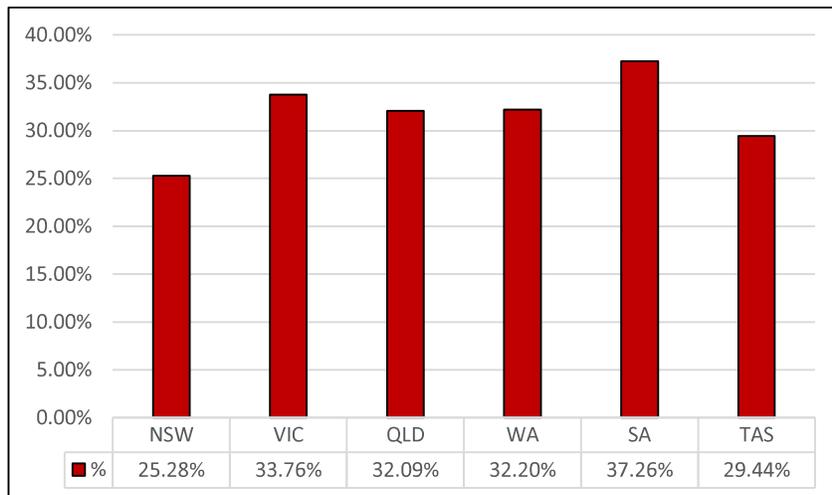
**Deficit in Tasmania's gaming tax revenue (\$'000) compared with the national average, constant prices, 2006-07 to 2016-17**



NB: In 2016-17 dollars

Overall, Tasmania's gaming taxes are the second-lowest of an state. Only NSW, which levies lower rates on its 1,348 registered clubs, are less.

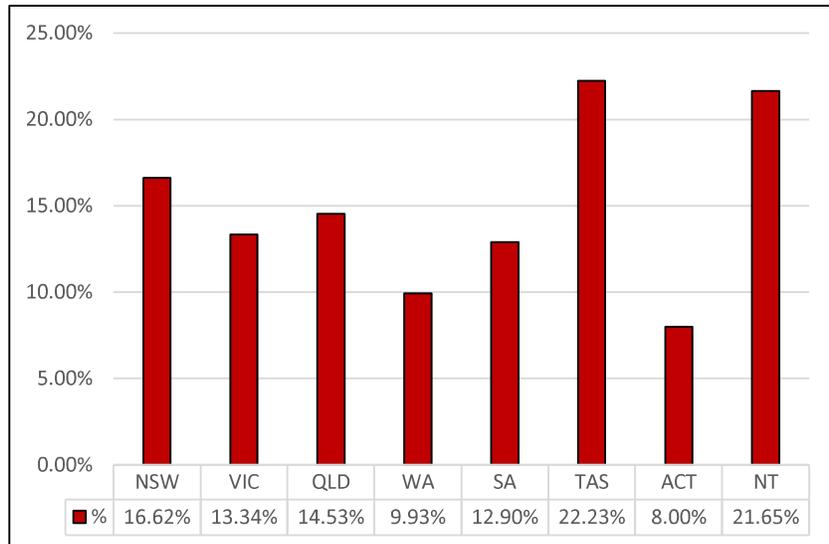
**Gaming tax revenue as a percentage of net gaming losses, 2016-17**



4. In 2016-17 dollars.

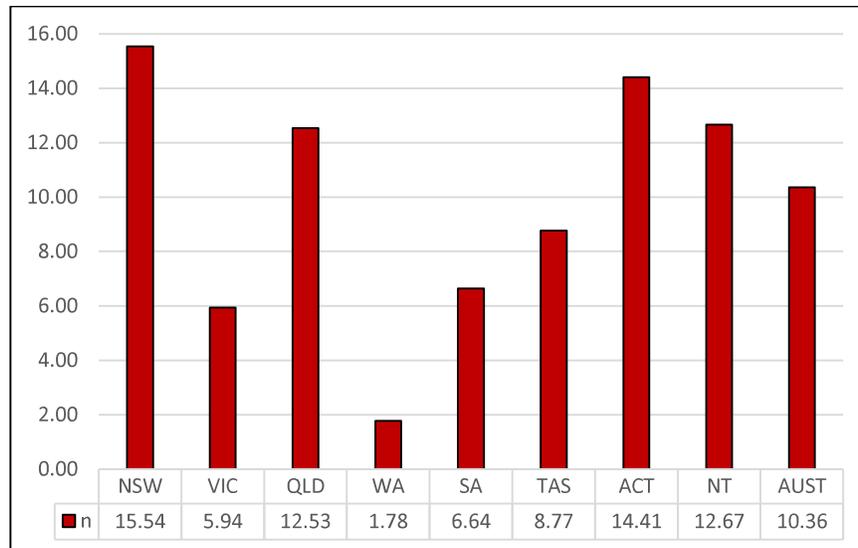
Casinos, as such, are relatively highly taxed in Tasmania, with the highest rates in the nation as a percentage of net losses by gamblers. Tasmania’s two casinos are largely “pokie barns”, so this apparent discrepancy can be explained by the very high proportion of revenue coming from gaming machines.

**Tax revenue as a percentage of net losses at casinos, 2016-17**



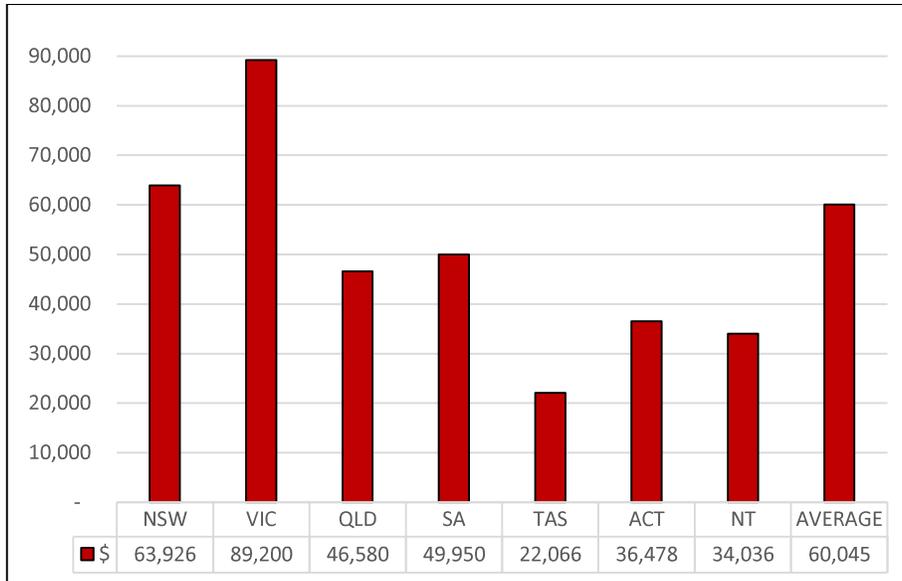
The low amount raised from gaming machines compared to other states is one of the leading causes of the Tasmanian government’s low gambling revenue. This is not because the state has many fewer machines than its size would indicate: although machine numbers are lower than the per capita national average, it is not by a huge margin. And the average is powerfully boosted by the high saturation of machines in NSW.

**Number of gaming machines per 1,000 adult population, 2016-17**



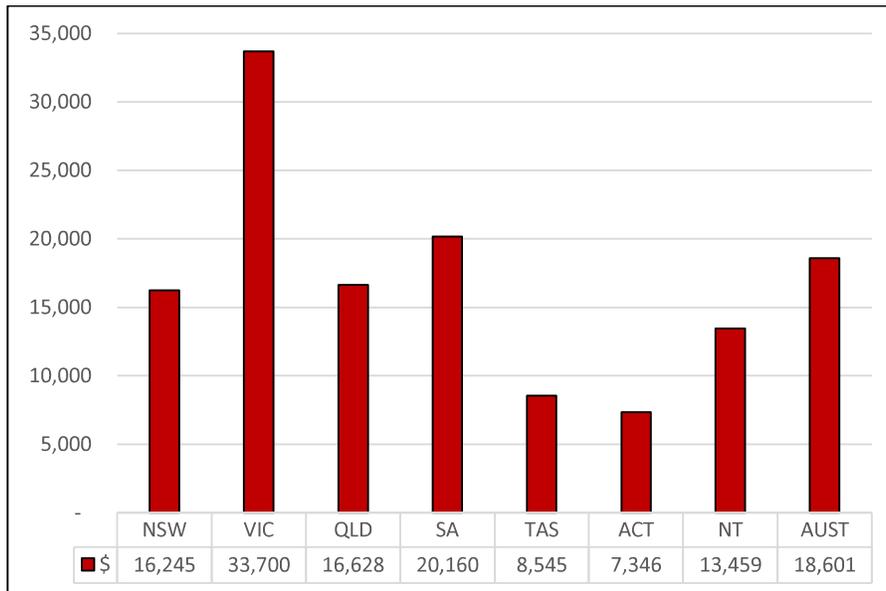
Rather, it is partly because – as we have seen – tax rates on profits are so low. But it is also the case that gamblers in Tasmania spend less on each machine than those in any other jurisdiction ...

**Net losses by gamblers per gaming machine, 2016-17**



... so taxation revenue for each machine is therefore also Australia's lowest. The data reveal very similar rates of taxation for gaming machines across the nation.

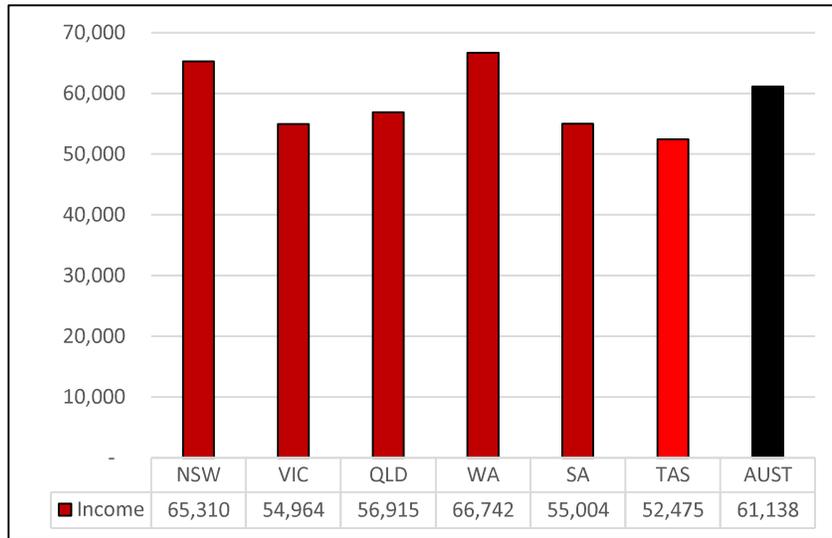
**Government revenue per gaming machine, 2016-17**



*NB: Revenue includes Keno*

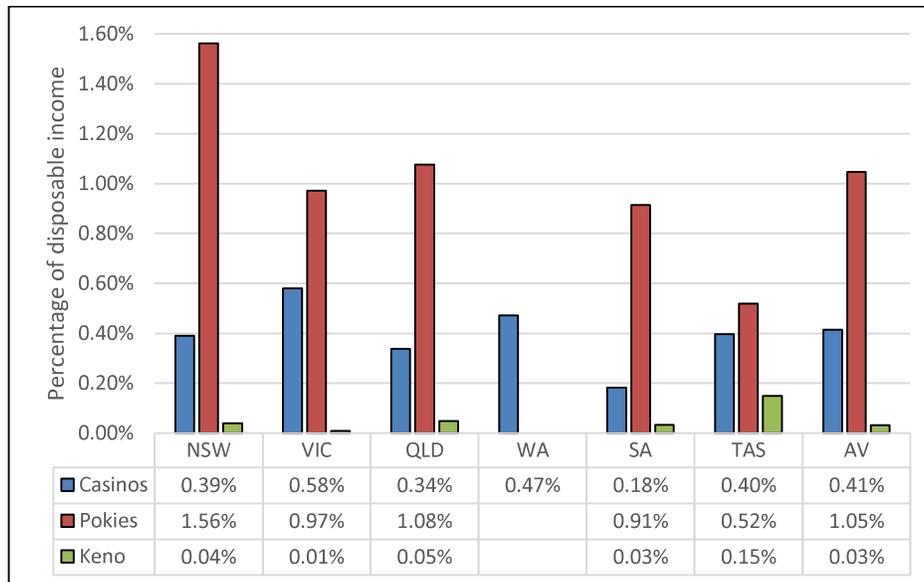
Of all Australians, Tasmanians have the least disposable household income in the country.<sup>5</sup> Their capacity to afford to gamble is therefore much less ...

**Average per capita disposable income, 2016-17<sup>6</sup>**



... so it is hardly surprising that the government, levying average rates of taxation on gaming companies, derives less revenue than other jurisdictions.

**Net gaming losses as a proportion of average disposable income, 2016-17<sup>7</sup>**



5. Australian Bureau of Statistics, *Household Income and Wealth, 2016-17* (released July 2018).

6. The territories are left off of this calculation because of the ACT's high non-resident population, and the NT because its large population of people who do not file taxation returns artificially inflates the reported average income of the total.

7. WA permits no gaming machines outside of casinos.

# Policy implications

## Fiscal equalisation

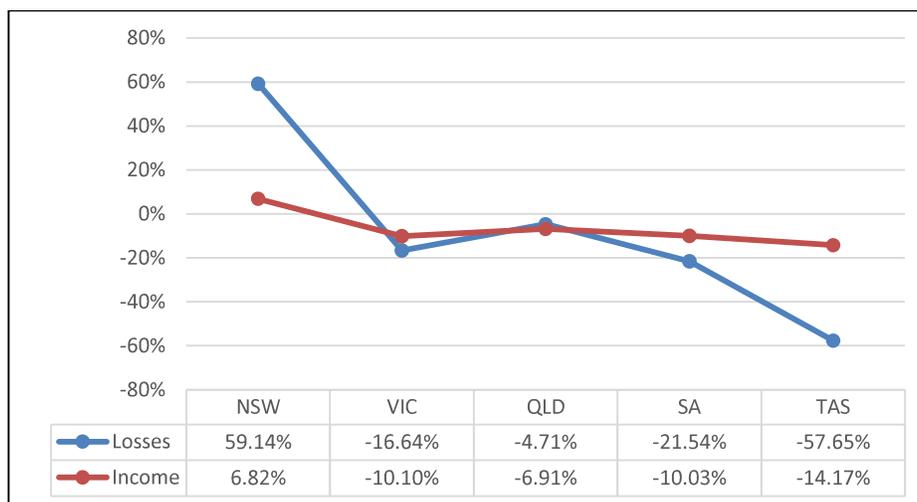
In 2010 the Grants Commission decided to abandon its assessment of the relative capability of states and territories to raise money from gambling taxes because it believed its methods lacked an adequate evidence base. For the first time since the gambling assessment was introduced in 1937, each state is now assumed to have an equal capacity to support a gambling industry, subject only to population size.

The Commission thus abandoned a system it regarded as working imperfectly for one which does not work at all.

When we look at the how the proportion of disposable income spent per head of population on poker machines in the states varies from the national average, we see large variations in NSW and Tasmania but relatively small ones in Victoria, Queensland and South Australia.

The most likely explanation for the high rate of expenditure in NSW is the very high saturation of poker machines and the large number of registered clubs and other gaming venues. In 1953 NSW became the first state to legalise the machines; it was the beginning of a huge industry. For the purposes of fiscal equalisation, the high expenditure in NSW should be considered an effect of state policy. In Tasmania, the result most probably reflects the fact that this state has the lowest disposable income in the country – with less capacity to spend on expensive luxuries like poker machines – and that keno, a more affordable option available in the same venues, is being substituted for gaming machines.

**Net losses on gaming machines, and per capita disposable income, percentage variation from national averages, 2016-17<sup>8</sup>**

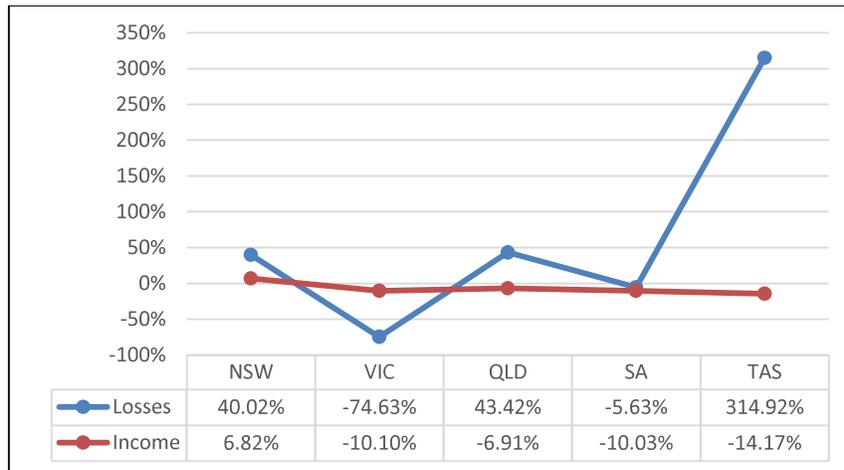


8. These figures refer to gaming machines in pubs and clubs, not in casinos. WA does not permit gaming machines outside of casinos. The ACT and the NT are not included here because they cannot be compared with other jurisdictions. The ACT population includes large numbers of non-residents. Average reported incomes based on tax returns in the NT are artificially elevated because of the large numbers of indigenous people not earning enough to need to file a return.

Therefore, disposable income – in other words, the capacity of a state to support a gaming industry – should form the basis of an assessment of relative disability for the purposes of fiscal equalisation.

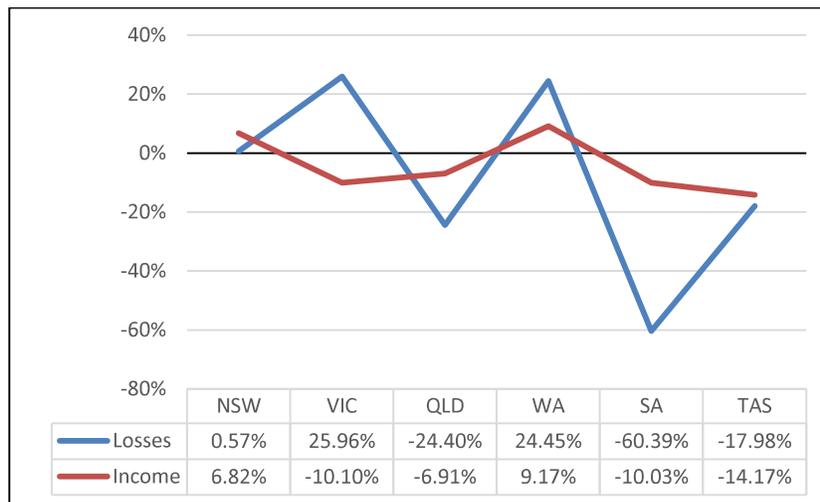
When the same analysis is applied to keno, we see a comparatively even result for all relevant jurisdictions other than Tasmania. Here, there is a mirror image of the poker machine result, a clear indication that many gamblers at casinos, clubs and pubs with both machines and keno choose to spend money more manageably on keno. This is clear evidence of a substitution effect. Overall, the use of disposable income remains the most suitable basis for assessing relativities in gaming.

**Net losses on keno, and per capita disposable income, percentage variation from national averages, 2016-17**



Assessing relativities for casinos is more complex. As this graph shows, a simple application of the disposable-income analysis does not work here.

**Net losses in casinos, and per capita disposable income, percentage variation from national averages, 2016-17<sup>9</sup>**



9. These figures include gaming machines in casinos.

Casinos have three main sources of income: table gaming, poker machines and keno. Those which can attract high-roller table gamblers can make vary large profits indeed. Those which are principally pokies venues, like Tasmania’s two casinos, are almost indistinguishable from the large leagues clubs in NSW. In 1012-13, table gaming was responsible for only 10% of net losses (bets minus wins) on gaming. Machines accounted for 86%.

This is not the case elsewhere. In its most recent report on gambling in Tasmania the consulting group ACIL Allen reported that:

A study of casinos in Australian jurisdictions indicates that EGMs account for 41% of total Australian casino gaming revenue ... On the basis of this measure, casino EGM expenditure, as a proportion of total casino gambling expenditure in Tasmania, is high relative to other Australian casinos.<sup>10</sup>

The average national figures showed that in 2009-10, gaming machines accounted for only 40% of casino gaming revenue. Table gaming accounted for 38% and international VIP program players – the ‘high rollers’ playing only high-stakes table games – for another 20%.<sup>11</sup>

#### Australian casino revenues from international VIP players

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue (\$m)	462	461	313	383	476	553	675	688
% of gaming revenue	18.3	17.5	11.9	13.4	16.5	17.5	20.2	20.1

Crown Resorts’ Barangaroo development in Sydney, currently under construction, will have no poker machines at all and will rely overwhelmingly on international gamblers.<sup>12</sup>

When looking at casinos, assessment of relativities for fiscal equalisation should therefore concentrate primarily on disposable income only for gaming machine revenue, with an allowance for the capacity of states to attract lower-spending international visitors who also play poker machines. For lower-paying table gaming a similar formula, probably weighted to take into account a greater correlation between higher-than-average disposable income and a capacity to take part in table gaming, seems to be relevant.

But the domestic income measure is clearly irrelevant for international VIP table gaming. Here, we need a measure of the capacity of each state to attract wealthy international visitors, particularly from east and south-east Asia. This can be based on existing data from Tourism Research Australia. These findings also permit a calculation of the further contribution to a state’s economy of spending by these visitors in accommodation, food and other leisure.

10. ACIL Allen Consulting, *Fourth Social and Economic Impact of Gambling in Tasmania*, 2017, p. 30.

11. Australian Casino Association, *Economic Survey 2009-10*, p. 6.

12. Lucy McNally, *No pokies for James Packer's Barangaroo Crown casino, NSW Premier says*, ABC News, 7 March 2017.

## Tax and super profits

Profits available to keno operators, particularly in Tasmania where these games are popular, are huge. In 2015-16 gamblers lost a \$33,321,000 net of winnings on keno<sup>13</sup> and the state received \$2,132,619 in tax revenue, fees and penalties.<sup>14</sup> This represents a total revenue rate of 6.4%, of which taxation is 5.88%.

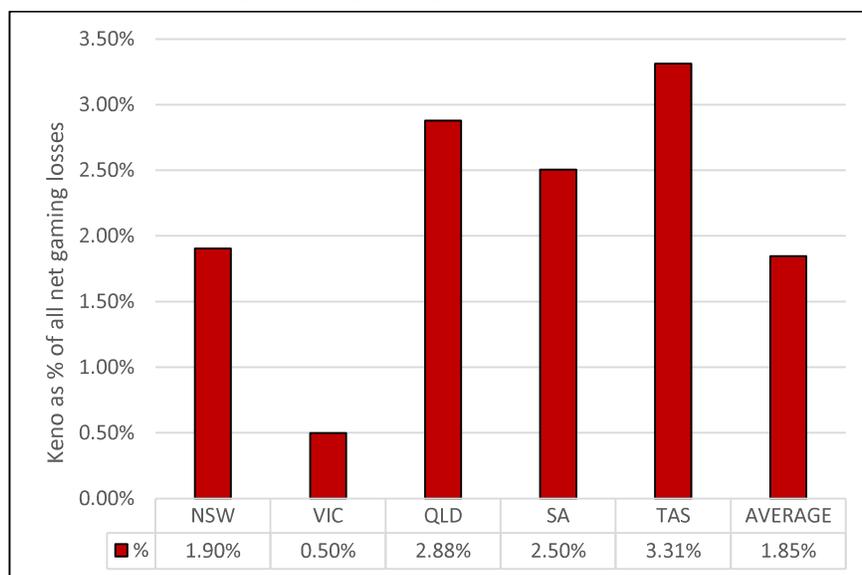
Other overheads are not reported but are comparatively low. The proprietor, Federal Group, owns the state's two casinos as well as Network Gaming, the company set up in 1996 to operate Tasmania's gaming machines and keno throughout the state, for which they hold the exclusive licence. They report a staff of only 30 to oversee pokies and keno.

Federal also owns the Vantage Group, which in turn owns and operates 12 pubs around the state, including some of the biggest-grossing gaming venues. All profits from the casinos and from these pubs goes to the Farrell family, the sole proprietors of the Federal Group. Those venues which sell keno but do not belong to Federal pay a share of their takings to Network Gaming. All but a very few employees of the various venues would be employed whether or not keno was available.

It is clear that a return to the government of 6.4% of keno gambling expenditure is extraordinarily low. It compares poorly with other gaming options: in 2015-16 the government received 25.88% of gaming machine expenditure in pubs and clubs, and 22.31% of casino gaming. Revenue from licence fees was low: \$3.6 million from casino licenses and \$318,000 from hotel and club gaming fees.

Keno's share of total of gaming expenditure in Tasmania is far greater than in other states.

**Keno as a percentage of all gaming expenditure (net losses), 2015-16**



In 2017 the Joint Select Committee on Future Gaming Markets of the Tasmanian Parliament found that:

13. ACIL Allen Consulting, *Fourth Social and Economic Impact study of Gambling in Tasmania*, 2017, vol. 1, p. 61.  
 14. Queensland Statistician, *Australian Gambling Statistics* (34th edition), p. 140.

389. Comparing the tax rate on Keno in Tasmania with states that use a comparable measure (NT, NSW, Victoria, WA), the Tasmanian rate of 5.88% is low compared to comparable States, where tax rates on Keno range from around 9% to 24% of player losses/gross profits. Similarly, when the ACT's rate of 2.53% is converted to an equivalent percentage of gross profit, given a return to player of 75%, the comparable tax rate is 10.12%.

390. Keno is a relatively low cost game with high rewards for the licensee, and so should be able to support higher rates of tax.<sup>15</sup>

If keno net losses had been taxed at 25% of net losses in 2015-16, instead of at 6.4%, the state would have received \$8,330,250, or \$6,197,631 more than it did. If the tax rate was 40% – a rate justifiable by the high profits and low overheads being generated – the tax receipts would have been \$13,328,400, or \$11,195,781 more than it did.

And as this table shows, Tasmania also has by far the lowest tax rates for **gaming machines** in the country.

**Revenue share for gaming machines (percentage of gamblers' net losses)<sup>16</sup>**

	NSW	VIC	QLD	SA	TAS
<b>State govt tax</b>	22.9%	44.9%	32.1%	39.5%	29.9%
<b>Operator/ venue</b>	68.0%	46.0%	58.8%	51.4%	61.0%

The Joint Parliamentary Committee found that:

366. This (tax rate of 29.9%) is relatively low compared to effective tax rates applied in other states. Victoria has an effective tax rate of 44.9%, Queensland 32.1% and South Australia 39.5%. Only NSW has a lower tax rate than Tasmania, which is set at 22.9% (all rates are exclusive of GST).

367. Given this, there may be justification for an increase in taxation rates as part of overall gaming tax reform.<sup>17</sup>

In the light of the strong growth in the gaming industry, together with much more stable overhead costs, substantially increased tax rates across the board should be imposed. In the two decades from 1995-96 to 2015-16, net gaming losses in Tasmania rose by 50.2% in real terms, after taking inflation into account.

Given the very large increase since then in expenditure and in profits, a further substantial increase is now overdue. If gaming expenditure had been taxed at 40%, the government's income would have been \$113 million, or \$31.2 million more than it was.

15. Joint Committee on Future Gaming Markets, *Report*, Parliament of Tasmania, 2017, p. 146.

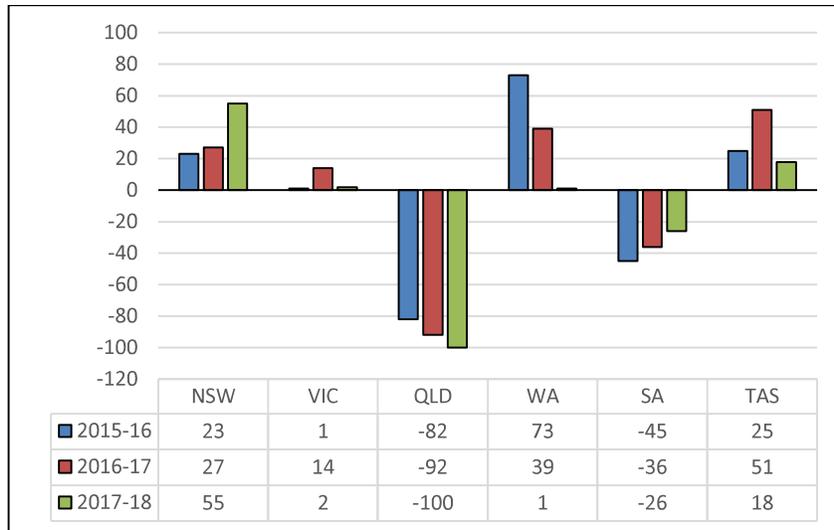
16. Owen Gaming Research, *The Tasmanian Gaming Environment: Evaluation and Comparison*, p.11, 2017, quoted in Report of the Joint Committee on Future Gaming Markets, Parliament of Tasmania, p. 137, 2017.

17. Joint Committee, p. 137.

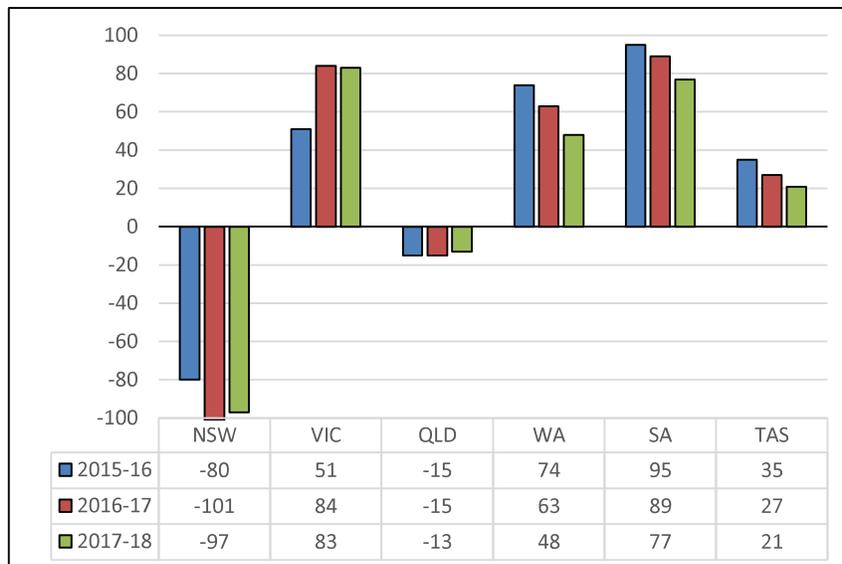
# Appendix: Taxation categories

These graphs show how the Tasmanian government's taxation revenue has differed from the amounts the Commonwealth Grants Commission assesses would have been needed in order to be in line with the rest of Australia and to fund services to an equal level and standard.

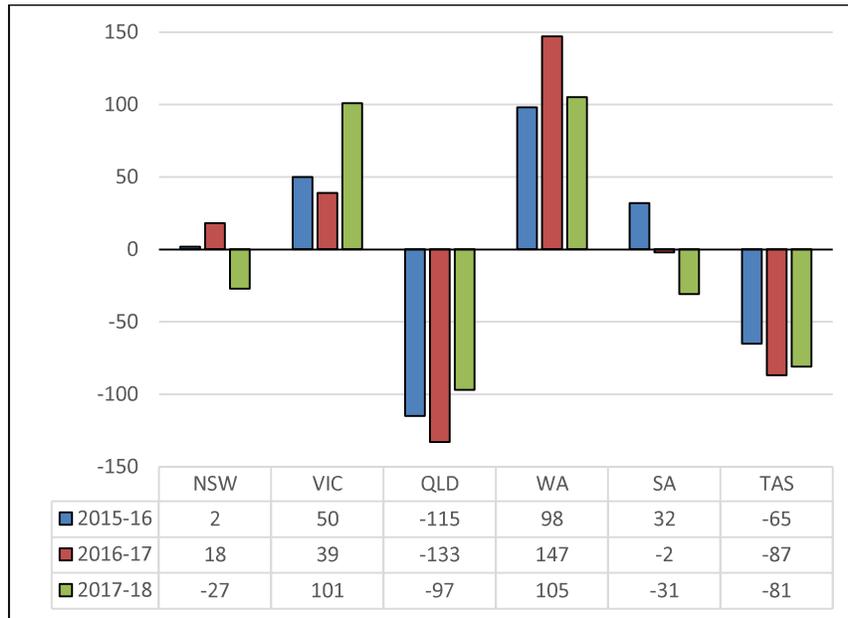
**Payroll tax, \$ per capita variation from assessed requirement**



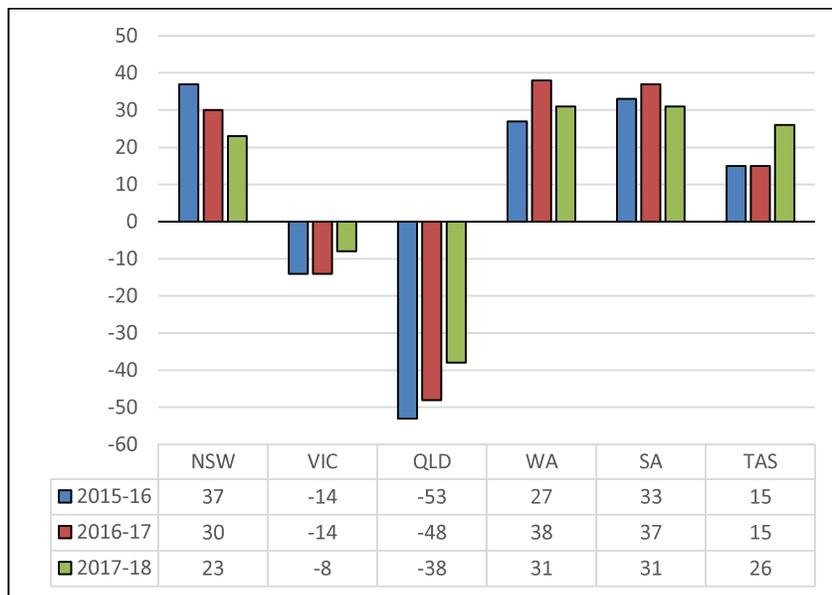
**Land tax, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



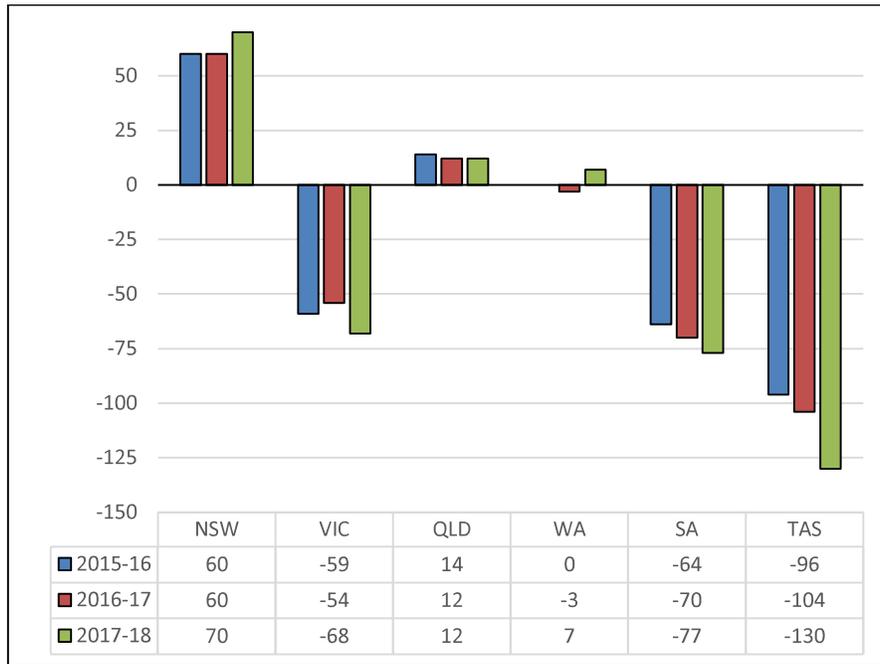
**Stamp duty, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



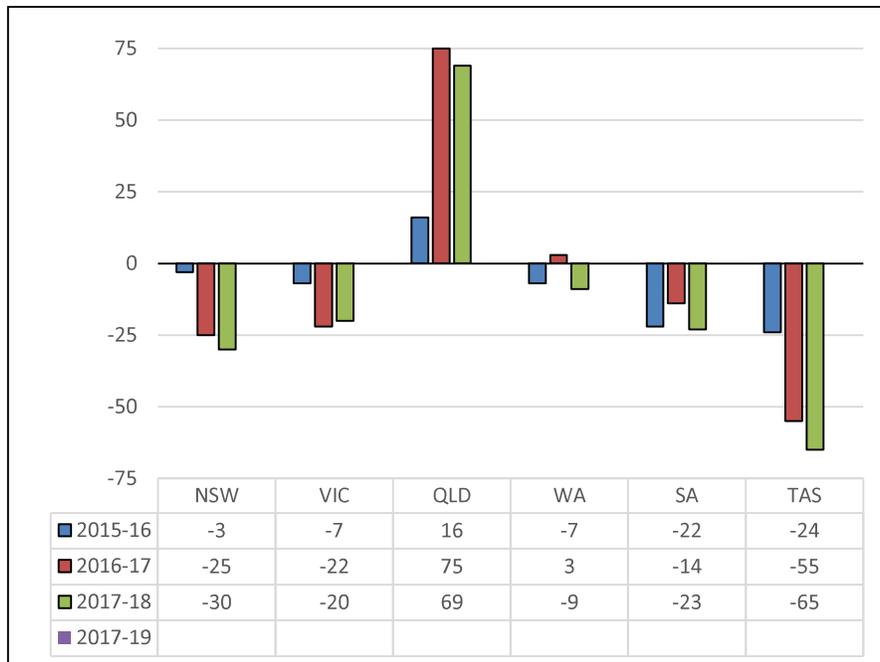
**Insurance tax, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



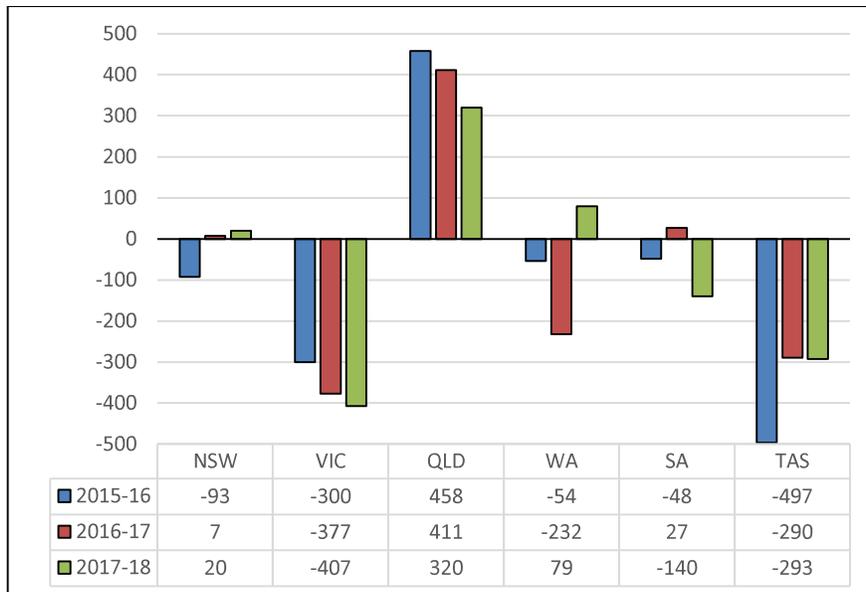
**Motor taxes, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



**Mining revenue, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



**'Other' revenue, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**



**Total tax revenue, \$ per capita variation from assessed requirement  
2015-16 to 2017-18**

