

The Rank Group Plc

Responsible taxation: Fairness, Responsibility and Sustainability

A simplified and coherent regime for betting and gaming

"...after years of tinkering the UK's betting and gaming tax penalises well supervised gaming operators in preference to their offshore competitors. I believe that the government has the opportunity to create jobs in the UK without sacrificing tax receipts by replacing the current patchwork quilt with a single tax, at a single rate."

Ian Burke, Chairman and Chief Executive, The Rank Group Plc

"Constant tinkering has made the tax system increasingly complicated, discouraging investment."

Rt. Hon. George Osborne MP, Chancellor of the Exchequer



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“Rank proposes that a single betting and gaming duty, levied on all games played by UK consumers, replace the current seven regimes.”

The Rank Group Plc

www.rank.com

Founded: 1937

Gaming business since: 1961

Headquartered: Maidenhead, United Kingdom

Licensed: Great Britain; Spain; Belgium; Alderney

Listed: London Stock Exchange (RNK.L)

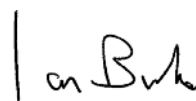
Customers: 2.5 million/year

Employees: 9,000

Operations: 37 casinos; 110 bingo clubs;
online & mobile



Introduction



Ian Burke
Chairman and Chief Executive, The Rank Group Plc

Rank proposes that the taxation of betting and gaming in the UK be harmonised in the interests of **fairness, consumer protection** and **economic growth**; and that this be accomplished without diminishing the sector's indirect tax contribution to Exchequer.

We intend to play our role in helping Government to reshape the tax system so that it can better meet the needs of society – eliminating anti-competitiveness and supporting responsible gambling objectives.

Executive Summary

In 2010, Rank published its paper 'Responsible Taxation' to stimulate debate on the UK's taxation of the betting and gaming industry. The paper called for a simplification of the tax system which, after years of tinkering, had come to penalise highly supervised gaming venues while encouraging the migration of jobs and tax revenue away from the UK.

Despite support for a harmonised regime from across the industry, recent government consultations have raised the prospect of further tinkering rather than a strategic review. We remain convinced that the existing system of taxation should be replaced with a single rate of duty across all activities governed by the Gambling Act. The duty would be based upon the commonly accepted gross profits basis and would be applied consistently to revenue arising from UK consumers, regardless of where the operator is based or the method the customer chooses to transact.

The key benefits of our proposed changes are:

Fairness – by removing arbitrary distinctions in the taxation of the same gaming products;

Responsibility – by creating a tax regime which allows adults to gamble in safe, licensed premises without penalising the operators of such premises; and

Sustainability – by encouraging all operators to make a fair contribution to the UK economy through stable tax yields for the Exchequer and by stimulating job creation in the UK, through increased investment.

This represents a necessary modernisation of the current system. Should the Government agree with our proposal then we would recommend that there be a clear timetable for implementation so that the industry is able to adapt its systems in an orderly manner.

We hope that this paper convinces Government to seize the opportunity to reform the gaming sector's tax regime. We believe that a harmonised system of taxation would promote economic growth in the UK without sacrificing Exchequer yield.

Fairness

The absence of a unified regime means that the UK system of taxation for betting and gaming is illustrative of the “spaghetti bowl” of tax law that the Chancellor of the Exchequer, George Osborne MP has said that he wishes to simplify in order to reduce the administrative burden of compliance on British business.

A single rate of duty for betting and gaming would better support the Government’s objectives for simplicity, fairness and a competitive economy.

Currently, HM Revenue & Customs operates different regimes for:

- Bingo (in a licensed club)
- Betting (in a licensed office)
- Pools betting
- Casino games (in a licensed casino)
- Remote gaming by operators based in the UK
- Remote gaming by operators based outside the UK
- Gaming machines (two different taxes, AMLD and VAT)

The rates of duty vary wildly within this regime, from 0% (for remote operators based outside the UK) to 50% for some casinos. Moreover, there is no consistency even for the same products with as many as seven different duty rates applying to some games.

We believe that such inconsistencies render the current tax system unfair and anti-competitive and as such counter to one of the three guiding principles of the Gambling Act (“to ensure fairness”). The European Commission’s (the ‘EC’) findings on the development of different rates of taxation in Denmark would appear to support this view.

In reviewing the establishment of substantially lower rates of duty for online gaming compared with land-based gaming, the EC stated that such systems created distortions of competition and effectively constituted state aid for online gaming companies. In expressing their opinion, the Commissioners made explicit reference to the tax regime for gaming and betting in the UK.

It is our view that at present, the UK is providing state aid for online gambling operations to the detriment of their land-based counterparts. We believe that this is not simply unfair but that it is also inconsistent with the Government’s desire to promote responsible gambling and economic growth.

The Government’s 2011 Budget had at its core three objectives; the creation of a strong and stable economy, growth and fairness. We believe that only through the harmonisation of betting and gaming taxes will Government be able to deliver on these objectives.

Responsibility

The current tax system is not simply unfair; by placing the greatest tax burden on those operators that provide the highest supervision of gaming, it also undermines the Gambling Act's objective of protecting consumers (particularly the young and the vulnerable).

A single rate of duty for gaming and betting would better support Government's objective of ensuring that adults who wish to gamble (73% of the adult population in 2010) can do so in safe and secure environments.

Three-quarters of adults in Britain enjoy gambling as a form of entertainment and for the overwhelming majority of them it is a positive experience. However, for a minority (0.6% to 0.9% according to the most recent British Gambling Prevalence Survey), staying in control can be difficult.

Under its industry-leading policy, 'Helping you stay in control', The Rank Group's casinos and bingo clubs feature a range of measures designed to prevent customers from losing control of their spending. These include:

- Door control to bar entry to people who have asked to be excluded or who are under the legal age to gamble (18 years for casinos and bingo clubs);
- High levels of staffing (typically casinos employ around 150 people; bingo clubs employ 40 people) to provide customer supervision;
- High profile communication of advice for customers to stay in control;
- Comprehensive responsible gambling training for all customer-facing employees.

A further protection is provided by the inherently social nature of these venues, where customers themselves create an environment which mitigates problem gambling. This factor was recognised by the Gambling Commission in its 2009 report 'Qualitative Study into Machine Gamblers', which stated:

"for many regular gamblers, machine gambling was seen as a social activity while for problem gamblers it was more solitary; bingo halls, casinos and betting shops were all seen to facilitate social gambling.....When it came to exploring

reactions to social responsibility measures, participants agreed that where social relationships existed within the gambling environment, there was an opportunity for gamblers to be supported in changing their behaviour (either by members of staff or even fellow customers)."

As a consequence, casinos and bingo clubs have enviable (albeit not perfect) records for responsible gambling. Underage gambling (cited as a key determinant of future problem gambling behaviour) is virtually non-existent in these venues. According to the Gambling Commission, just 0.09% of underage gambling reported in 2009 took place in bingo clubs and casinos.

The Gambling Commission has also reported that these venues are significantly more effective in excluding customers who have asked to be prevented from gambling with comparatively low levels of reported breaches of self-exclusion orders.

For these reasons, the Secretary of State for Culture, Media and Sport, Jeremy Hunt MP wrote in 2007:

"in many ways casinos are one of the easiest places to prevent problem gambling. Constant video surveillance means that casino operators, who no more want problem gamblers than nightclubs want alcoholics, are in a powerful position to intervene if they think someone is at risk. They are not allowed to give credit, preventing the build-up of gambling debts."

By taxing highly supervised land-based gaming venues at higher rates than other venues and online channels – and therefore limiting their availability to consumers (characterised by closures of existing venues or the very limited development of new venues), we believe that HM Treasury policy undermines the aims of the Gambling Act with regard to consumer protection.

Sustainability and growth

By placing a heavy tax burden on supervised gaming venues, the current tax regime restricts investment and job creation. At the same time, it has encouraged the migration of industry jobs and tax revenues to jurisdictions outside the UK.

A single rate of duty across gaming and betting will assist HM Treasury in collecting simple, sustainable and predictable receipts; and it will promote investment and the generation of thousands of new jobs in Great Britain.

In particular, we believe that the harmonisation of bingo duty (20%) with general betting duty and remote gaming duty (15%) will prevent the closure of more bingo clubs and encourage the development of new venues. During the course of the last five years, 100 licensed bingo clubs have closed and only one (developed by Rank) has been opened.

The role of the tax system in the decline of the bingo clubs industry has been recognised by both the Chancellor of the Exchequer, George Osborne MP and by his former Parliamentary Private Secretary, Greg Hands MP who said in 2010:

"I cannot give a commitment that in our first Budget within 50 days we will be able to do anything about it.....We see no reason why bingo should be taxed more and we hope to correct that but I can't give you a timeframe on that."

The establishment of a single rate of duty, capturing remote as well as land-based gaming enables the Government to deliver on its pre-election pledge to bring bingo duty into line with general betting duty.

In so doing, we believe that the Government could start to reverse a negative trend in tax contributions from the sector. The gaming and betting sector's indirect tax contribution to Exchequer declined by 6.7% between 2007 and 2010 against a context of its growing popularity and a rise in overall UK VAT receipts (the main source of indirect tax).

The bigger picture suggests that – at a time of economic difficulty – tax reform could generate significant benefits for the UK economy.

In addition to providing important social amenity, licensed venues are also significant in terms of generating local (and highly flexible) employment, as the table below illustrates:

Table 1: modern gaming venues – employment levels

Venue	Total employment	Full-time equivalents
Licensed casino	150	135
Licensed bingo club	40	28

A single rate of duty would stimulate economic growth from the sector, driving employment and a range of other benefits:

- Increased tax revenues for Exchequer;
- Increased local business rates;
- Stimulus for tangential areas of the economy, including construction, agriculture and manufacturing (where practical Rank seeks to procure from within the UK) and adjacent retail (e.g local shops).

Tax harmonisation will also allow operators to develop larger venues with greater space set aside for non-gaming activities such as entertainment.

Conclusion

The growing use by consumers of internet and mobile-based technology for gaming and betting is prompting governments across Europe to review the suitability of the regulatory and tax frameworks for licensed gambling. We believe that the British Government is right to want a level playing field for gaming operators marketing in the UK, whether onshore or offshore. We have set out in this document why this principle of fairness must be applied across the breadth of the licensed industry.

A single rate of duty for all betting and gaming in the UK will deliver the following benefits:

- **Fairness** – by removing arbitrary distinctions in the taxation of the same gaming products and thus ending state aid for online gaming operators;
- **Responsibility** – by creating a tax regime which allows adults to gamble in safe, licensed premises without penalising the operators of such premises; and
- **Sustainability** – by encouraging all operators to make a fair contribution to the UK economy through stable tax yields for the Exchequer and by stimulating job creation in the UK, through increased investment.

Taxation of betting and gaming activities

The table below demonstrates the multiplicity of regimes applying to the same betting and gaming activity, across locations.

Activity	Duty	VAT
Sports betting		
On-course	0%	–
Off-course	15%	–
Internet (UK)	15%	–
Internet (offshore)	0%	–
Bingo		
In a club	20%	–
In a betting shop (FOBT)	£2,405	20%
Internet (UK)	15%	–
Internet (offshore)	0%	–
Poker		
In a casino	15%; 20%; 30%; 40%; 50%	–
Internet (UK)	15%	–
Internet (offshore)	0%	–
Casino games		
In a casino	15%; 20%; 30%; 40%; 50%	–
In a betting shop (FOBT)	£2,405	20%
Internet (UK)	15%	–
Internet (offshore)	0%	–
Football pools		
	15%	–
Amusements		
Amusement machine	£0; £905; £2,185; £2,405; £3,055 per year	20%
Internet (UK)	15%	–
Internet (offshore)	0%	–



If you have views on what you have read in this report, we'd like to hear them. Contact us at responsibletaxation@rank.com or write to us at c/o Responsibility at Rank, The Rank Group Plc, Statesman House, Stafferton Way, Maidenhead, SL6 1AY.

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