

Taxation and regulation of gambling:

Lessons from the
history of three
industries

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My credentials

Director of the Institute for Fiscal Studies

Author of monograph on the taxation of alcohol

Special Adviser on tax policy to the Chancellor of the Exchequer for three Budgets

Designed the National Lottery when in HM Treasury

Adviser to Camelot from 1994-2004

Projects for Jockey Club, Hong Kong

Projects for Philip Morris, British American Tobacco

The regulation of gambling has sharply increased in recent years

2018 Crackdown on Fixed Odds Betting Terminals (FOBTs):

Maximum stake on FOBTs was drastically reduced from £100 to just £2.

Tougher Age Verification for Online Gambling to prevent underage

2019 Restrictions on Gambling Advertising:

Whistle-to-whistle ban on running ads during live sports broadcasts.

More advertising restrictions expected in the upcoming gambling reforms.

2022 White Paper proposes:

Statutory levy on gambling operators to fund treatment, research and prevention of gambling harms

Stake limits of £2-15 on online slots

2023 William Hill fined £19.3m for:

Social responsibility failures: allowing customers to register with inadequate checks and make rapid losses

Money laundering failures

What has prompted the recent flurry of regulation?

The Blair government took a notably relaxed approach to gambling:

Gordon Brown changed the method of taxing betting on horses, resulting in a large **increase** in betting activity

Following the Budd Report in 2001 regulation of gambling was **eased**, particularly for casinos

But public and government attitudes towards gambling have become more hostile because of:

The rapid rise in on-line gambling – especially sports betting

The ubiquity of advertising for gambling on television and on sports grounds and shirts

Fears that on-line gambling is too easily available to children .

The political and economic background

Large fiscal deficits looming but higher income tax, national insurance and VAT ruled out.

The UK commitment to net zero emissions by 2050 and hydrocarbon emissions cut to 68% of 1990 levels by 2030 will require government money.

Increases in the “sin taxes”, as well as in fuel duties, are almost certain over the next few years in order to close the funding gap.

	£bn
Alcohol	12.6
Tobacco	8.8
Gambling	3.5
Fuel duties	24.6
Air passenger duty	3.8
Income tax	279.2
National Insurance	179.2
VAT	170.7

There are good political justifications for such increases

In all industries where the product causes social harm the government intervenes to reduce that activity

The government has two policy instruments:

taxation:	the aim is to reduce the amount of activity and collect some revenue with which to repair the damage done by the industry (the polluter pays)
regulation:	the aim is to reduce the amount of the most socially harmful aspects of the activity

There are five activities affected in this way:

- driving internal combustion engine vehicles
- flying
- consuming alcohol
- consuming tobacco
- gambling

So gambling is not alone in facing the threat of more regulation and/or higher taxes. Are there pointers to the future to be derived from the history of other industries?

The factors which will determine future decisions

The number of people participating in the activity

More means more social harm, but it also make any measures to reduce the ham politically unpopular

The amount of social harm attributable to each industry

More social harm unequivocally leads to calls for more taxation and regulation

The amount of tax revenue the industry generates and the extent to which it is put at risk by taxation and regulation

The Treasury always worried about the tax revenue consequences of tighter regulation and/or higher taxes

The extent to which children are at risk – i.e. likely to start participating

Nobody wants to see kids smoking, drinking or gambling at an early age

Number of people participating

How often do people smoke, drink or gamble?

% of those sampled	Not at all	Sometimes	Regularly	Problem
Tobacco	46	41	13	13
Alcohol	17 to 22	15	15 to 27	2.7 to 4
Gambling	46	48	6	0.5 to 2.5

WARNING: Numbers all statistical inferences based on surveys, hence subject to a wide margin of error

Source: Office for National Statistics and assorted surveys

KEY OBSERVATIONS

More than half the population sometimes gambles or smokes, but over three quarters drink

But regular gamblers only half as numerous as regular smokers or drinkers

Far fewer gamblers than smokers or drinkers are at risk of serious personal harm

Tax revenues less than social costs except for gambling

£ billion	Tobacco	Alcohol	Gambling
Annual tax revenue	8.8	12.6	3.5
Estimated social cost	17	27	1.3
% social costs covered by duties	52%	47%	269%

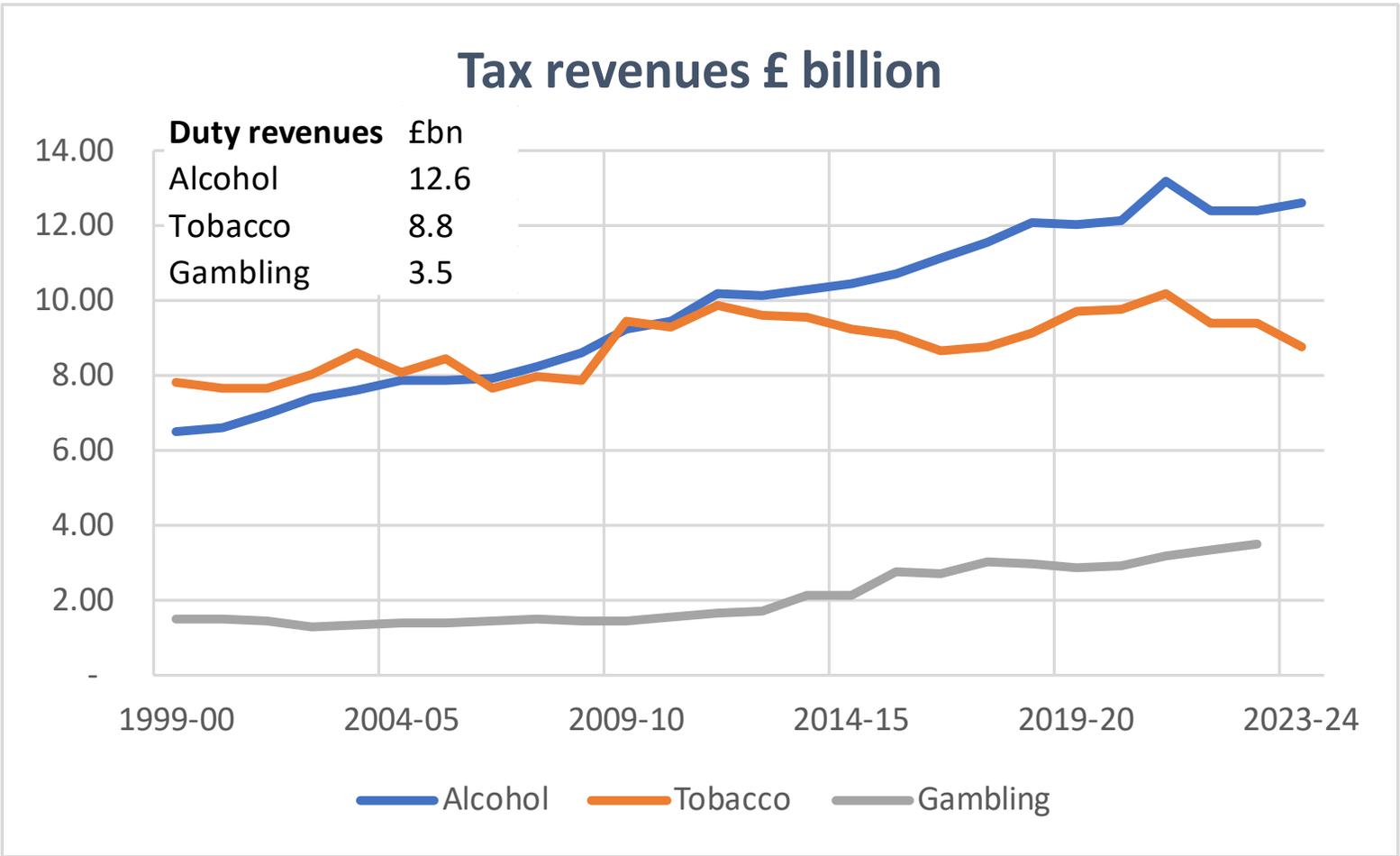
Source: Office for Budget Responsibility (tax revenues) and estimate based on various research papers (social costs)

WARNING: Social cost numbers based on surveys (number of people damaged) and estimates of financial cost of damage per person, hence subject to a very wide margin of error

The social cost of gambling is very small relative to the social cost of smoking (7%) or drinking alcohol (4%)

Revenues from alcohol and tobacco taxes cover only half their respective social costs whereas the social cost of gambling is covered 2 ½ times over by gambling taxes

Tax revenues from gambling much lower than from alcohol or tobacco



There are two possible reasons for this:

- The gambling industry is smaller than the other two; or
- The duty rates are lower.

The size of the industry can be inferred from the tax revenues

Source: Office for Budget Responsibility

Estimated spending on the three "sin" industries

£ billion	Tobacco	Alcohol	Gambling
Annual tax revenue	8.8	12.6	3.5
Average rate of taxation	80%	50%	15%
Annual spending	11	25	23

Source: tax revenues from OBR; average rates of tax calculated using official duty rates published by OBR and the following assumptions: average price of 20 cigarettes, £13.45; 750ml wine, £6.00; 500ml beer 4.5% ABV, £2.00; 700ml spirits 40% ABV, 20.00.

NB Family Spending, the official survey of spending habits based on diaries, notoriously hugely underestimates the weekly spending on tobacco, alcohol and gambling, so official tax statistics are the best way of rapidly estimating total spending

WARNING: Tax rate calculations based on representative produces are only approximate

Total revenue numbers are important because they measure the pleasure that consumers derive from the products of these three industries

These calculations suggest that UK spending on gambling is similar to alcohol and about twice as large as on tobacco.

The costs and benefits of the "sin" industries

£ billion	Tobacco	Alcohol	Gambling
Annual spending	11	25	23
Estimated social cost	17	27	1.3
Social cost as % of spending	155%	107%	6%
Net benefit as % spending	-55%	-7%	94%

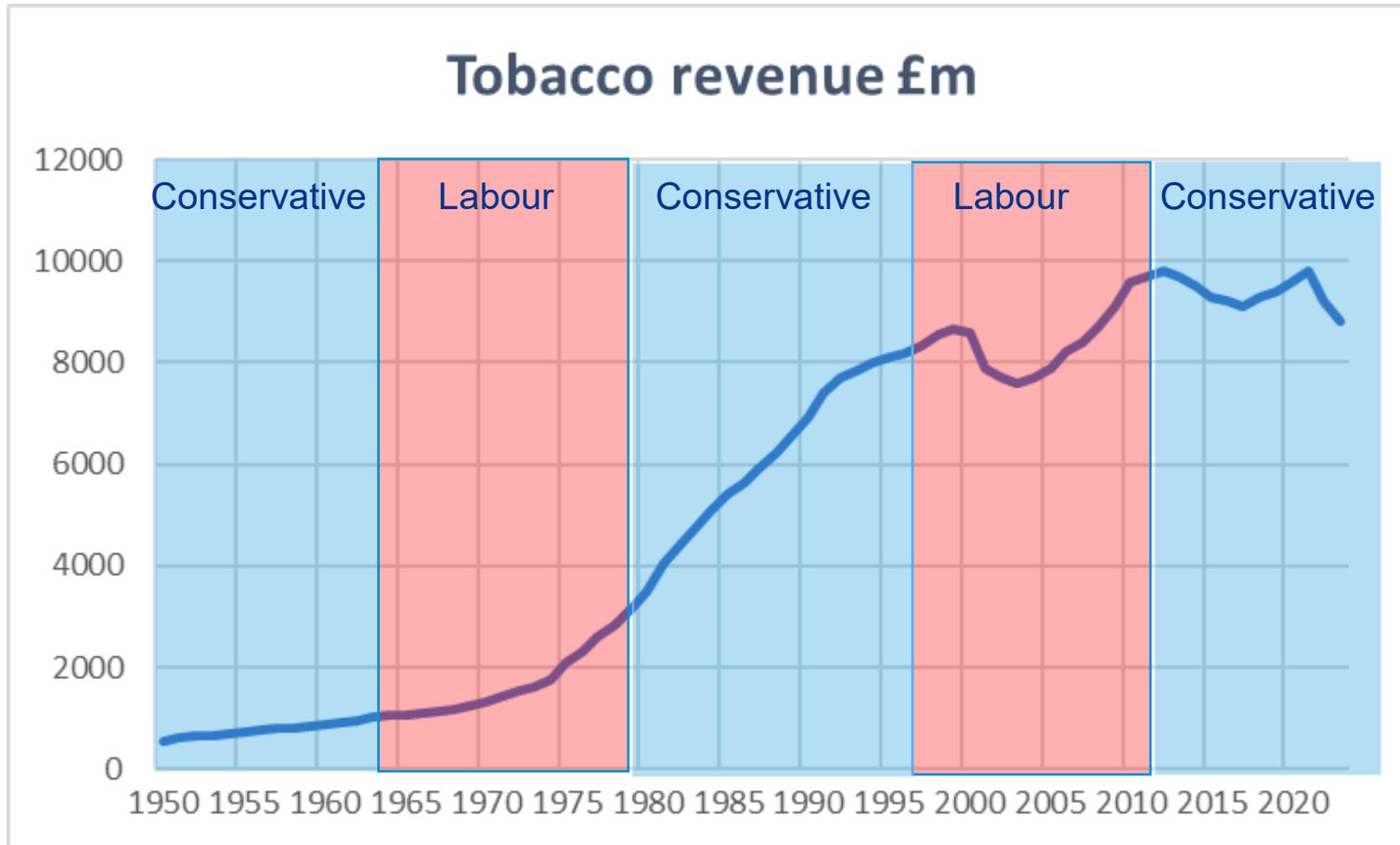
The social costs of drinking and smoking actually outweigh the benefits of those activities, as measured by the amount people freely chose to spend on them

Gambling is remarkably different, with the costs only 6% of the benefits

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Tobacco: a worrying
precedent?

Tobacco taxation has increased under both political parties..



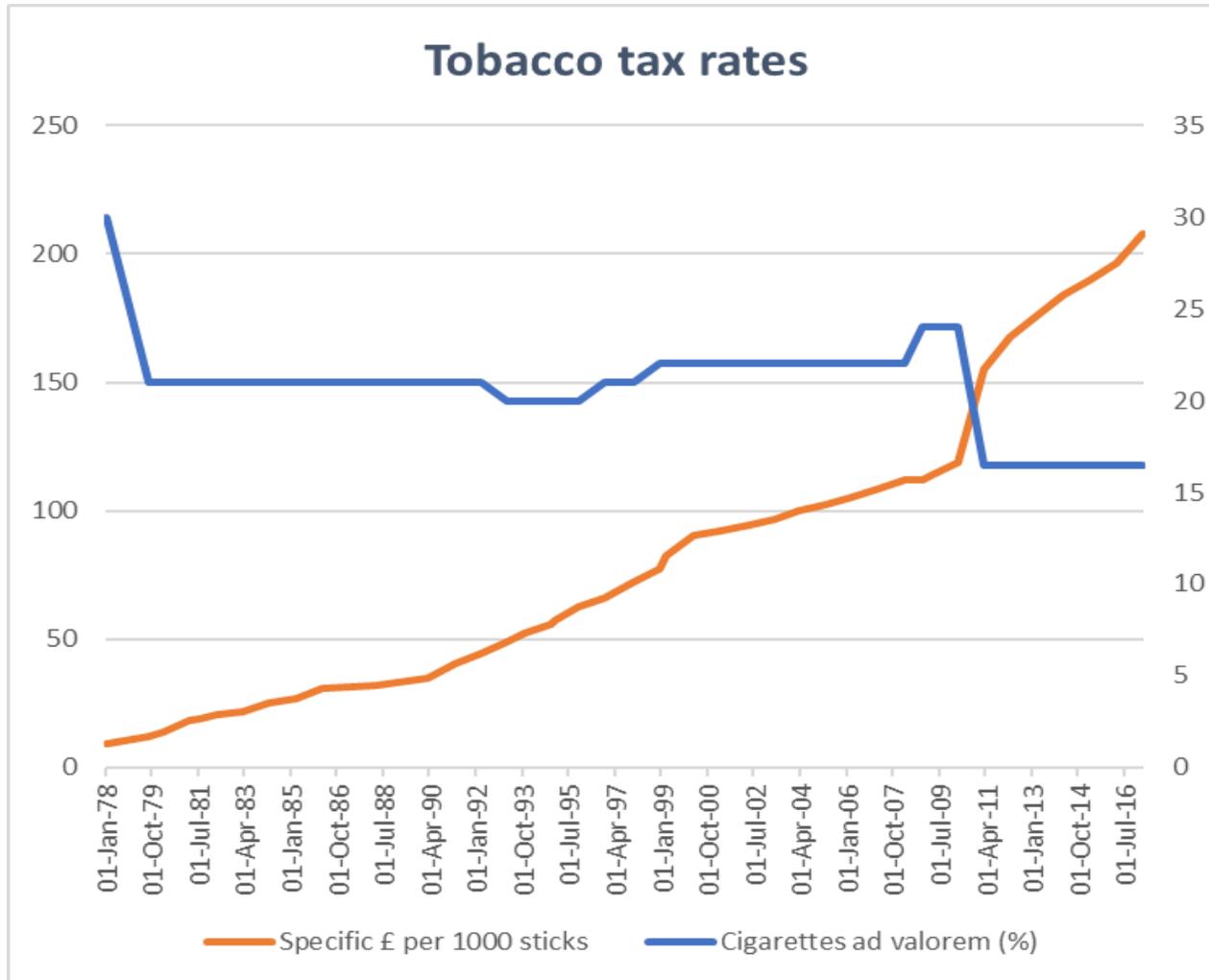
Policy makers were quite slow to respond to the results of the Doll study, published in the 1950s

But, once started, duty rates were remorselessly increased – leading to a steady increase in revenues.

The rate of increase of revenues slowed sharply in the 2000s

Source: Office for Budget Responsibility

...Specific duty rates have been steadily increased



Specific duties tax the volume of tobacco consumed, not the price

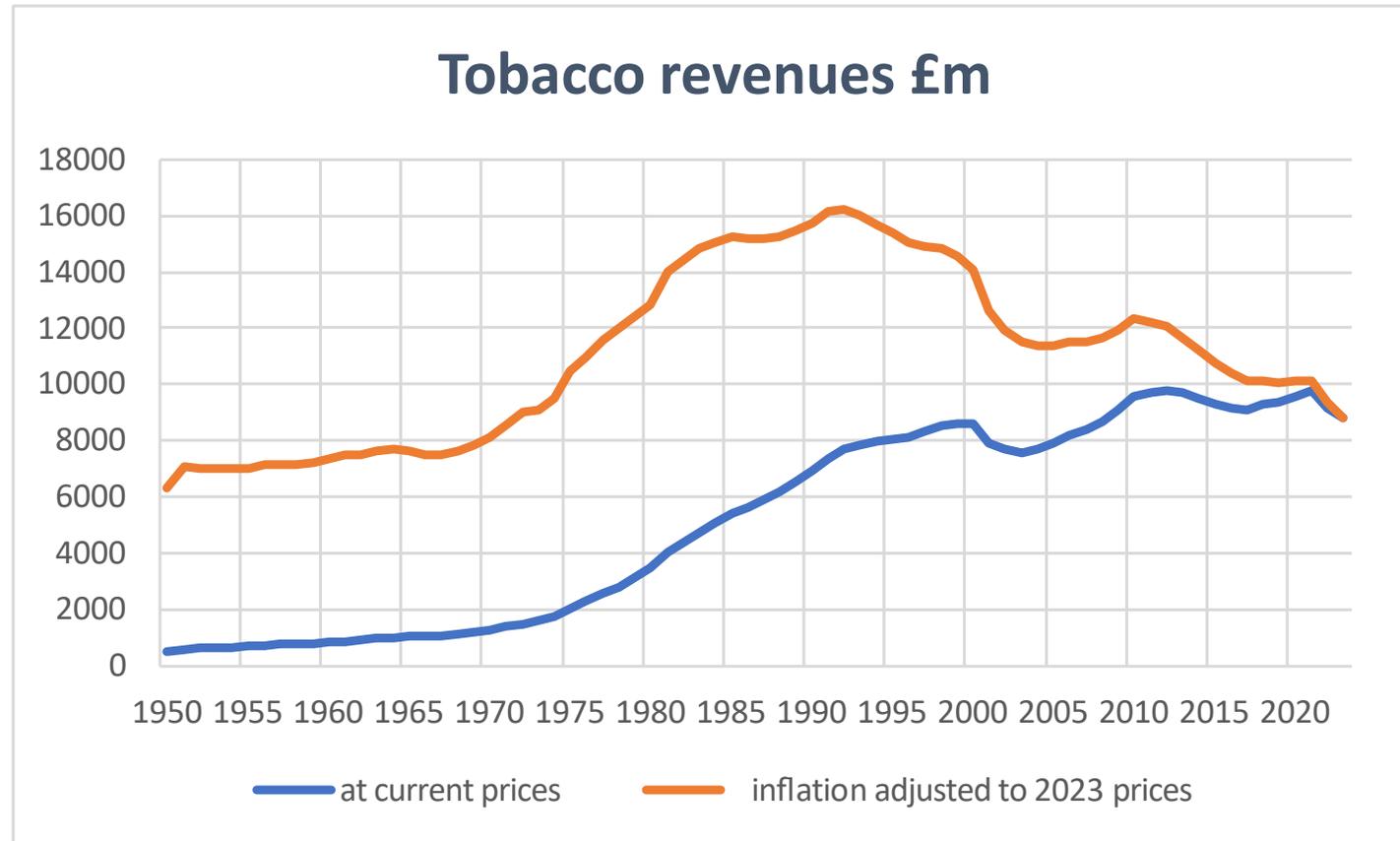
The tax falls on the “bad”

Duty rates have increased continuously

Makes sense from health policy perspective

Source: Office for Budget Responsibility

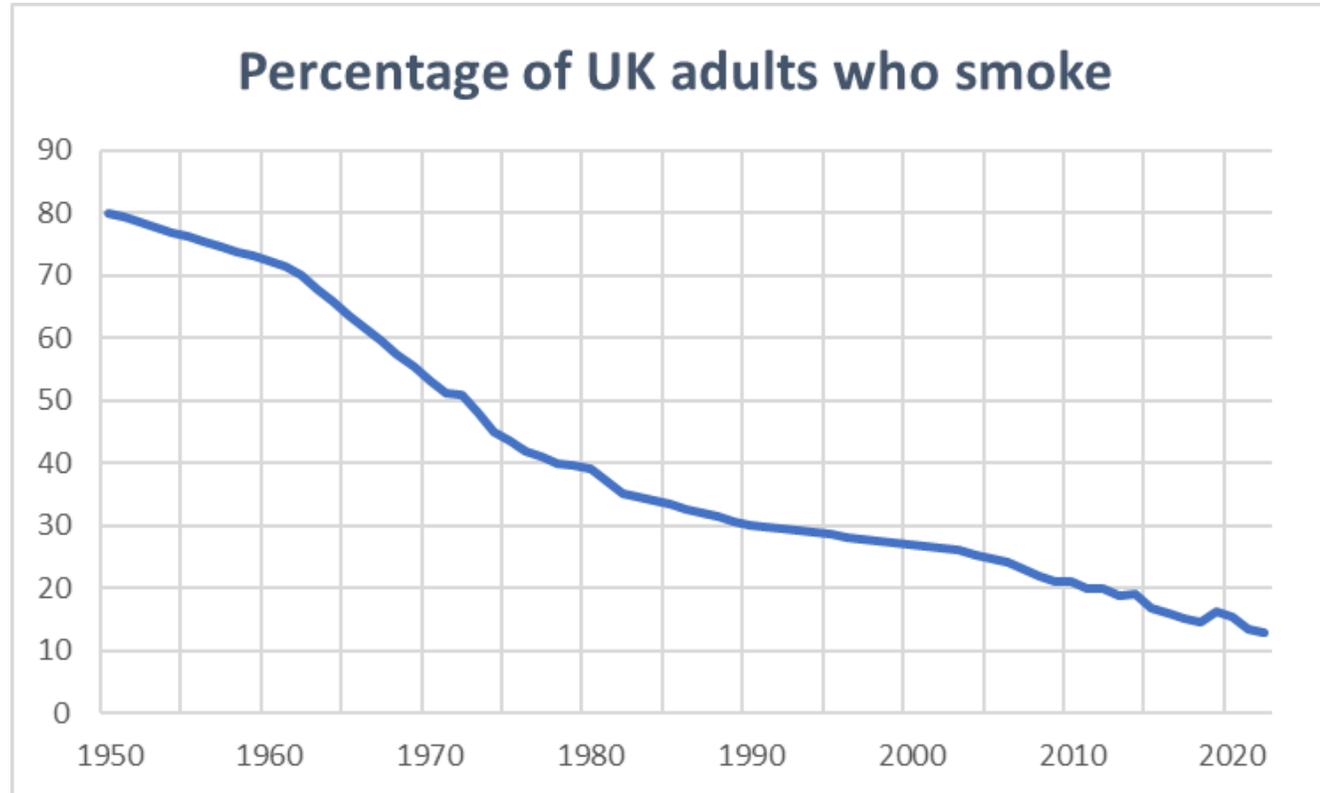
...but tax revenues started to decline in real terms in 1992



Source: Office for Budget Responsibility and Office for National Statistics

So increased duty rates not so good from the Treasury's revenue perspective

.. because 87% of people now do not smoke



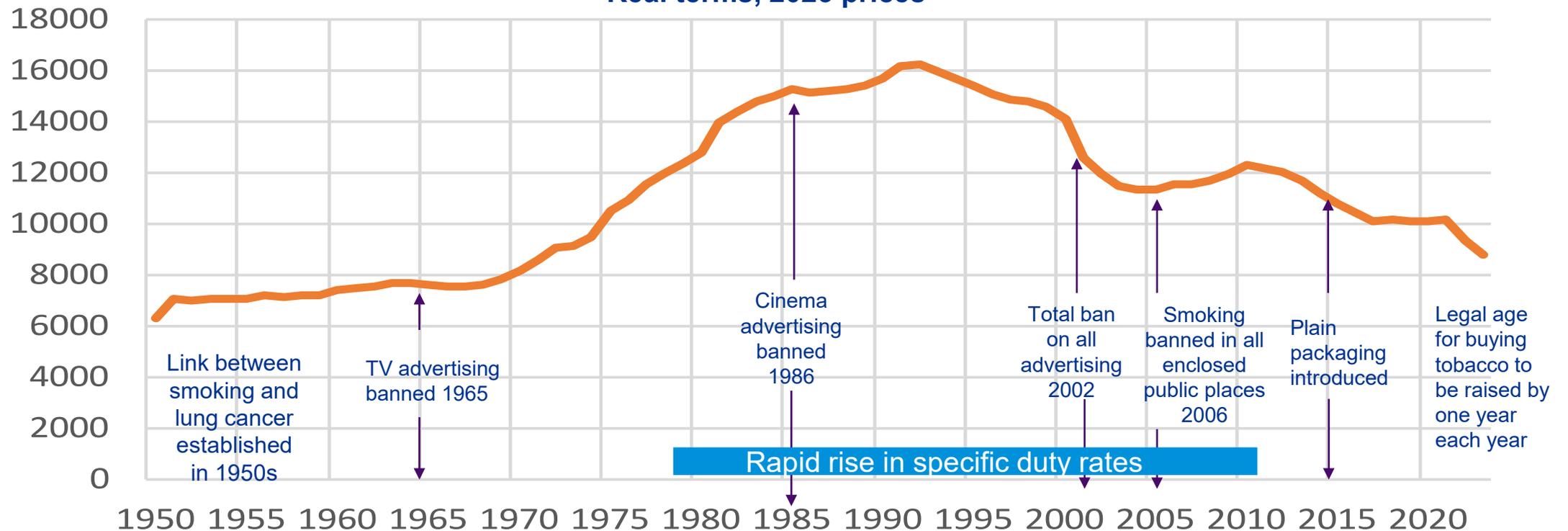
Source: Smoking Prevalence Surveys with gaps filled by straight-line interpolation

The combination of taxation and regulation has reduced average consumption of tobacco from around 80% of men to less than 13% of all adults – this is why duty revenues have been falling in real terms

How rising duty rates and regulation have hit revenues tightened...

Tobacco revenues £m

Real terms, 2023 prices



Since 1993 higher tax rates + tighter regulation = falling tax revenues in real terms

Source: Office for Budget Responsibility

Lessons from the tobacco story

Taxation and regulation can inflict severe damage on an industry

But the damage doesn't happen overnight

Nominal tobacco tax revenues have continued to rise until very recently - although revenues have been falling in real terms since 1992

The tobacco industry has an ally at the heart of government

The politics of sin taxes

The industry would like no taxes, in order to maximise consumption of the goods and services they provide, and thereby maximise revenues.

The Department of Health would like to minimise consumption of tobacco above all, alcohol to some extent and, increasingly in recent years, gambling services.

The Treasury is concerned to maximise tax revenue. So it likes putting up the sin taxes until it starts to lead to reduced revenue. Then it becomes very reluctant

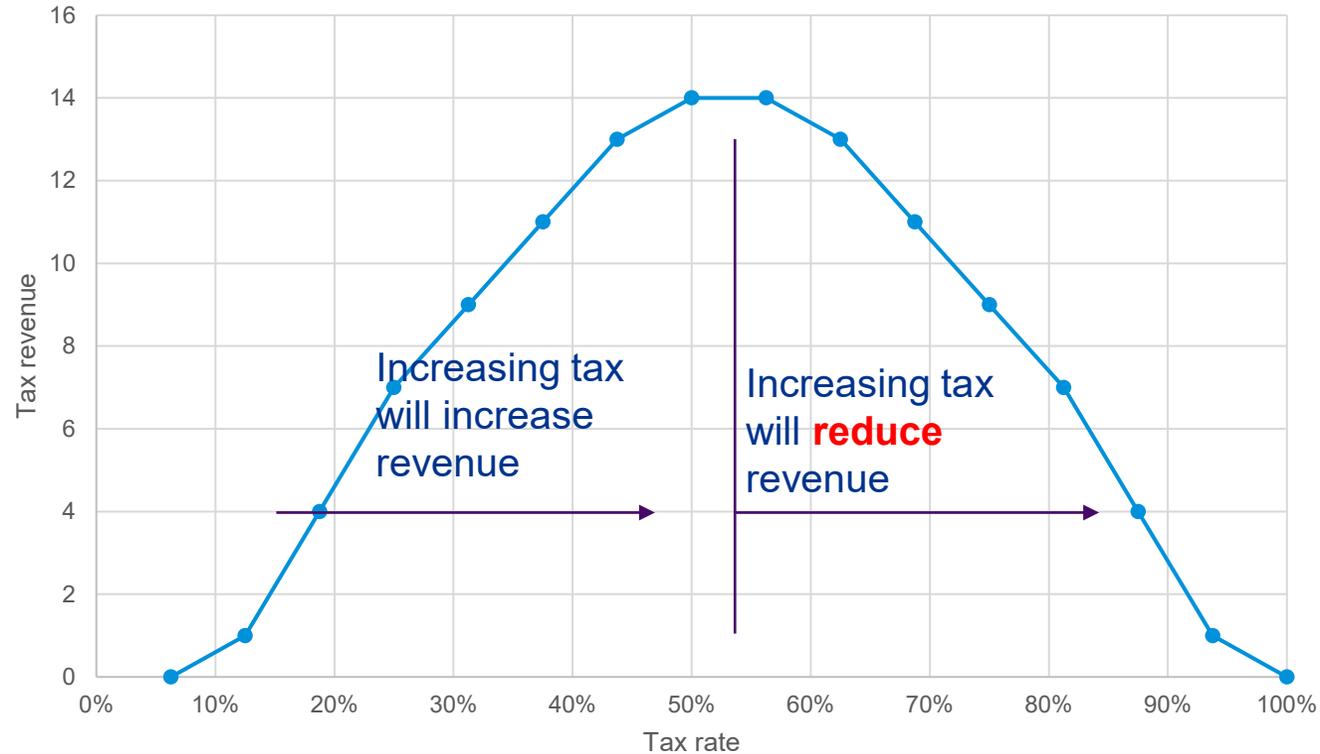
The public generally hates tax increases of any sort – but only 1 in 8 adults smokes, whereas nearly half of all adults both gamble and drink alcohol. So the politics of increasing duty on tobacco are far easier than for alcohol or gambling



The Treasury view :
increasing duties can
reduce revenue

When does putting up taxes risk reducing revenues?

The Laffer Curve



The Laffer curve was originally conceived by Arthur Laffer as a justification for cuts in income tax in the Reagan administration

Zero tax rate >>> No revenue

100% tax rate >>> No revenue

Somewhere in between >>> maximum revenues

For any tax, increasing the rate:

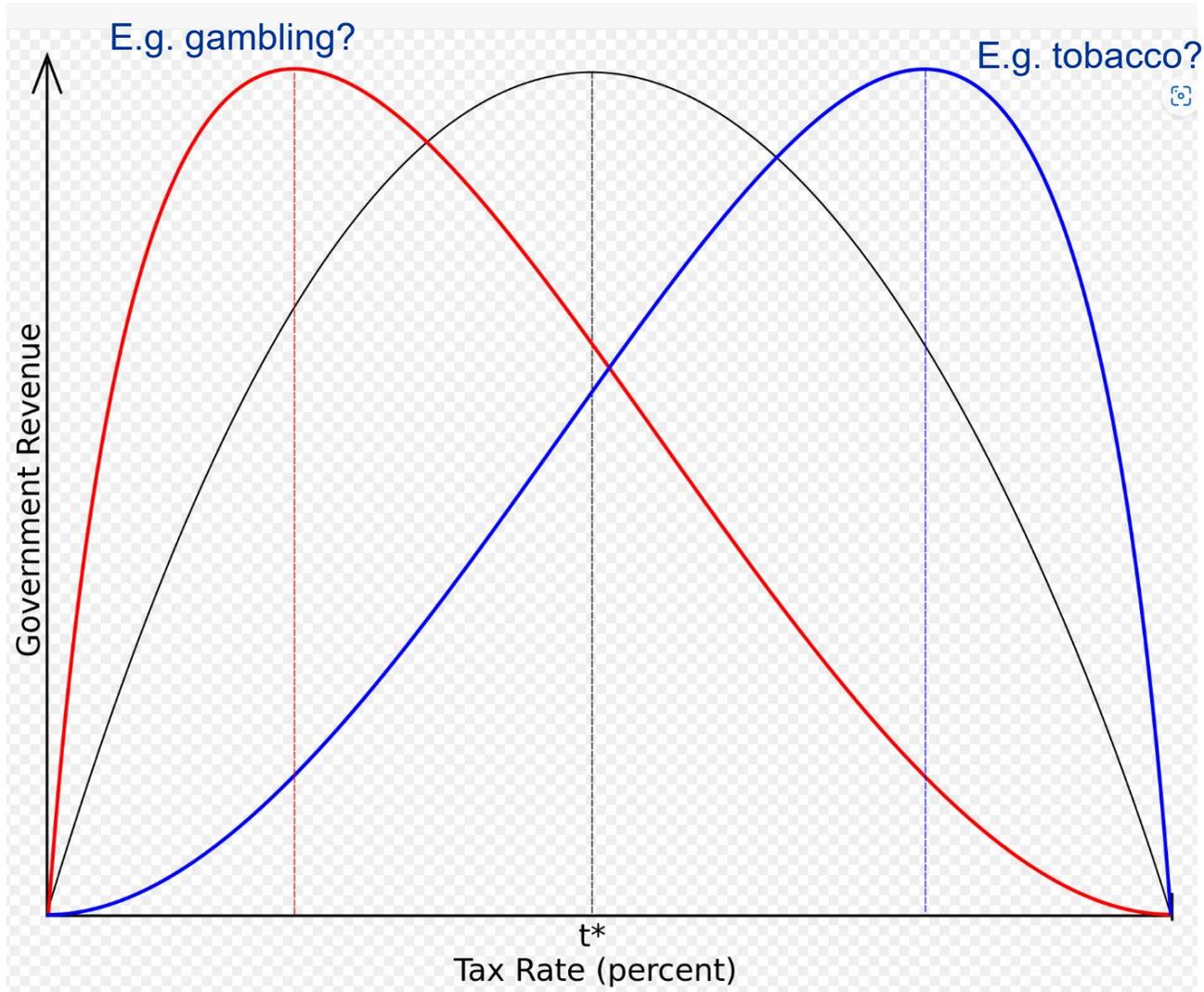
- produces more revenue per unit.
- reduces the number of units

When the second effect more than offsets the first, revenue falls

The Laffer curve is a theoretical construct

But it plays a big part in Treasury thinking about the “sin taxes”

The Laffer curve is not generally symmetrical



The shape of the Laffer curve is not usually like the grey line in the centre of the picture.

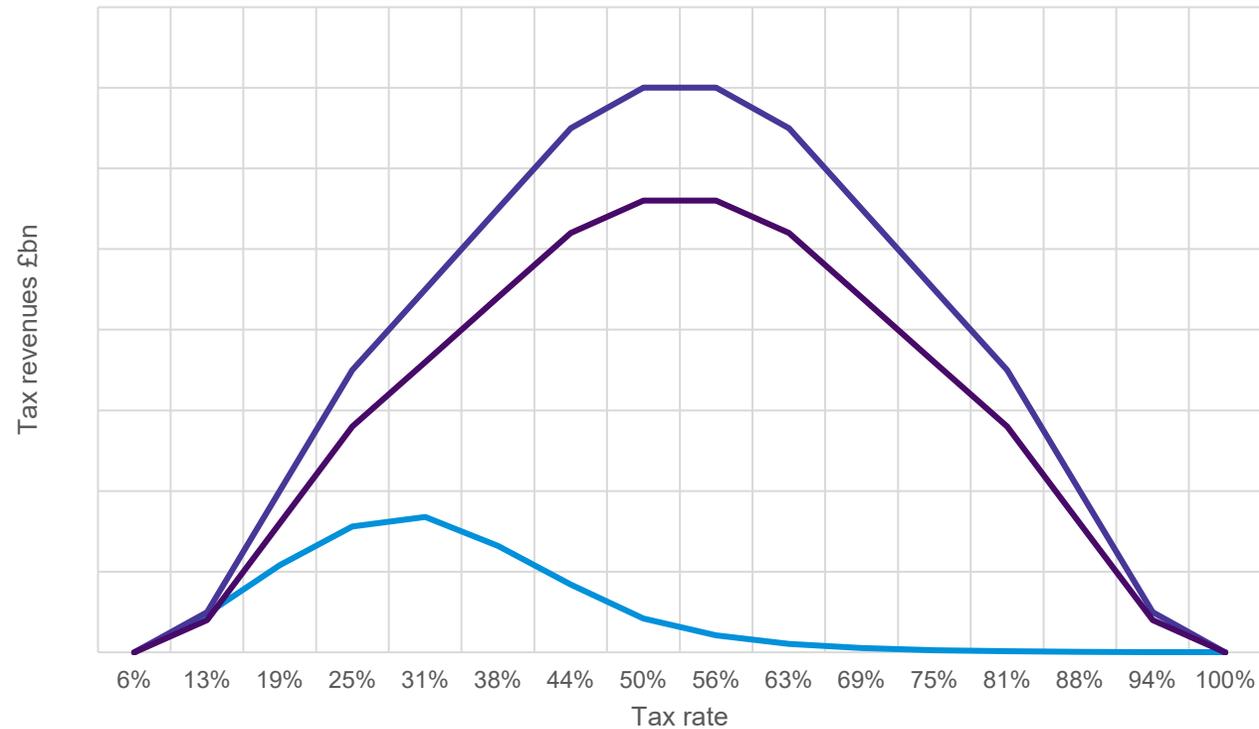
There is usually a tipping point beyond which tax increases result in a sharp drop in revenues and that point may be reached at a tax rate well below 50%

This happens because there may be an untaxed alternative, and when the price reaches a certain point, people switch in large numbers to that alternative

Gambling is a good example

And peak revenues differ from one industry to another

Tax revenues at different tax rates



Illustrative figures only

Why it has become harder to put up tobacco duty rates

	Duty	Cost	Price
Past: pre-budget	10	90	100
post-budget	11	90	101
% increase	10%	0%	1%
Now: pre-budget	50	50	100
post-budget	55	50	105
% increase	10%	0%	5%

A given percentage increase in duty rates has a much bigger effect on cigarette prices now, compared to the past, because duty is a much higher proportion of the price

Price sensitivity has also increased

TOBACCO					
	Duty rate % change	Price % change	Elasticity	Volume change	Duty revenue % change
Past	10	1	-0.3	-0.3	9.7
Now	10	5	-2	-10	0

Illustrative figures only

The price elasticity is the measure economists use to measure sensitivity of sales to price changes. An elasticity of -0.3 means that sales volumes will only fall by 0.3% in response to a 1% price change. Smokers have become more sensitive to price changes over the years, with all the strong messaging about the health risks of smoking.

The resolve to finally give up is increasingly triggered by a price change in the annual Budget.

The upshot is that (on these illustrative assumptions) a duty increase can result in a fall in duty revenues

Price sensitivity of gambling much greater than tobacco

GAMBLING: EFFECT ON PRICE OF 10% DUTY CHANGE

	Duty	Cost	Price
Pre-budget	15	85	100
Post-budget	16.5	85	101.5
% increase	10.0%	0.0%	1.5%

GAMBLING: EFFECT ON REVENUE OF 10% DUTY CHANGE

Duty rate	Price %	Elasticity	Volume	Duty revenue
% change	change		change	% change
10	1.5	-1	-1.5	0
10	1.5	-2	-3	-1.5
10	1.5	-3	-4.5	-3
10	1.5	-4	-6	-4.5
10	1.5	-5	-7.5	-6

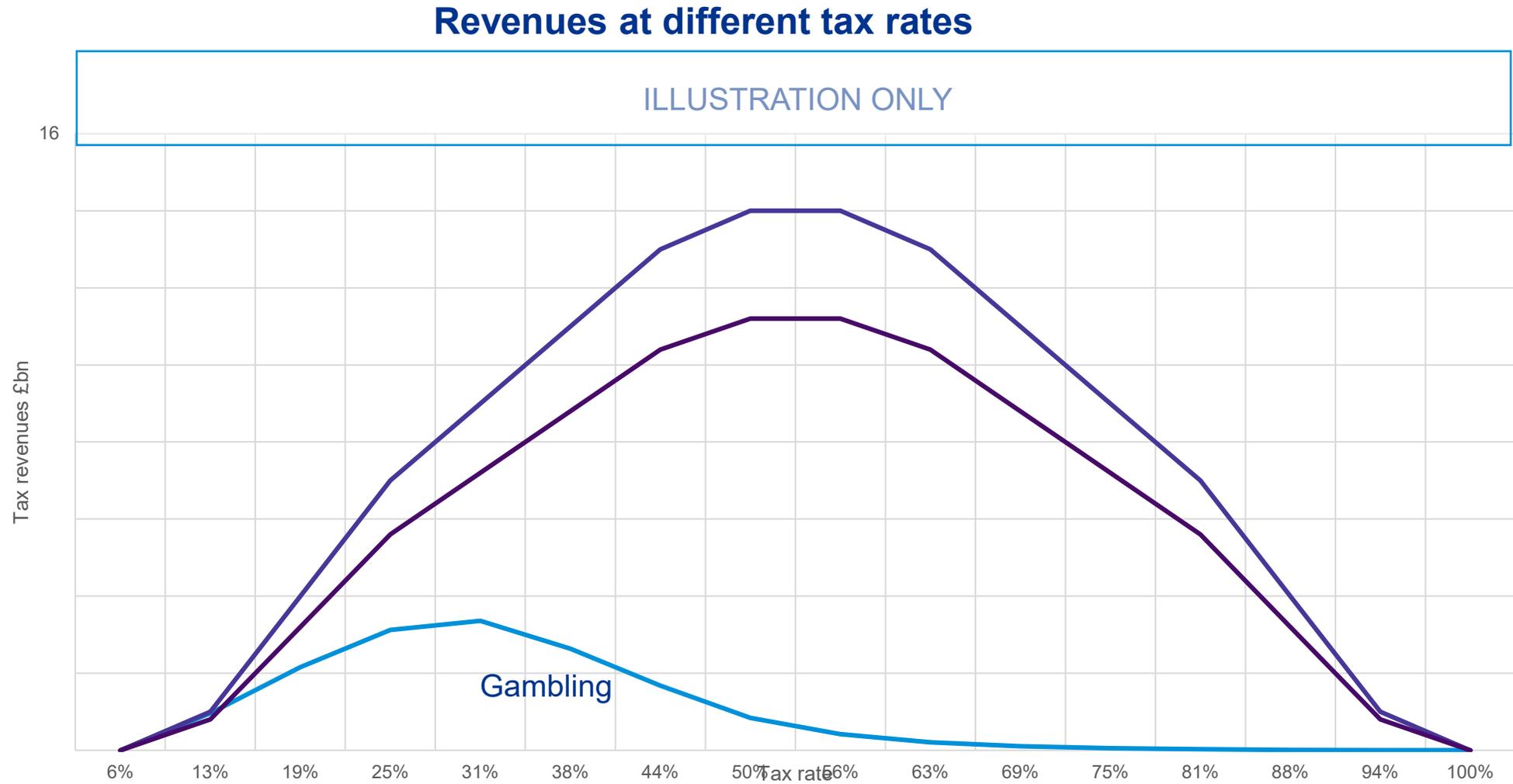
Tax is still a fairly small part of the cost of gambling – like smoking in the old days

Demand for gambling is VERY price sensitive – very different from smoking.

So HM Treasury, nervous about tax increases on smoking, is VERY nervous about putting up tax on gambling.

This is because it is much easier to find substitutes for taxable gambling in the UK than for smoking – gamblers can go online and offshore, smokers cannot.

The ceiling on gambling revenue and tax rates is low





Reasons for regulating

Harmful effects of the three "sins" that worry people

Smoking

Lung cancer: Smoking accounts for 80-90% of all lung cancer cases and deaths. Smokers have a 5-10 times higher risk of lung cancer compared to non-smokers. Also increased risk of other cancers.

Respiratory Diseases: Smoking is the leading cause of COPD, which includes chronic bronchitis and emphysema. Increased risk of lung infections like pneumonia and tuberculosis.

Cardiovascular Diseases: Smoking causes narrowing of blood vessels and increases risk of heart disease, the leading cause of death in the U.S.

Strokes: Smoking increases the risk of blood clots and weakened blood vessel walls in the brain, leading to strokes.

Drinking

Liver disease: Alcoholic fatty liver disease, hepatitis, fibrosis, cirrhosis (scarring of the liver) pancreatitis- .

Cancers: Mouth, throat, voice box, esophageal cancers, Liver cancer Breast cancer, Colorectal cancers

Cardiovascular diseases: High blood pressure (hypertension), Heart disease and heart attacks, Stroke

•Cardiomyopathy (heart muscle damage)

Neurological problems: Impaired brain function and communication, Dementia

Mental health issues: anxiety and depression and risk of suicide

Digestive problems: gastritis, ulcers, malnutrition, weakened immune system, osteoporosis

Gambling

Mental health Pathological gambling is a mental health disorder that can cause, or exacerbate depression, anxiety, and obsessive-compulsive disorder (OCD) and lead to suicide. Problem gamblers are also of heavy smokers and drinkers.

Physical health: Chronic stress can cause sleep deprivation, and worsen existing medical issues. Sedentary gambling with poor eating habits can lead to obesity. Stress can cause stroke or heart failure.

Social/financial risks Financial ruin, debt accumulation, and loss of financial security due to gambling losses. Strained personal relationships, loss of trust with family/friends. Gambling-related crime to fund gambling habits when in financial distress..

Tobacco is clearly the most harmful of the three sins...

Smoking

Clear statistical link between smoking and lung cancer first established in 1950s and replicated in numerous studies

All smokers, especially the average 20-a-day smokers, are at risk

Smoking associated not just with cancer but also a wide range of other illnesses

People could see this with their own eyes

Drinking

Harm from drinking mainly limited to a small percentage of drinkers who are alcoholics

Gambling

Harm from gambling mainly limited to the small percentage of gamblers who are problem gamblers

The main social harms are to health and to output (productivity)

The anti-smoking, anti-drinking and anti-gambling lobbies all make the most of these arguments and have sponsored the research which attempts to quantify the effects

But in reality a very small minority of people are problem gamblers or alcoholics and the damage to them has to be balanced against the benefits to very large numbers of people who enjoy a drink or a bet.



Summary and conclusions

Pulling it all together: the risk of tax increases

Factors to be considered	Tobacco	Alcohol	Gambling
Proportion of population participating (higher numbers make increasing duty more difficult politically)	54%	80%	54%
% of social cost covered by duty revenues Social cost as % total spending	52 155	47 107	269 6
Risk to tax revenue from raising duties or increasing regulation	Medium	Low	High
Children at risk	Yes	Yes	Yes

How do we weigh the different factors to arrive at a judgement about increasing duties?

There is a wonderful weighing machine called the Chancellor of the Exchequer!

How will future Chancellors react to this evidence?

- The case for taxing and regulating tobacco is clearly much stronger than for alcohol and gambling since smoking does medically proven health damage which historically affected a large proportion of the population. Taxation and regulation will probably continue and smoking will become an even smaller minority activity.
- As between alcohol and gambling the case for increasing taxation and regulation of alcohol is clearly much stronger than for gambling. There is widespread medical harm, accidents, and loss of productivity from excessive drinking, which provides political cover for an unpopular measure. An increase in alcohol duties will almost certainly produce more revenue, probably much needed.
- Gambling is unique among the three “sins” in that the social harms are very small (and hotly contested) and more than covered by tax revenues. So there is not a strong political case for increasing duty rates. And the economic arguments suggest strongly that an increase in duty rates would not stop gambling, just encourage it to move online and overseas. So you end up with no less gambling by UK citizens but less revenue.



tobacco



alcohol



gambling



Thank you for listening

Questions?