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Electronic gaming machine tax review

Contents

Executive summary	1
Introduction and legislative context	2
Victorian electronic gaming machine taxes	2
Regulatory context – harm minimisation reforms	4
A brief history of gaming machine entitlements	4
Current entitlement period and tax settings	5
Interjurisdictional comparison of gaming machine arrangements	6
Findings	8

Executive summary

Under the *Gambling Regulation Act 2003*, the Treasurer must cause a review of tax rates applied to post-2022 gaming machine entitlements to be undertaken and laid before each House of Parliament by 16 February 2024.

The Department of Treasury and Finance (DTF) has undertaken the “*Electronic gaming machine tax review*” at the request of the Treasurer to acquit this legislative requirement.

Taxes on gaming machines are a significant source of own-source revenue for Victoria, estimated to total \$1.4 billion in 2023-24 (although as a share of total taxation revenue, gaming machine taxes have been gradually declining over time).

Importantly, all of the revenue generated from gaming machine taxation in Victoria is specifically allocated to the Hospitals and Charities Fund, the Mental Health Fund, and the Community Support Fund. These funds contribute to vital healthcare services, community support programs, and provide funding for programs aimed at addressing problem gambling.

Government policies in this domain are generally aimed at reducing the incidence of gambling related harm while balancing the need to fund important public services. This has informed the development of tax and regulatory settings over time.

On 16 August 2022, the post-2022 electronic gaming machine entitlement period commenced following an allocation process in 2017-18 where venues (clubs and hotels) purchased entitlements to own and operate machines. The commencement of these entitlements included the introduction of several changes to tax settings, including increasing progressivity and reducing the tax differential between clubs and hotels for high-performing clubs.

Prior to the COVID-19 pandemic, net gaming revenue was growing slowly in nominal terms, and declining gradually in real terms. The pandemic and associated venue closures triggered a sharp decline in machine revenues over 2019-20 and 2020-21. This was followed by the post-2022 entitlement period, which saw nominal net gaming revenue rebound to above pre-pandemic levels. It is uncertain if factors that spurred the increase in gaming revenue will persist.

The Government has recently announced significant regulatory reforms to gaming machines to reduce gambling related harm and deter money laundering, including mandatory pre-commitment and carded play, and closure periods for gaming machine areas. Once these reforms are implemented, they will have an impact on the pattern of demand for gaming machines. These impacts should be considered when contemplating any changes to the tax system.

Introduction and legislative context

Since the introduction of electronic gaming machines (EGMs) in Victoria in 1992, EGM tax settings have been adjusted several times to reflect the market conditions, licencing regime and government objectives of the time. The post-2022 term, which commenced on 16 August 2022, also saw changes to EGM tax policy settings, including restructuring of tax rates and thresholds. In finalising the post-2022 entitlement process, provisions under section 3.6.6D of the *Gambling Regulation Act 2003* were introduced requiring a review of EGM tax rates and settings on or before 16 February 2024.

The “*Electronic gaming machine tax review*” (the Review) acquits this legislative requirement. The Review examines current EGM tax settings in the context of recent regulatory reforms.

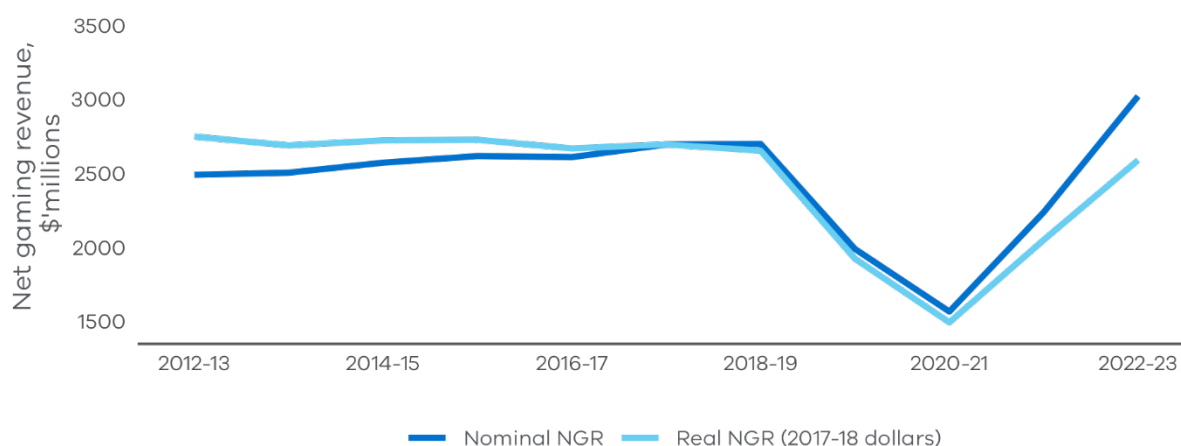
Victorian electronic gaming machine taxes

EGMs generate economic rents for operators due to government-imposed restrictions on the supply of entitlements. As the number of entitlements are limited, gaming providers can earn greater profits than would ordinarily be earned in a competitive market. Governments typically seek to capture these rents for the benefit of the broader community, through either sale of entitlements, taxation, or a combination of both, as is the case in Victoria.

EGM revenue is a significant source of own-source revenue for Victoria, historically contributing the largest share of gambling revenue. In 2023-24, revenue from EGM taxes is estimated to total \$1.4 billion.

Since the commencement of the venue operator model in 2012 and prior to the pandemic, Victorian net gaming revenue (NGR)¹ from EGMs was growing slowly in nominal terms at 1.3 per cent per year on average, and falling in real terms (-0.6 per cent per year on average) (**Chart 1**). Pandemic-related closures had a significant impact on gambling levels, resulting in a sharp decline in NGR.

Chart 1: Victorian net gaming machine revenue (nominal and real), Victoria



Source: VGCCC.

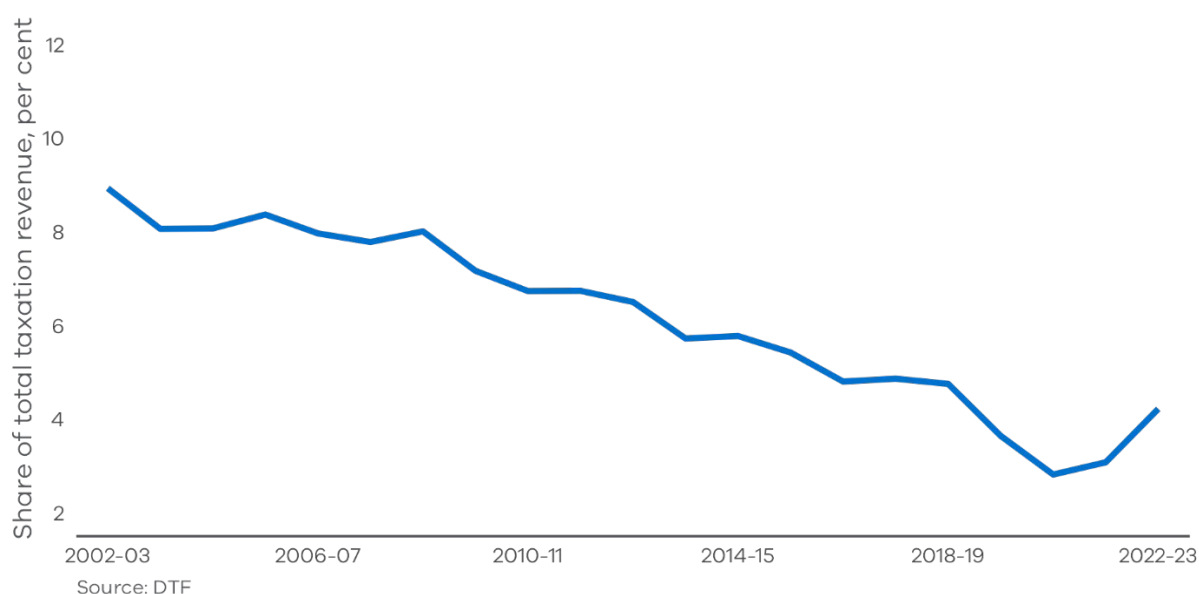
¹ Net gaming revenue is defined as the total amount wagered on EGMs less the sum of all prizes paid from that amount.

The market has since rebounded strongly with NGR increasing to over \$3 billion in 2022-23, above pre-pandemic levels in nominal terms, but still remaining below pre-pandemic levels in real terms due to the inflationary context. It is unclear if recent performance reflects a temporary behavioural response from consumers post-pandemic, or a more permanent shift in consumer preferences.

Endeavour Group, Australia's largest EGM operator, reported in its 2023 annual report that EGM revenue had normalised following the elevated levels experienced after initial pandemic lockdown periods.² Moreover, other factors such as EGM operational costs may have also changed since the allocation process, affecting EGM net earnings.

However, as a share of total own-source taxation revenue, EGM tax revenue has gradually been declining from around 9 per cent in 2002-03 to 4.2 per cent in 2022-23 (**Chart 2**).

Chart 2: EGM revenue as a share of total own-source taxation revenue, Victoria



8.33 per cent of revenue generated from EGMs in hotels is collected in tax and hypothecated to the *Community Support Fund* (CSF). All remaining taxation revenue raised from EGMs in Victoria is hypothecated to the *Hospitals and Charities Fund* and the *Mental Health Fund* (HCF & MHF). This is unlike most other taxes which are directed to the Consolidated Fund only, allowing Government discretion on how revenue is spent. Hypothecation to these funds direct gambling revenue back into the community by providing funding for programs in hospitals and community organisations, mental health services, programs to tackle problem gambling, as well as drug education, treatment, and rehabilitation.

While EGMs are a source of taxation revenue for the State to provide important healthcare services, gambling support and community funding, there are considerable risks of harm associated with gambling. Balancing the need to raise revenue against the risks of harm has informed tax design and regulatory settings.

² Endeavor Group (2023), *2023 Annual Report*.

Regulatory context – harm minimisation reforms

The Victorian Government has recently introduced landmark reforms to reduce gambling related harm and money laundering. These will affect industry and government taxation revenue, with these impacts to be monitored as implementation occurs.

Since the commencement of the post-2022 entitlement period tax, the Government announced landmark reforms to EGMs to reduce gambling related harm and deter money laundering, including:

- Introducing mandatory pre-commitment and mandatory carded play for all EGMs;
- Reducing load up limits for EGMs to \$100;
- Requiring all new EGMs to extend/reduce spin rates to three seconds; and
- Introducing mandatory closure periods for all EGM areas between 4:00am and 10:00am for clubs and hotels.³

The reforms are designed to reduce gambling harm and are expected to put downward pressure on EGM turnover. This has been reflected in a reduction in EGM tax revenue forecasts, with the Department of Treasury and Finance forecasting revenue to gradually decline from 2025-26 (**Table 1**), although it is difficult to estimate these impacts with precision.

Table 1: EGM tax revenue forecasts, Victoria, \$'millions

	2023-24	2024-25	2025-26	2026-27
Electronic gaming machine tax revenue	1 359	1 389	1 273	1 154

Note: Includes gambling licence revenue forecasts.

Source: DTF 2023-24 Budget Update.

A brief history of gaming machine entitlements

Victoria first introduced EGMs in 1992 after the Government awarded gaming licences to Tatts and Tabcorp. The licences allowed the licensees to acquire, distribute, operate and monitor EGMs in approved clubs and hotels. The duopoly arrangements continued until 2012, when the Government introduced a “venue operator model” and awarded licences directly to individual venues. Venues seeking to operate EGMs were required to purchase gaming machine entitlements, with each entitlement authorising its operation of a single EGM.

Entitlements were valid for a fixed entitlement term beginning 16 August 2012 and ending 15 August 2022. Entitlements for this period were allocated in 2010 through a two-stage process, consisting of a fixed-price pre-auction club offer for existing clubs, and a competitive auction for all hotel entitlements and the remaining unsold club entitlements.

³ Premier of Victoria (2023), *Landmark Reforms To Reduce Gambling Related Harm*, 16 July, Media release.

Current entitlement period and tax settings

The process for allocating entitlements for the post-2022 term commenced in 2017, with allocation based on an administrative process informed by an independent valuation of total entitlements. The post-2022 entitlement period commenced from August 2022 and will conclude in August 2042 and is structured in two 10-year periods. After the initial 10-year period, venues will be able to exercise an option to retain entitlements. More information on how venues can exercise this option will be provided closer to the beginning of the second 10-year period.

The commencement of the post-2022 term also saw changes to EGM tax policy settings, including restructuring of tax rates and thresholds which have been in place since 16 August 2022. Principally, these changes included:

- three tax brackets being replaced by four brackets and a higher tax rate applying to the top bracket; and
- the existing tax differential of 8.33 per cent for clubs being reduced for higher earning clubs, resulting in hotels paying a top tax rate of 65 per cent (up from 62.53 per cent) and clubs paying a top tax rate of 60.67 per cent (up from 54.2 per cent).

Current tax settings are outlined in **Table 2**.

Table 2: Electronic gaming machine tax settings, post-2022 entitlement period, Victoria

Venue type	Gaming Machine Revenue	Tax rate (per cent)	Concession (per cent) ^a
Clubs (Not-for-profit, operators for community purposes)	Less than \$2666	0	–
	Between \$2666 and \$6666.67	46.7	8.33
	Between \$6666.67 and \$12 500	51.17	6.33
	\$12 500 or more	60.67	4.33
Hotels (For-profit, approved venue operators)	Less than \$2666	8.33	–
	Between \$2666 and \$6666.67	55.03	–
	Between \$6666.67 and \$12 500	57.5	–
	\$12 500 or more	65.0	–

^a Clubs are eligible for a tax concession, contingent on them providing community benefits equal to or greater than 8.33 per cent of their net gaming revenue.

These changes were also accompanied by amendments to the *Gambling Regulation Act 2003* requiring these tax settings be reviewed and a review tabled in Parliament on or before 16 February 2024.

Interjurisdictional comparison of gaming machine arrangements

Australian jurisdictions differ in how EGM tax settings are applied, ranging from differences in whether the tax rate is flat, progressive, based on overall revenue, or based on marginal rates on each component of revenue. **Table 3** summarises the key tax structures across the states and territories.

Table 3: Electronic gaming machine tax settings across Australian jurisdictions

State/Territory	Tax Settings	Levies and Concessions
Australian Capital Territory	<p>Tax rates on gaming machines in clubs are based on a progressive scale that applies to monthly net gaming revenue.</p> <p>Tax on gaming machines in hotels is set at a rate of 25.9 per cent of monthly net gaming revenue.</p>	<p>All clubs and hotels must pay 0.75 per cent of net gaming machine revenue to the Gambling Harm Prevention and Mitigation Fund.</p> <p>Under the <i>Gaming Machine Act 2004 (ACT)</i>, clubs are required to make a minimum level of community contributions equal to 8.8 per cent of the club's net revenue.⁴ Hotels are required to make a minimum community contribution of 0.8 per cent of net revenue.⁵</p> <p>Small or medium club/club groups can claim a rebate of 50 per cent of their gaming machine tax liability each year, where net gaming revenue is less than \$4 million.</p>
New South Wales	<p>Tax rates are based on a progressive scale that applies to quarterly net gaming revenue.</p> <p>After 31 August each year, clubs and hotels can apply for an adjustment of their quarterly tax payments compared with annual profits from gaming machines.</p>	<p>Clubs are provided a concessional tax rates and higher tax-free threshold.</p> <p>A minimum of 0.4 per cent of a club's net gaming revenue in excess of \$1 million is allocated to the ClubGRANTS fund each tax year.</p> <p>Under the ClubGRANTS scheme, registered clubs can claim tax rebates of up to 1.85 per cent of their net gaming revenue over \$1 million when they contribute the equivalent amount to eligible community projects.</p> <p>A limited GST rebate is also available to clubs only.</p>

⁴ Net revenue here is defined as net gaming revenue less: (a) any gaming machine tax payable; and (b) 24 per cent of net gaming revenue.

⁵ Net revenue here is defined as net gaming revenue less any gaming machine tax payable.

State/Territory	Tax Settings	Levies and Concessions
Northern Territory	Tax rates are based on a progressive scale that applies to monthly net gaming revenue.	Clubs are not subject to a fund contributions levy, but are required to make a direct contribution to community development and improvement, particularly in their geographic areas of influence. Hotels must pay a 10 per cent Gaming Machine Community Benefit Levy monthly on net gaming revenue.
Queensland	Tax rates on gaming machines in clubs are based on a progressive scale that applies to monthly net gaming revenue and paid monthly. Tax on gaming machines in hotels is set at a rate of 35 per cent of net gaming revenue.	Hotels with monthly net gaming revenue of more than \$100 000 must pay a Health Services Levy based on a progressive scale.
South Australia	Tax rates are based on a progressive scale that applies to annual net gaming revenue. Taxes are calculated and paid monthly.	
Tasmania	Tax on gaming machines is set at a flat rate based on monthly gross profit. The tax rate is 32.91 per cent for gaming machines in clubs and 33.91 per cent for gaming machines in hotels.	Licensees must pay a 4 per cent Community Support Levy on gross profit.
Victoria	Tax rates are based on a progressive scale that applies to each venue's average monthly net gaming revenue (or player loss) per gaming machine.	Clubs are eligible for a tax concession, contingent on them providing community benefits equal to or greater than 8.33 per cent of their net gaming revenue.
Western Australia	Under section 85 of the <i>Gaming and Wagering Commission Act 1987</i> (WA), the use and possession of EGMs is prohibited in Western Australia, except within licensed casinos.	

Source: Australasian Gaming Council (2023), *Gambling Taxation in Australia, In A Guide to Australasia's Gambling Industries 2019/20*.

Findings

1. Electronic gaming machine revenue has rebounded strongly in nominal terms following COVID-related restrictions, however, remains below pre-pandemic levels in real terms.
2. The outlook for EGM revenue growth is uncertain. It remains unclear whether factors that have spurred the rebound in revenue are likely to persist.
3. The Government's landmark gambling harm reforms are expected to reduce venue net gaming revenue and Government tax collections, though impacts are difficult to estimate with precision.

