

27 March 2018

NSW Treasury

By email: tax.consultation@treasury.nsw.gov.au

POINT OF CONSUMPTION TAX CONSULTATION PAPER

Dear Sirs,

On behalf of licenced sports bookmaker neds.com.au Pty Ltd ('Neds'), we provide the following submissions in response to the Point of Consumption Tax Consultation Paper

1. Should NSW introduce a PoCT on wagering? If so, why? If not, why not?

No, wagering companies currently pay significant product fees to racing and sports bodies and GST on gross margin as well as company tax. The introduction on POCT will make the majority of wagering companies unprofitable.

Wagering companies could only do two things to maintain profits to offset a POCT;

1. Increase margin
2. Decrease advertising

Both of these things would have a detrimental effect on turnover and ultimately product fees and GST.

If corporate bookmakers must increase their margin to try and pass some of the cost onto clients, this means that clients will lose their money faster and turnover will reduce.

Due to the level of competition created amongst the corporate bookmakers over the last 10 years and the increase in advertising and promotion of wagering, turnover has been growing in racing and sport.

Prior to this it was flat due to TABCORP not investing much comparatively into above the line advertising. Even today the corporate bookmakers outspend the TABCORP on above the line marketing and while this does promote the bookmaker itself it also increases general awareness around events and races of which TABCORP is also a beneficiary.



Wagering operators are spending hundreds of millions on advertising which is an expense that sits on the operators P&L that must be considered along with the introduction of a PCOT. A reduction in advertising will reduce turnover.

The majority of the amount wagered is on horse racing. Horse racing exists for gambling. The economic benefits of the horse racing industry directly and indirectly are significant. Racing in NSW is well run and currently well funded. A POCT will affect direct funding and send the industry into decline.

Comparisons have been drawn to the UK POCT, but the major difference is UK bookmakers do not also have to pay product fees. Product fees are equivalent to 25% of Margin. In addition live betting, online casino gambling and games of chance are legal in the UK, which creates a very different dynamic to here in Australia.

POCT will particularly hurt racing, I don't believe the economics have been thoroughly considered. Australia has the best racing in the world and for the most part is now well funded. There are plenty of other countries where racing has fallen away due to poor decisions, declining investment and lack of awareness. POCT is a mistake which will ultimately lead to the government to have to put their hand in their pocket to prop up in years to come. It's not broken at the moment.

If NSW was to introduce a PoCT

2. Which PoCT design elements should be harmonised across jurisdictions, and why?

All bookmakers do not operate under the same business model and their margin % varies significantly from operator to operator. A percentage of turnover model would not work and would not allow smaller operators to be competitive and continue their business model. Any POCT should be based on net wagering revenue (or a derivative thereof).

The calculation of NWR should be consistent across everyone.

$$\text{NWR} = \text{Gross win} - \text{free bet cost} - \text{product fees} - \text{GST payable} - \text{bad debts} - \text{chargebacks} - \text{licensing fees}.$$

These costs are easily definable and auditable.

3. Should a PoCT be levied on the operator's net wagering revenue (player loss) or on the operator's wagering turnover? Why?

As above, based on NWR, it's a much fairer model due to the different business models and different margins of wagering operators.

4. Should all forms of wagers (online and terrestrial) be captured by a PoCT at a common tax rate?

Yes, if it takes into account that the TABCORP have a retail monopoly and their existing contribution to the wagering industry has to sit outside of any POCT. It is currently not a level playing field due to the retail monopoly TABCORP enjoy and they should pay more for this privilege. TABCORP are also underweight in terms of advertising spend and general industry promotion.

5. Should a common PoCT rate apply to all wagering types (fixed odds, totalizator, betting exchange etc.)?

Yes, there is no need to differentiate. However, an exchange works on a different business model and only the % of NWR would work.

6. Should a customer's location be defined through their usual residential address for the purpose of a PoCT, or should it be based on where the bet was made? How should this be verified and updated?

Yes, usual place of residence on a 'best endeavour' basis, as it's very difficult for wagering operators to continually monitor the whereabouts of each customer. Perhaps a point of residency tax makes more sense.

7. What should the PoCT rate/s for NSW be? For which reasons?

The lower the better. I believe the tax (if introduced) should initially be set at 5% of NWR (scaling up) and see how it affects the economics. If it is set to a lower percentage it will encourage investment in NSW compared to higher taxed jurisdictions.

Neds would suggest the following bands:

-) Less than \$10M - NWR 5%
-) Between \$10M and \$50M - NWR 6%
-) Between \$50M and \$150M - NWR 7%
-) Over \$150M - NWR 8%

Where NWR = Gross win – free bet cost – product fees – GST payable – bad debts – chargebacks- licensing fees

8. Should there be a tax-free threshold? If so, at what level? Should oncourse bookmakers be exempt from a PoCT? Considering the potential impact of a PoCT on wagering practices and the wagering industry:

Smaller operators that do not have the scale will struggle to absorb the costs of a POCT. I would suggest bands based on NWR.

9. Estimates of the take-up of illegal offshore wagering are uncertain. Stakeholders are encouraged to provide any relevant information or evidence on the sensitivity of punters to changes in odds and shifting to offshore operators.

Look to the USA where all sports betting is off shore. That entire market is supported by illegal offshore sports bookmakers who can operate at a 2% margin because they pay no taxes or fees in America. The odds differentiation Australian bookmakers will be forced to offer will be too great for customers to resist the temptation of better odds offshore with brands that have been established for decades such as bodog, sbobet, sportsbook etc. POCT is a step too far for Australian operators to absorb this cost, on top of high product fees.

10. What has been the experience of operators in complying with South Australia's PoCT administration procedures?

Currently it is a manual process, but it is manageable due to small turnover volumes. We have also elected not to advertise or actively acquire customers in SA.

11. What are the practical issues and challenges for stakeholders in implementing a PoCT, and what is an appropriate implementation timeframe in NSW?

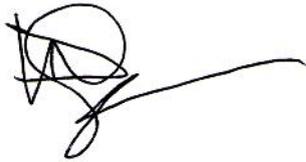
System development and time to test, implementation before 2019 would cause difficulties.

12. Is there a preference for coordinated PoCT collection by a single state or revenue office?

Yes, consistency between the States and a central collection point would be preferred.

We trust that the above submissions will be taken into consideration by NSW Treasury as part of the industry consultation process.

Yours sincerely

A handwritten signature in black ink, appearing to be 'D. Shannon', with a long horizontal line extending to the right.

Dean Shannon
Managing Director
neds.com.au Pty Ltd