# Harmful Effects of Turnover and Winnings Taxation in Sports Betting: An Overview

## About EOGL

**The European Organization for Gaming Law (EOGL)**, a Brussels-based trade association, gathers sports betting organizers from across the SEE region to champion fair and transparent taxation in alignment with the highest business standards. EOGL has also consistently advocated for taxation models that align with the highest business standards This report aims to shed light on the current taxation models in the sports betting industry EU and US-wide, analyzing their effectiveness and offering policy recommendations for an optimized, equitable approach.

In recent years, EU experts have consistently advocated for a taxation model that focuses solely on the gambling operators' actual revenue, specifically the difference between stakes received and winnings paid.

> This model, also called the GGR tax, has garnered widespread consensus in leading global markets and has been integrated into legislation in 95% of EU countries and almost every US state where sports betting is legalized .

Unlike other business sectors, where taxation targets revenue, the sports betting industry faces unique challenges when player winnings, even the stakes themselves, are taxed, burdening both players and operators with a tax that doesn't reflect their actual earnings.

> In that respect, ensuring a fair and transparent tax system not only promotes a healthy industry but also ensures maximized revenue for governments .

In this analysis, we delve into the core arguments surrounding the most effective taxation models, examining their implications for both the industry and public revenue. Let's explore the evidence, understand the challenges, and chart a path for a sustainable and responsible sports betting business throughout the EU.

## Unmasking the Inefficacy of Winnings/Stakes Taxation

Understanding the fairness and sustainability of any taxation system, and not to mention the unfair ones, requires a deep dive into its real-world implications. Let's break this down with two of the most popular betting strategies: betting on short odds and system betting.

### 1 *Betting on Short Odds With the Taxation of Winnings in Force*

*Scenario:*
A player places a bet of **€100** on an outcome with odds of 1.2.

*Expected Payout:*
If successful, the player should receive **€120.**

*Reality Check*
A 20% winnings tax is deducted, amounting to €24.
The player ultimately receives €96, which is €4 less than the original stake.

€100
ODDS OD 1.2

€120
TAX -20%

€96

## 2 *Betting Despite the Tax on Stakes One Illustrative Scenario*

*Scenario:*
A player in a jurisdiction with a turnover tax decides to bet €100 on a football match.

*Expected Stake:*
The player is willing to risk €100 on the bet.

*Reality Check*
In countries like Poland and Croatia there is a turnover tax at the rates of 12% and 5% respectively. For the purpose of our analysis, let's assume a 5% turnover tax is applied on stakes.
Tax Deducted: 5% of €100 is €5, the stake is now €95.
The player's actual stake, post-tax deduction, becomes €95, even before the outcome of the bet is determined. This means the player's potential winnings are now calculated on a reduced stake of €95 instead of the original €100.

**€100**
**BET**

**TAX DEDUCTED**
**5%**

**€95**
**STAKE**

## Adverse Impacts of Turnover/Stakes Taxation

### 1 *Reduced State Revenue*

The shift of players to unregulated platforms due to unfavorable taxation diminishes state revenue.
The multi-tiered taxation makes legal operators unattractive, leading to a drop in expected tax contributions and affecting state budgets.

### 2 *Unfair Outcomes for Players*

As shown earlier in the document, the present taxation model, especially when taxing winnings, sometimes results in players getting back less than their original stake, deterring them from participating.

### 3 *Increased Administrative Strain*

The layered taxation approach intensifies administrative challenges, leading to increased costs, red tape and endless player-operator, as well as state-businesses disputes.

### 4 *Distortion of Market Dynamics*

The taxation on winnings forces legal operators to provide less competitive odds due to the added tax weight. This drives players towards unauthorized or offshore platforms, shrinking potential government revenue and exposing players to greater risks.

### 5 *Diminished Player Returns*

Taxing operators at multiple stages invariably slashes the returns to players (RTP). This curtails the appeal of gaming, causing players to receive less than their initial stake and prompting a **shift to the black market**.

### 6 *It is unfair and discriminatory within the same industry*

Turnover taxation in betting unfairly discriminates within the industry and imposes high administrative costs. While it can be implemented in sports betting and lotteries, it creates fiscal disparities and exempts casinos, violating both EU and national laws and impeding competition against illegal operators. In practice, the turnover/taxation of winnings is, more often than not, also a lobbying solution to undermine the sports betting industry.

### 7 *Betting odds are very price sensitive – smaller odds, bigger black market*

Price sensitivity among sports betting players is significant, with the net pay-out ratio being a crucial factor. Increased tax liability, equating to a 5% higher effective tax burden for every 1% increase in winnings taxation, forces legal operators to offer less favorable odds, leading to player attrition. This could result in many operators, particularly those with slim margins, exiting the market if such taxation persists.

## EU Directive – Taxation of Bet Stakes and Winnings Are the De Facto VAT

European Union has established a clear stance on the matter of taxing the winnings and stakes in betting and gaming industry through its Directive 2006/112. Regulators throughout EU have recognized the negative implications of taxing either stakes, or winnings, or both in sports betting, categorizing them as the VAT, resulting in a shift away from such tax models due to substantial revenue drops. And not only in Europe – **the world's most successful sports betting jurisdictions worldwide have also implemented this GGR taxation approach.**

The Directive, as stated in Article 135(1)(i), has exempted the sports betting and lottery section, as well as other forms of gambling, from excessive taxation such as taxing stakes and/or winnings:
Member States shall exempt the following transactions [from the VAT]:
(i)
**betting**, lotteries, and other forms of gambling [….]

## Optimal vs. Harmful: A Comparative Analysis of GGR vs Turnover/Winning Betting Taxation Models

In the complex landscape of sports betting regulations, how a jurisdiction chooses to tax this business can very profoundly influence both market health and the level of state revenue. For the purpose of this analysis, EOGL offers a comparative analysis of the three global sports betting jurisdictions with optimal GGR taxation models, compared with the jurisdictions which introduce and combine different methods of turnover and winnings taxation, and the differences in results of this model for both the public revenues and the stability of the sports betting business community.

We did not want to merely present raw numbers without any context. We instead aim to offer a comprehensive view, connecting the dots between countries that differ in population, economic prowess, and market size.

*1 For more information, see the landmark Leo Libera case at https://curia.europa.eu/juris/liste.jsf?language=en&num=C-58/09*

For a clearer picture, consider that the UK levies a 21% tax on GGR, Malta imposes a 5% GGR tax, while New Jersey in the USA has settled on a rate of 9.75% on GGR. All of three countries have no withholding tax on winnings, nor turnover taxation. On the other side, Poland imposes 5% turnover tax + 10% of winnings, Portugal has 8% turnover tax and Croatia has 5% turnover tax + 10% of winnings.

**Table 1: Quantitative Display of the Efficiency of GGR vs Turnover/Winnings Tax2**

| Metrics/Country | Poland | Portugal | Croatia | UK | Malta | NJ (USA) |
|---|---|---|---|---|---|---|
| Population (M) | 38.45 | 10.33 | 3.90 | 67.33 | 0.52 | 92.7 |
| Betting Tax 2020 | 272 | 188 | 41.7 | 2100 | 46.80 | 55 |
| Betting Tax 2021 | 248 | 202 | 42.5 | 3071 | 50.10 | 107 |
| Betting Tax 2022 | 279 | 207 | 43.5 | 3305 | 52.31 | 113 |
| Tax Growth in % | 2.57% | 10.11% | 4.32% | 57.14% | 11.78% | 105.45% |
| Tax per Capita | 7.25% | 20.05€ | 11.15€ | 49.05€ | 100.60€ | 12.19€ |
| Population Legally Betting | 20% | 25% | 21% | 47% | 56% | 61% |
| Black Market (%) | 51% | 24% | 29% | 7% | 7% | 9% |
| Licences Issued | 16 | 22 | 9 | 58 | 117 | 22 |
| Profit Margin | 36% | 31% | 34% | 62% | 59% | 56% |

There are plenty of conclusions and implications signalling the sole GGR taxation model is favourable for both the national business and tax authorities in particular, some of them being:

- Optimal Tax Regimes Foster Growth: The countries that use the GGR taxation model (UK, Malta, NJ) have exhibited significant growth in their tax revenue, with New Jersey seeing an impressive 105.45% growth, and the UK showing a robust 57.14% growth over the two years;

- Economic Size vs. Efficiency: Malta, despite being a much smaller economy, exhibits an exceptional tax per capita at 100.60€, highlighting the efficiency of its GGR taxation model. This emphasizes that even small economies, if they implement smart and efficient taxation system can punch above their weight multiple times;

- Legal Betting Population & Tax Efficiency: The higher percentage of the population legally betting in the GGR countries points towards greater market penetration and acceptance, driving higher revenues. This is especially evident in New Jersey, with 61% population participation, and Malta, with 56%;

- Turnover and Winning Taxation Means Bigger Black Market: Countries with turnover and winnings taxation (Poland, Portugal, Croatia) show higher percentages of betting occurring in the black market, especially Poland at 51%. This represents not only lost revenue but poses very serious risks to consumer protection, citizen safety and crime;

*2 The figures presented in the table are sourced from gaming authorities, ministries of finance, and official media outlets. While every effort has been made to provide accurate and up-to-date data, there may be some degree of variance or approximation in the numbers due to the nature of the sources and potential reporting variations.*

- Profit Margins & Operator Environment: **The GGR countries (UK, Malta, NJ) demonstrate higher operator profit margins available both for businesses and tax authorities**, suggesting a healthier environment for businesses. Higher profit margins can lead to better services for consumers and potential reinvestment in the sector;

- Tax Per Capita – Lessons Learned: Countries like Portugal and Croatia, despite having less population, aren't able to capitalize as efficiently on per capita revenue, further underscoring the merits of GGR over turnover/winnings taxation. UK is 1.34 times more efficient in extracting public income from betting compared to the average of non-GGR countries. Malta, with its small economic might yet effective **GGR model, is a staggering 4.76 times more efficient.**

## EOGL Policy Recommendations for a Fair and Sustainable Betting Taxation in EU

- **Adopt an Optimal Tax Rate:** Based on recommendations from globally leading audit firms and experts, we suggest implementing an optimal tax rate of 10-12% on Gross Gaming Revenue (GGR). This rate aligns with European sports betting standards and offers several advantages, including enhanced customer protection and a stronger focus on regular and regulated markets;

- **"Beware of the Laffer Curve":** Recognize that the Laffer Curve principle also applies to the sports betting industry. Striking the right balance in the amount of taxation is crucial;

- **Offer Evidence-Based Policy:** Make informed decisions by referring to research and studies of policy, economics and tax experts, who provide valuable insights into optimal tax rates and their impact on the market. Continuously assess the effectiveness of tax policies and be ready to adjust them based on empirical evidence;

- **Promote Regulatory Transparency:** Maintain transparency in regulatory processes and decision-making. Clearly communicate the rationale behind tax rate choices to build trust and cooperation with industry stakeholders;

- **Emphasize Consumer Welfare:** Prioritize the protection and welfare of consumers by aligning taxation policies with market dynamics. Aim for a tax framework that incentivizes legal, regulated betting options while discouraging participation in the black market.

*3 The Laffer Curve is an economic concept indicating that setting tax rates too low or too high can result in unintended consequences of low public (tax incomes). When tax rates are too low, there may be an influx of small operators, oversaturation of the market, and challenges in effective regulation. Conversely, excessively high tax rates can drive activity towards the black market, reducing public income from sports betting. Striking the right balance in taxation is essential for a fair and sustainable industry.*