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PRE-BUDGET REPORT: GAMBLING TAXATION



Betting Exchanges

In Budget 2004, the Government announced that it would carry out further work with the industry to ensure fair and equitable tax treatment of betting exchanges and their users. I am very grateful to the input all sides of the industry have made to this work.

After careful analysis, the Government has concluded that the current tax treatment of betting exchanges and their users is fair and equitable and that consequently no changes are required.

In undertaking this review, we looked at two main questions:

- whether the application of GBD to the betting exchange's commission was a fair basis on which to tax them compared to traditional bookmakers; and

- whether betting exchange users were acting as bookmakers and should therefore be brought into the tax net.

The Government has concluded that taxing their commission is the fairest way to tax betting exchanges. This reflects the fact that the commission is the exchange's gross profit in the same way as net stakes receipts are for bookmakers. Taxing the commission therefore ensures parity between exchanges and bookmakers and enables exchanges to maintain competitiveness and provide value to punters, whilst making a fair contribution to tax revenues.

We also considered the tax treatment of betting exchange users. Essentially this boils down to two issues. Whether we should tax persons who lay bets on betting exchanges on the grounds that they are bookmakers. Alternatively whether there are persons who are in business on the betting exchanges more generally and whether these people should be taxed as bookmakers.

The Government has decided that taxing layers on exchanges, purely on the basis that they lay bets, would not be fair or proportionate. Whilst tax law does limit tax liabilities for bookmakers to their gross profits from lay bets, it does not link being a bookmaker to laying a bet. Instead it defines a bookmaker as someone who receives or negotiates bets by way of business. For bookmakers, it is clear that laying bets is a business activity, in the sense that it is carried out for the purposes of a trade and has an inbuilt system of profit. This is not generally true for layers on exchanges who are not conducting a trade, nor are they generally able to build in a profit margin to their price. The decision not to tax layers on exchanges is also consistent with social policy set out in the Gambling Act. I should stress that bookmakers are already liable for duty on their gross profits from lay bets on exchanges, and HMRC will continue to ensure compliance with this.

We have looked more widely at whether there is a group of users on betting exchanges who are acting by way of business and are not currently being

taxed. Whilst there are clearly differing levels of activity on exchanges and some users do bet in high volumes, there is not sufficient evidence to characterise these users as running a business, as opposed to merely being high-volume gamblers, who have traditionally been outside the tax net.

On this basis, we have concluded that current taxation arrangements remain appropriate.

We have also decided not to make any changes to the tax treatment of hedged bets because of the tax avoidance risks this would create.

[Redacted section not relevant to queries]

John Healey MP