Regulatory Impact Statement: Online Casino Taxes

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions
Advising agencies:	Inland Revenue
Proposing Ministers:	Minister of Revenue
Date finalised:	21 February 2024

Problem Definition

Offshore online casino websites face lower taxes compared to New Zealand casinos and gaming machines as well as the taxes that apply to online casinos in the UK and some European countries. This may allow online casinos to offer more attractive odds or promotions to New Zealand gambling customers. To the extent that this encourages gambling activity through online casinos, it will result in reduced tax revenues compared to if the gambling had been conducted through New Zealand operators. It is also likely to result in an increase in overall gambling harm given the accessibility of online gambling and that, unlike New Zealand licenced operators, offshore operators are not required to employ any harm minimisation practices.

Executive Summary

Currently, the only tax applying to offshore casino websites is GST.

The objectives of the proposal are to increase tax collection and to minimise gambling harm.

This RIS considers the following options of taxing online casinos:

- Consistent with onshore casinos (GST, income tax and 4% casino duty)
- Consistent with gaming machines (GST and 20% gaming duty)
- Introducing a new 12% gaming duty in addition to the existing GST (officials' preferred option).

Officials recommend the option of introducing a new 12% gaming duty which would be imposed in addition to the existing GST. Such a tax would be in line with how some other countries tax offshore casino websites.

While the proposal would mean online casinos would face lower tax and regulatory obligations than onshore casinos or gaming machines, tax collection and fairness would still be significantly improved compared to the status quo.

The recommended option is expected to lead to most gambling activity being conducted with compliant operators, significantly improving tax collection without undermining the

Government's harm minimisation objective. It is estimated to collect $35 million of additional tax revenue in the 2024/25 fiscal year, growing by 5% each subsequent year.

The other two reform options involve a higher risk of non-compliant online casinos increasing their market share compared to compliant operators. Under those options, the overall costs imposed on operators which complied with New Zealand's tax rules would be significantly higher than the taxes applied by other countries. This could result in more gambling occurring through non-compliant operators which would erode the tax revenues which could be collected. Harm minimisation would be also lower as non-compliant operators are unlikely to use harm minimisation practices.

Taxes would be collected by Inland Revenue and apply from 1 July 2024. There is an implementation risk that some online casino operators may not have sufficient time before 1 July 2024 to adjust their systems and commercial practices to comply with the new requirements and may block their New Zealand customers or become non-compliant. This risk can be reduced by aligning the design of new taxes closely with existing GST obligations (e.g., imposed on gross betting revenue (GBR) and quarterly filing) and by announcing and legislating the changes shortly after Cabinet decisions have been made. Accordingly, the overall impact of this risk is considered low.

Limitations and Constraints on Analysis

Given earlier Ministerial decisions, this RIS is limited to options for improving the tax collection of online casino gambling, which is defined as gambling through offshore websites other than racing and sports betting.

As Ministerial decisions are to apply any of the tax options from 1 July 2024, there is a need to make Cabinet decisions in early 2024 to provide certainty to the affected gambling operators. This RIS is limited to options to improve tax collection. Non-tax regulatory options such as developing a licensing system or banning online casino websites from offering gambling to New Zealanders are outside the scope of this RIS. The Department of Internal Affairs advised Ministers that banning offshore casino websites from operating in New Zealand is likely to be ineffective and costly to try to enforce so this option has not been further considered as a potential option for improving tax collection.

Time constraints meant there was no consultation with stakeholders on the options. This increases the risk of unintended consequences or that some of the potential impacts may differ from what officials expect. Where relevant, we have attempted to identify the risks and the uncertainty of impacts.

To quantify the costs and benefits of the options it was necessary to make several assumptions. The estimated costs and benefits are sensitive to these assumptions, meaning that a wide range of impacts could be generated if different assumptions had been used. The main risks with the assumptions are:

- There is limited data on the size of the total market for online gambling as well as the profitability of the industry. We have relied on data collected by Inland Revenue and the Department of Internal Affairs to establish our assumptions.
- Many countries, including Australia, Canada, Singapore, and the United States of America, do not allow offshore websites to provide casino gambling. The United Kingdom and some European Union member countries do allow online gambling but do not apply GST or income tax. Instead, they apply gaming duties. This makes it difficult to use data from international comparators to estimate the impacts of the options, particularly when determining future market size and how much gambling activity will be channelled towards compliant gambling providers.

- The total GBR that New Zealanders spend through online casinos is unknown. We have used data on the GST currently collected from online gambling operators as we consider this is the most reliable way to estimate the GBR on which gaming duties and income tax could be collected.
- While the estimated impacts are based on historic Inland Revenue and Department of Internal Affairs data reported by online gambling providers, there is significant uncertainty about the future size of the compliant market.
- The forecast estimates are sensitive to the growth rate assumption used (assumed to be 5% per annum). There could be either much higher growth or a declining amount of online gambling spending.
- While we have assumed that imposing a duty or tax, and the increased compliance costs, will reduce the amount of GBR on which the taxes are collected, the size of these impacts is uncertain. There is a risk that some tax options have a larger or smaller impact on the tax base than we have assumed.
- If the proposed duty or taxes have high compliance costs, some of the online casino operators may choose to respond by blocking or reducing promotions to their New Zealand customers or by not complying with the taxes. This may lead to New Zealand customers conducting more gambling activity through non-compliant operators which would reduce tax collection and increase gambling harm (as non-compliant operators are less likely to apply harm minimisation measures such as promoting problem gambling services). We expect these risks would be higher for income taxes and for options where New Zealand would impose a much higher tax rate on online casinos than other jurisdictions.
- Previous surveys indicate that online gambling is more prevalent among Māori, young people (aged 16 to 24 years), men, and Pacific women, than other population groups. The status quo and reform options are expected to have a larger impact on these groups. However, due to data limitations we have not attempted to quantify the impacts for segments of gambling consumers.

Overall, officials consider the assumptions used are reasonable and conservative, and can be relied upon when comparing the relative impact of the different options.

Responsible Manager

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Inland Revenue

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21 February 2024

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance reviewer at Inland Revenue has reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue. The reviewer considers that information and analysis summarised in the RIS *Online Casino Taxes* partially meets the quality assurance criteria. Given earlier Ministerial decisions, the options under consideration were limited to options for improving the tax collection of online casino gambling. Time constraints also applied to the policy development of the proposal and have not permitted consultation on the various options. To quantify the costs and benefits of the options it was necessary to make several assumptions. The estimated costs and benefits are sensitive to these assumptions, meaning that a wide range of impacts could be generated if different assumptions had been used.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

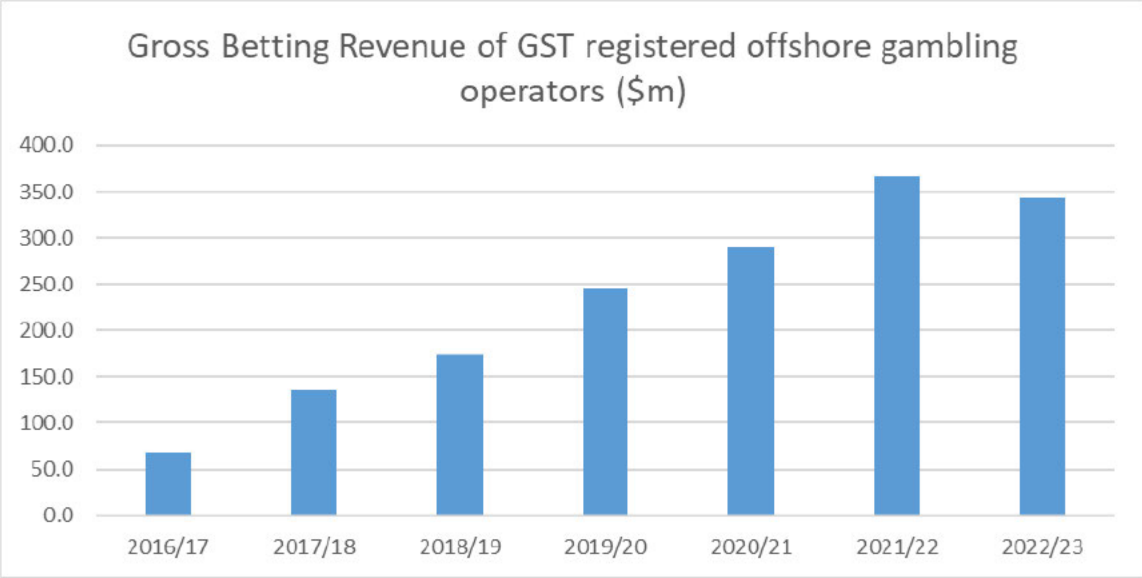
The online casino market is large and growing

1. In their 2022/23 Annual Report, SkyCity estimated New Zealanders gambling through offshore online casino websites (as opposed to the total online gambling market) comprised between $400 million and $500 million of gross betting revenue (GBR). Gross betting revenue refers to the net losses for gamblers (bets received minus prizes paid out).
2. Offshore gambling operators that are registered for GST[1] reported $342.5 million of GBR from New Zealand customers in 2022/23.[2] $42.8 million of GST was collected from these operators in 2022/23. About 11% of this was from racing or sports betting. We expect there are many other online gambling operators who are not registered and do not pay GST[3], but these are likely to be smaller operators than those registered for GST.
3. Given the uncertainty of the size of the total market, we estimate the total online casino market size was about $400 million of GBR in 2022/23. This estimate is larger than the market size indicated by GST collection but is at the lower end of the range estimated by SkyCity.
4. Between 2016/17 and 2021/22, when digital services became mass-market, the GST registered offshore gambling GBR grew at a high rate (above 20% most years). In 2022/23 there was a 7% decline, reflecting that online gambling was higher in 2021/22 due to Auckland COVID restrictions.

[1] The GST rules require offshore providers of gambling services to New Zealanders to register and pay GST if they provide more than $60,000 of these services in a 12-month period.

[2] The 12 months ending 30 June 2023.

[3] Applying GST to gambling is unusual internationally so some providers may not be aware that they are required to pay GST.



5. When analysing options in this RIS, we have assumed modest growth of 5% p.a. from 2023/24 onwards due to current cost of living pressures and because online casinos are less likely to target New Zealand gamblers as the proposed tax options would make New Zealand a less profitable market (relative to promoting gambling by customers in other jurisdictions).

Online casinos face lower taxes than competing forms of gambling

6. Currently, the only tax that applies to offshore gambling websites is GST.[4] GST has applied since 2016 as part of a wider reform which applied GST to remote (mainly digital) services. $42.8 million of GST was collected from offshore gambling websites in the 12 months ending 30 June 2023.

7. Because online casinos are located offshore, they do not have to pay New Zealand income tax. This reflects the fact that international tax settings generally only impose income tax on non-resident business income when it is generated through a physical presence in New Zealand (such as premises or offices).

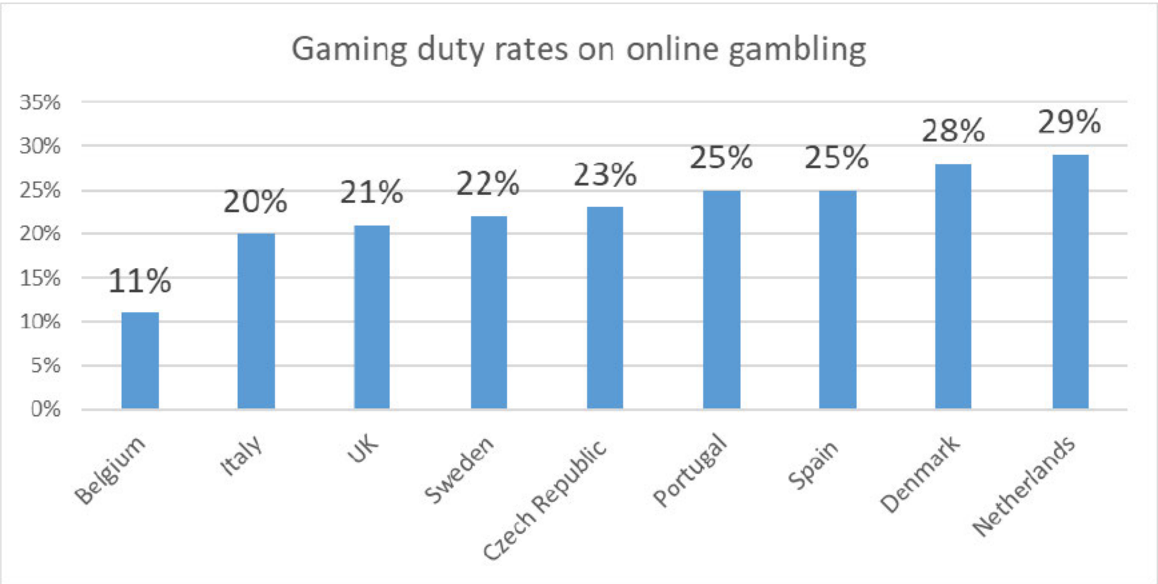
8. Similarly, gaming duty and problem gambling levy currently only apply to New Zealand licenced gambling providers. Revenue from gaming duty goes into the consolidated fund, while the problem gambling levy is used to fund problem gambling services.

9. The current mechanisms to collect tax from online casinos are limited compared to New Zealand casinos and gaming machines that they compete with. The taxes and levies paid by gaming machines and casinos are shown in the table below:

[4] Offshore racing and sports betting websites are also required to pay 10% point of consumption charges on the gross betting revenue they earn from New Zealand customers which is used to fund sports and racing organisations.

Operator	Taxes and levies
Class 4 operators **(gaming machines in pubs and clubs)**	• gaming machine duty (20% of GBR) • GST • problem gambling levy of 1.08% of GBR and after society and venue expenses
New Zealand licenced casinos	• casino duty (4% of GBR) • GST • problem gambling levy of 0.87% of GBR • income tax on their profits.[5]

10. Internationally, the most common approach to regulating online casinos is to not allow offshore websites to operate (by making them illegal).[6] However, banning or blocking access to certain types of websites is very difficult for gambling regulators to enforce. The United Kingdom and some European countries have taken a different approach of allowing online gambling but applying gaming duties to online gambling operators as a percentage of the GBR earned from their residents (similar to New Zealand's GST rules). The relevant gaming duty rates applying in these countries are displayed below.



11. New Zealand is one of the last countries in the OECD with an unregulated online gambling market, which makes it a target for offshore operators with aggressive online advertising and marketing to New Zealand-based customers. New Zealanders have unrestricted access to overseas gambling websites, many of which have little to no harm minimisation or consumer protection standards. There is no oversight of harm minimisation and consumer protections, including ensuring that operators reliably return winnings.

[5] Income from Gaming Machines, Lotto NZ and TAB NZ are exempt from income tax due to specific exemptions in the Income Tax Act.

[6] Including in Australia, Canada, Singapore, and the United States of America.

12. Most people do not experience any negative effects from online gambling. However, gambling can be highly addictive and can lead to harm to individuals and the wider community. The proportion of people who sought help for gambling harm related to online gambling has almost doubled between 2018 and 2022.[7] Online casino gambling is likely to be at least as harmful as Class 4 gaming machines, with harmful features such as the continuous nature of play, 24/7 accessibility and its appeal to young people.

What is the policy problem or opportunity?

13. Offshore online casino websites face lower taxes compared to New Zealand casinos and gaming machines as well as the taxes that apply to online casinos in the UK and some European countries. This may allow online casinos to offer more attractive odds or promotions to New Zealand gambling customers. To the extent that this encourages gambling activity to be conducted through online casinos, it will result in reduced tax revenues compared to if the gambling had been conducted through New Zealand operators. It is also likely to result in an increase in overall gambling harm given the accessibility of online gambling and that unlike New Zealand licenced operators, offshore providers are not required under New Zealand regulation to employ any harm minimisation practices.
14. That said, many online casinos comply with gambling regulations in other countries which include taxes and harm minimisation, so if New Zealand customers gamble using these compliant operators, harm minimisation will be better compared to non-compliant operators.
15. Regardless, offshore providers are likely to result in increased gambling harm given that, unlike New Zealand licenced operators, they are not subject to New Zealand gambling regulations which require harm minimisation practices. Online gambling is likely to be at least as harmful as gaming machines (pokies). It has features which increase the risk of harm such as the continuous nature of play, its 24/7 accessibility on mobile phones and other devices, and its appeal to young people and other vulnerable members of society.
16. Previous surveys indicate that online gambling is more prevalent among Māori, young people (aged 16 to 24 years), men, and Pacific women, than other population groups.[8] The status quo is expected to have a larger impact on these groups. However, due to data limitations we have not attempted to quantify the impacts for particular segments of gambling consumers.
17. Due to the time constraints mentioned in the constraints section, we have not publicly consulted on the problem or the specific tax options analysed in this RIS with stakeholders, including gambling operators, community groups, or specific populations of gamblers. Instead, we have relied on information from the Department of Internal Affairs gambling officials who have insights about these stakeholders and information provided through previous consultation or public comment.
18. The Department of Internal Affairs publicly consulted on regulating online gambling in 2019. While the focus of that consultation was on potential regulations to minimise harm,

[7] Intervention services data, Ministry of Health, 2022

[8] The Ministry of Health's Health and Lifestyles survey found that Māori are more likely to gamble on online casino websites than non-Māori. The rate of Māori gambling on online casino websites has been increasing significantly over the years, from 1.3 percent in 2012 to 4.7 percent in 2020. 32 percent of people accessing clinical services who recorded online gambling as one of the types of gambling causing them harm identified as Māori. While data is limited, evidence suggests that young people (aged 16 to 24 years) and men may also be relatively more likely to have gambled on online casino websites. Pacific women were significantly more likely to gamble online than non-Pacific women, but Pacific men were less likely to gamble online than non-Pacific men.

some submitters commented on applying taxes to online gambling operators.[9] One submitter noted the additional revenue from online gambling operators would result in more tax revenue and ensure more gambling activity is conducted through compliant operators (compared to non-compliant operators). Two submitters suggested a taxation system based on gross betting revenue. These submitters believed this would be the most effective method of collecting tax. One submitter stated the taxation rate should be competitive for operators and not exceed global best practice rates.

19. SkyCity, which operates four of New Zealand's six casinos, has made public comment that "SkyCity supports the taxation of the online gaming market".[10]

What objectives are sought in relation to the policy problem?

20. The objectives are to increase tax collection and to minimise gambling harm.

21. There is a trade-off. If the proposed taxes have high compliance costs, some of the affected operators may choose to respond by blocking or reducing promotions to their New Zealand customers or by not complying with the taxes or other regulations. This may lead to New Zealand customers conducting more gambling activity through non-compliant operators which would reduce tax collection and increase gambling harm (as non-compliant operators are less likely to apply harm minimisation measures such as promoting problem gambling services).

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

22. The criteria that have been used to assess the options are:

• *Revenue collection:* Is the option effective at improving the tax revenue collected from gambling? Will it protect the sustainability of the gambling tax base going forward? Will the proposed taxes maximise the gambling activity that is conducted through compliant operators (compared to non-compliant operators)?

• *Harm minimisation*: Does the option minimise the harm caused by problem gambling? Does it channel New Zealand gambling customers towards compliant operators who implement harm minimisation measures?

• *Fairness*: Will the option be perceived by stakeholders as improving fairness? Would online casino operators face similar taxes as New Zealand gambling providers, other types of offshore businesses, and the taxes which apply to online casino gambling in other countries? Do the options avoid unintended distortions to competition, consumer, or business decisions?

• *Compliance costs*: Do the options encourage online casino operators to comply with their tax obligations with low compliance costs? Do they minimise the additional compliance costs which would be imposed on operators by the option?

[9] Microsoft Word - Online Gambling - Summary of Submissions (dia.govt.nz), page 36.

[10] Online casinos 'aggressively targeting'' New Zealand (newsroom.co.nz). 10 October 2022.

• *Coherence:* Do the options make sense in the context of New Zealand's overall tax system including how offshore businesses are generally taxed? Is the option consistent with New Zealand's international tax and trade agreements.

• *Administration costs*: Are the options possible for Inland Revenue to implement in the necessary timeframe and administer without substantial ongoing administration costs?

What options are being considered?

Option One: Status quo

23. Option one is the status quo where the only tax applying to offshore casino websites is GST.

24. Accordingly, these websites face significantly lower taxes compared to New Zealand casinos and gaming machines that they compete with. This may allow online casinos to offer more attractive odds or promotions to New Zealand gambling customers. To the extent that this encourages gambling activity to be conducted through online casinos it will result in reduced tax revenues and contributions to New Zealand community groups. It is also likely to result in an increase in overall gambling harm given the accessibility of online gambling and that unlike New Zealand licenced operators, offshore providers are not required by New Zealand regulation to employ any harm minimisation practices (although they may do so voluntarily or because they comply with harm minimisation regulations imposed by other countries).

25. These problems are expected to become worse over time as the amount of gambling conducted by New Zealanders on offshore casino websites continues to grow (we have forecast it may grow by 5% each year).

Option Two: Tax consistently with New Zealand casinos

26. Option 2 would aim to tax online casinos in the same manner as casinos that are physically located in New Zealand. These taxes are GST, a 4% casino duty on gross betting revenue (GBR) and a 28% income tax on profits. Officials estimate this would equate to an effective tax rate of approximately 26% of GBR.[11]

27. To the extent that online casinos have similar characteristics and compete with New Zealand casinos this option would improve fairness. New Zealand casinos provide gambling to people who are in New Zealand (including tourists), whereas online casinos are based offshore and can offer a wide range of gambling products to customers in many countries. New Zealand casinos are also different from online casinos because they have exclusive casino licences, are more regulated, employ many New Zealand staff and offer many other services besides gambling.

28. Although it is technically possible to apply income tax to online casinos which are located offshore, we are not aware of any other country that does this. Instead, they apply gaming duties, which are consumption taxes on GBR.

29. Current international tax settings generally only impose income tax on non-resident business income when it is generated through a physical presence in New Zealand. In this regard, option 2 would provide less fair and coherent taxation of online casinos compared to how other offshore businesses are taxed.

30. New Zealand's 40 double tax agreements prevent New Zealand from collecting income tax on non-resident businesses from these treaty partners unless the income is attributable to a physical presence in New Zealand. Currently, most online casinos are in jurisdictions such as Malta and Gibraltar which New Zealand does not have double

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[11] Because GST on gambling is collected on a GST-inclusive basis, it is equivalent to a 13% tax on GBR. The 26% of GBR comprises 13% for GST plus 4% for casino duty plus 9% for income tax (28% income tax on an assumed profit of 33% of GBR is 28% x 0.33 = 9%).

tax agreements with. However, there is a risk that an online casino could be relocated so it is a tax resident of one of the 40 treaty partners. It may be possible to require online casinos to be located in New Zealand in order to legally provide gambling to New Zealanders, but such a requirement could potentially be challenged under a relevant trade agreement.

31. Applying income tax would also impose compliance costs on the affected casinos as they would need to calculate their New Zealand-sourced profits and comply with international tax rules. To avoid incurring these compliance costs it is likely that some online casinos would choose to leave the New Zealand market by blocking New Zealand customers, rather than become liable for New Zealand income tax. This could lead to more gambling activity being conducted with non-compliant operators who are less likely to use harm minimisation measures which could increase gambling harm compared to the status quo.[12]

32. Because it would require Inland Revenue to monitor and enforce income tax and international tax rules, option 2 would have higher administrative costs than the status quo and option 3.

Option Three: Tax consistently with gaming machines

33. This option would seek to tax online casinos consistently with gaming machines. This approach would improve fairness by ensuring online casinos pay similar gaming duties to the gaming machines (pokies) operating in pubs and clubs.

34. These gaming machines are subject to GST and a 20% gaming machine duty on GBR. Income subject to the 20% gaming machine duty is exempt from income tax.

35. Compared to option 2, which involved a low 4% rate of gaming duty and income tax, applying a higher rate of gaming duty (20% under option 3 or 12% under option 4) and not applying income tax would be simpler and more coherent with international tax policy settings. It would also be more consistent with the fact that some European countries apply gaming duties (but not income tax) to offshore online gambling.

36. Under option 3, the total tax collected would be 33% of GBR (a combination of GST[13] and gaming machine duty) which would be higher than taxes imposed by larger online gambling markets in the United Kingdom (21% of GBR) and European countries (ranging from 11% in Belgium to 29% in the Netherlands).

37. Because it imposes the highest overall tax rate, option 3 may collect more revenue than options 2 and 4 but is likely to have the biggest negative impact and downside risk on the amount of gambling activity that occurs through compliant online casino operators.

38. Imposing a high overall tax rate could make the New Zealand market much less profitable for online casinos. This significantly increases the risk that some online casino providers may choose to block or reduce promotions to New Zealand customers and focus on attracting customers from other countries instead. In response, New Zealand customers may shift their gambling activity to non-compliant online casino providers who do not pay any New Zealand taxes (including GST), which would result in a loss of tax revenues.

39. This behaviour would also undermine harm minimisation. Non-compliant operators are unlikely to implement any measures to mitigate harm (such as promoting problem gambling services). In contrast, compliant operators may voluntarily implement or comply with harm minimisation measures required by other countries.

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[12] Tax compliant operators are more likely to implement harm minimisation measures voluntarily or because they comply with harm minimisation regulations imposed by other countries.

[13] Because GST on gambling is collected on a GST-inclusive basis, it is equivalent to a 13% tax on GBR. i.e. if a gambler bets and loses $115, GST of $15 (13% of the $115 of gross betting revenue) is collected.

40. Option 3 would impose compliance costs on online casino operators compared to the status quo. These compliance costs include one-off costs of changes to IT systems and commercial practices to account for the new gaming duty (or block New Zealand customers if they choose to leave the New Zealand market). These implementation costs are expected to be low for those operators which already have similar systems in place for collecting GST.

41. Option 3 is expected to have slightly higher administration costs compared to the status quo as it would require Inland Revenue to implement systems changes and allocate compliance resources to assist the affected operators and their tax agents to comply with the new gaming duty.

Option 4: Align with tax rates imposed in other countries (officials' preferred option)

42. This option would seek to tax online casinos at a rate that is in line with the tax that other jurisdictions apply to online casinos.

43. Under option 4, services provided by online casinos would remain subject to GST in New Zealand. It is proposed that a new gaming duty of 12% would apply on top of the GST. This would result in online casinos paying the equivalent to a 25% tax on GBR.

44. An overall tax rate of 25% would put New Zealand near the midpoint of jurisdictions that impose gaming duties on online casino operators. Spain and Portugal apply a 25% tax rate while Denmark (28%) and the Netherlands (29%) apply higher rates. Other countries apply lower tax rates, including Belgium (11%), Italy (20%), UK (21%), Sweden (22%) and the Czech Republic (23%).

45. The main advantage of ensuring that the overall tax rate and compliance costs are internationally comparable is that it reduces the risk of online casinos responding to the higher costs and reduced profitability of operating in the New Zealand market by blocking or reducing promotions to their New Zealand customers. This reduces the corresponding risk that New Zealand customers shift their gambling activity to non-compliant online casinos, who do not pay taxes and are unlikely to implement harm minimisation measures.

46. In the racing and sports betting context, online betting providers are subject to both GST and 10% point of consumption charges in New Zealand. It is noted that this level of taxation (a 23% total tax rate) did not appear to cause any online racing and sports betting providers to leave the New Zealand market. However, the nature of the racing and sports betting market may be different than the online casino market.

47. A total tax of 25% would be a similar overall tax rate as option 2 (tax consistently with New Zealand casinos which is estimated to be roughly 26% of GBR). However, option 4 would have lower compliance costs and is expected to collect more tax revenue than option 2.

48. A disadvantage of option 4 is that it may be perceived as less fair by some gambling stakeholders compared to options 2 or 3. This is because 12% would be less than the 20% gaming machine duty which applies to gaming machines in pubs or clubs. It could be opposed by these gaming machine operators or lead to lobbying to reduce the rate of gaming machine duty to align it with offshore websites. Also, as the proposed 12% gaming duty would be more than the 4% casino duty, New Zealand casinos may seek policy changes to apply a lower 4% duty on gaming conducted through their offshore websites on the basis that they see this as being part of their casino, rather than a separate type of gambling activity. Other countries such as the UK have different gaming duty rates for online gambling (21%) compared to casinos (a progressive 15%-50% structure increasing with GBR) and gaming machines (5% to 25% depending on the cost to play and prize value).

49. As with option 3, option 4 would impose some one-off compliance costs for online casinos from changes to IT systems and commercial practices to account for the new gaming duty, although these costs are expected to be low for those providers which

already have similar systems in place for GST. Option 4 is expected to have similar administration costs to option 3.

How do the options compare to the status quo/counterfactual?

	Option One: *Status Quo*	Option Two: Tax consistently with New Zealand casinos	Option Three: Tax consistently with gaming machines	Option Four: Align with tax rates imposed in other countries
Revenue collection	0	+	+	+
Harm minimisation	0	-	-	0
Fairness	0	+	+	+
Compliance costs	0	- -	-	-
Coherence	0	-	+	+
Administration costs	0	- -	-	-
Overall assessment[14]	0	-	0	+

Key for qualitative judgements:

++ much better than the status quo

+ better than the status quo/

0 about the same as the status quo

- worse than the status quo

- - much worse than the status quo

[14] For the overall assessment, more weight is placed on the main objectives of revenue collection and harm minimisation.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

50. Officials recommend taxing online casino operators in line with the tax rates imposed in other countries (option 4).

51. While option 4 would mean online casinos would face lower tax rates than New Zealand casinos or gaming machines, tax collection and fairness would still be significantly improved compared to the status quo. Compared to the other reform options, option 4 is expected to lead to the most gambling activity being conducted with compliant operators. For this reason, it would significantly improve tax collection without undermining the Government's harm minimisation objective.

52. Options 2 or 3 would involve a higher risk of New Zealand gamblers moving to non-compliant operators as the overall costs imposed on operators which complied with New Zealand's tax rules would be significantly higher than the taxes applied by other countries. Compliant operators could put less effort into attracting New Zealand customers and may respond by choosing to block New Zealand customers from accessing their websites rather than face the high tax costs. This makes it likely that more New Zealand gamblers would gamble using non-compliant operators who do not comply with taxes and are unlikely to implement any harm minimisation measures.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment**	**Impact.**	**Evidence Certainty**
Additional costs of the preferred option compared to taking no action			
Regulated groups *(online casino operators)*	One-off set-up costs of IT systems Additional tax, ongoing from 2024/25	Low, assuming they already have these systems in place for GST $35m in 2024/25 growing by 5% p.a.	Medium Medium
Regulators *(Inland Revenue)*	One-off capital cost of Inland Revenue systems changes Annual administration costs, ongoing	$1.5m capital cost in 2023/24 $0.5m staff costs and $0.3m of depreciation per year	High
Others	Ongoing costs Consumers may have more limited choice and competition compared to status quo as some websites may no longer accept NZ customers. Gambling harm could increase to the extent that more NZ gambling activity occurs through non-compliant operators who are less likely to use harm minimisation measures.	Low	Low
Total monetised costs	One-off Ongoing	$1.5m capital cost in 2023/24 $35.8m in 2024/25, increasing by about 5% each year	Medium
Non-monetised costs	One-off	Low	Medium
Additional benefits of the preferred option compared to taking no action			
Regulated groups *(online casino operators)*	No obvious benefits	None	Low
Regulators	Additional tax, ongoing from 2024/25	$35m in 2024/25 growing by 5% p.a.	Medium

Others	Some NZ customers may gamble less (potentially reducing harm) if online casino websites reduce their promotions for NZ customers (or block access to NZ customers). Some gambling activity may shift to NZ operators which fund community and sports organisations.	Low Low	Low Low
Total monetised benefits	Ongoing	$35m in 2024/25, increasing by 5% each year	Medium
Non-monetised benefits	Ongoing	Low	Low

Section 3: Delivering an option

How will the new arrangements be implemented?

53. Inland Revenue will be responsible for the implementation and ongoing administration of the online casino taxes which would apply from 1 July 2024. Inland Revenue will need to update its systems and allocate compliance resources to assist the affected operators and their tax agents to comply with the changes. Inland Revenue has estimated it will cost $1.5m of capital costs in 2023/24 and annual operating costs of $0.5m in staff resources and $0.3m of depreciation each year to implement and administer the gaming duty proposal.

54. Inland Revenue will provide information to increase awareness and support taxpayers to comply with the new rules. This will include producing a relevant Tax Information Bulletin item and updating guidance on Inland Revenue's website.

55. There is an implementation risk that some online casino operators may not have sufficient time before 1 July 2024 to adjust their systems and commercial practices to comply with the new requirements and may block their New Zealand customers or become non-compliant. This risk can be reduced by aligning the design of new taxes closely with existing GST obligations (e.g., imposed on GBR and quarterly filing) and by announcing and legislating the changes shortly after Cabinet decisions have been made. Accordingly, the overall impact of this risk is considered low.

How will the new arrangements be monitored, evaluated, and reviewed?

56. The Department of Internal Affairs has regular contact with key gambling sector stakeholders, including licenced operators and interested community groups as part of its regulation of the sector. These contacts will be used to seek and receive input on the effectiveness and any issues arising under the proposed option.

57. Inland Revenue regularly reviews tax settings on an ongoing basis and provides advice and updates to the Government accordingly. Policy officials maintain strong communication channels with stakeholders in the tax advisory community and these stakeholders will be able to correspond with officials about the operation of the new rules at any time. If problems emerge, they will be dealt with either operationally, or by way of legislative amendment if agreed by Parliament.