

# **REFORMING GAMBLING TAXATION**

**HOW TO LIFT HALF A  
MILLION CHILDREN  
OUT OF POVERTY**

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# SUMMARY

A key priority for the government's upcoming child poverty strategy should be to remove the two-child limit and scrap the household benefit cap. While attracting a price tag of around £3 billion, it will lift around half a million children out of poverty overnight and is an essential first step towards driving poverty rates down. There is simply no other measure which provides comparable headline child poverty reduction per pound spent.

We understand the fiscal constraints facing the government, but there are options on the table right now which could meet these costs and support 1.6 million children to live better lives, and gambling taxation is an area ripe for reform. While we recognise that people should have the freedom to gamble and enjoy themselves, which many do and will continue to, it is inescapable that gambling causes serious harm and a significant share of profits derive from harmful products that often lead to addiction and financial distress. It is only fair, therefore, that these companies, which are exempt from any form of VAT and often based overseas, contribute more to help wider social aims where they can – and the industry is booming.

As such, we propose raising £3 billion by:

- raising remote gaming duty, levied on the profits from online casino activity, from 21 per cent to 50 per cent
- raising machine game duty – currently set at 20 per cent for most machines, to 50 per cent, in line with remote gaming duty
- raising the general betting duty from 15 to 25 per cent with the exception of horse-racing which already pays an additional 10 per cent through the horse racing betting levy – effectively equalising the rates between horseracing and other sports.

While behavioural effects should be considered, we agree with the assessment of the Social Market Foundation that previous HMRC commissioned analysis from 2014, which examined the behavioural effects of levy rises, should not be considered as definitive as their conclusions are based on assumptions rather than their own data analysis. Furthermore, we expect that firms will seek to protect their bottom lines by worsening odds. Even if the 2014 analysis is correct and this leads to a smaller market overall, higher margins for firms are likely to lead to higher surplus and strong possibility of higher government revenue through gambling duties than set out in this paper. It is worth noting that gambling markets continue to work well under tax regimes with much higher tax rates than our own.

As such, we urge the government to adopt these proposals to increase rates, to invest directly into our social security system to reduce hunger and hardship among those families struggling the most.

# THERE IS A STRONG CASE FOR REMOVING THE TWO-CHILD LIMIT

As IPPR, among others, have noted, the government's upcoming child poverty strategy will require fiscal firepower in order to deliver on its ambitious aims (Parkes et al 2025), with severe limitations to an approach which focuses on increasing parental employment alone (ibid). Recent government announcements to extend free school meals to all children are a welcome first step, expected to lift 100,000 children out of poverty (DfE 2025). But without further action on the two-child limit and benefit cap, poverty will continue to rise under the government's watch.

## BOX 1: WHAT ARE THE TWO-CHILD LIMIT AND BENEFIT CAP?

**Two-child limit:** Introduced in April 2017, this policy restricts universal credit and child tax credits to the first two children in a family, where the third or subsequent children are born after this date. Affected families lose out by over £3,500 per on year on current rates (IPPR analysis of DWP 2024). Over 1.6 million children are currently impacted (DWP 2025a)

**Benefit cap:** This policy sets a maximum limit on the total amount of benefits a household can receive, primarily affecting families with no or low earnings. In the latest data, 115,000 families are affected with an average financial impact of £60 per week. 69 per cent of families affected are single parent families (DWP 2025b).

Both policies are at odds with the fundamental principle that benefit entitlement should be related to household need, and exacerbate existing high rates of poverty amongst larger and single parent families.

Today, these policies are keeping over 450,000 children in poverty. This will rise to 550,000 by the end of the decade as more and more families have children born after the 'cut-off' (Parkes et al 2025). Larger families (three or more children) are under particularly high financial pressure driving food insecurity – 25 per cent of children in larger families are food insecure compared to 14 per cent for smaller families, and poverty rates for this group have risen by a third since 2012/13 (IPPR analysis of DWP 2025c).

There is consensus across the policy community that investment in removing the two-child limit is the most cost-effective way to reduce the headline rate of poverty (Clegg and Corlett 2025, CPAG 2025, Henry and Wernham 2024) and is an essential early step for the government's child poverty strategy.

We recognise that reversing this policy is not free, with a likely price tag of around £3 billion. And that the fiscal scenario is currently tight, with the chancellor up against a number of unfavourable headwinds such as high borrowing costs, a requirement to boost defence spending and ongoing economic uncertainty which is a drag on both growth and tax receipts.

There are credible options to raise revenue, and IPPR will be exploring several of these in forthcoming work. One such area is gambling taxation, which the government is currently consulting on – albeit with a narrow focus on simplifying the structure of existing duties. We argue that this misses a more important question: whether the overall level of tax on gambling is sufficient. In the context of rising fiscal pressures, clear evidence of gambling-related harm, and the sector's preferential tax treatment, there is a strong case for going further.

## PROBLEM GAMBLING IS COMMON – AND THE INDUSTRY BENEFITS FROM IT

Problem gambling is widespread in the UK. The most recent *Adult Psychiatric Morbidity Survey* (2023/24) found that 1.6 per cent of adults – around three-quarters of a million people – are at least moderate-risk gamblers (NHS 2025). But this harm is not felt equally across society.

Young men aged 25 to 34 are most affected, with 5.5 per cent experiencing at least moderate-risk gambling. Rates are also much higher in more deprived communities: men in the most deprived areas are twice as likely to be moderate-risk gamblers compared to those in the least deprived areas (ibid).

The impacts of gambling harm are far-reaching – the Lancet published a commission on gambling harms in 2024 (Wardle et al 2024) in which they found that problem gambling not only poses a significant risk to those at risk of gambling harm but also people around them. It has been found that problem gambling is linked to poorer finances (Hahman et al 2020) strained relationships (Hing et al 2022), worsening health (Muggleton et al 2021) and difficulties at work (Månsson et al 2023). The harm extends well beyond the gambler themselves – it is estimated that at least six other people are negatively affected by every individual with problematic gambling (Goodwin et al 2016).

It is also becoming increasingly apparent that, while many people do gamble, the vast majority of profits derived by gambling firms come from a small number of prolific gamblers. A recent UK study found that the top 10 per cent of online gambling accounts by amount staked account for nearly 80 per cent of operator revenue (NatCen 2022). Previous work from the House of Lords gambling industry select committee found that 60 per cent of the industry's profits came from just the 5 per cent of customers who were either problem gamblers or at risk (HoL 2020).

## GAMBLING TAXATION IS COMPLEX AND RELATIVELY UNDER-TAXED

Gambling taxes in the UK are levied on betting firms themselves based on 'gross gambling yield' (GGY),<sup>1</sup> the difference between stakes and payouts.

There are no less than seven different categories of gambling taxation in the UK (and within those, several different sub-rates), although two-thirds of tax revenue are raised by just three taxes: remote gaming duty, general betting duty and machine games duty, which bring in £2.3 billion between them in the latest data.

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1 With the exception of lottery duty which is levied on turnover.

**TABLE 1****Outline of gambling duties**

Duty	Revenue 2023/24 £m	Description	Percentage of gross gambling yield
General betting duty	£654m	Applies to bookmakers' profits on general or pool bets on horse or dog racing, spread bets, and bets placed through betting exchanges by a UK person or in a UK betting shop. (online or offline)	<ul style="list-style-type: none"> <li>• 15% for fixed odds and totalisator bets</li> <li>• 3% for financial spread bets</li> <li>• 10% for all other spread bets</li> <li>• 15% of the commission charges charged by betting exchanges to UK people</li> </ul>
Pool betting duty	£9m	Charged on bookmaker's profits from non-fixed-odds bets (excluding horse or dog racing) when the customer is in a UK betting shop.	15%
Gaming duty	£152m	Paid on casino gaming profits when gaming takes place in the UK in a physical place.	<p>Different marginal rates apply at different levels of profits, varying between 15-50%:</p> <ul style="list-style-type: none"> <li>• first £2,686,000 - 15%</li> <li>• next £1,852,000 - 20%</li> <li>• next £3,243,000 - 30%</li> <li>• next £6,845,000 - 40%</li> <li>• remainder - 50%.</li> </ul>
Remote gaming duty	£1,028m	Applied to gaming provider profits from remote gaming (online casino, slots, bingo) where the company is based anywhere in the world, played by a UK resident.	21%
Bingo duty	£22m	Charged on a bingo promoter's profits, for in-person bingo.	10%
Machine games duty	£589m	Applied on machine games in the UK involving chance, skill, or both, played for a prize. Not all machine games are dutiable.	Varies dependent on the maximum stake, prize and nature of game between 5-25%, with most taxed at 20%
Lottery duty	£934m	Lottery duty: Levied on taking a ticket or chance in the National Lottery (most other lotteries are exempt).	<p>12% of turnover (not gross gambling yield)</p> <p>The duty rate is 12% of:</p> <ul style="list-style-type: none"> <li>• all stake money paid in the accounting period</li> <li>• stake money payable, but not yet received, on any tickets or chances taken in the accounting period.</li> </ul>

Source: HMG 2024

From April 2025, previous voluntary industry contributions have been replaced with a statutory levy ranging from 0.1-1.1 per cent of GGY, to directly fund reducing gambling harms through prevention and treatment, alongside research (DCMS 2024).

We would argue that gambling is relatively under-taxed in the UK, given the following.

- Although it is difficult to estimate precisely, gambling imposes a direct fiscal cost to the taxpayer through higher spending for example on health, justice and social security through lost employment may exceed the existing tax-take (Noyes 2025).
- Gambling activities are exempt from VAT, meaning it's reasonable to argue that the minimum rate of taxation should be at least 20 per cent before even accounting for any related harms.
- There is a widespread issue of corporate tax avoidance in the gambling sector, with many betting companies paying low or no corporation tax despite widespread UK presence (Noyes et al 2020).

## **OUR PROPOSED REFORMS TO GAMBLING TAXES TO RAISE AN ESTIMATED £3 BILLION**

### **Increasing the remote gambling duty (RGD) from 21 per cent to 50 per cent.**

- This is a tax levied on the gross gambling yield (GGY), defined as stakes minus payouts, from online casinos such as online slots, poker or online bingo.
- It doesn't matter where the company is based, but where the person is making the bet and so captures overseas companies.
- The Social Market Foundation estimate this would raise £1.6bn in 2025 (Noyes 2025), which could rise to £1.8 billion in 2026/27 given the rapid growth in GGY in this sector (7 per cent average annual growth in latest two years of available data).

### **Increase machine games duty (MGD) on all cash-prize paying slot machines from 20 per cent to 50 per cent.**

- This is a tax levied on GGY from slot machines and other physical gaming machines, located in arcades, adult entertainment centres and casinos.
- There are slightly different rates levied on different types of machine, depending on the maximum stake and prize but most are 20 per cent, with some category B1 machines in casinos at 25 per cent.
- There are a small number of very low prize category D machines (popular at the seaside, with low-value non-cash prizes) for which the rate is 5 per cent which would remain unchanged.
- We estimate this could raise £880 million in 2026/27 (IPPR analysis using Gambling Commission 2025).

### **Increasing the general betting duty from 15 per cent to 25 per cent**

This is a tax levied on the GGY from general betting activities, online or offline, and mostly on sports.

- Horse racing would not be subject to the increase because they already pay an additional 10 per cent levy to the Horseracing Levy Board, so this can be thought of as harmonisation.
- The Social Market Foundation estimate this would raise around £450 million in 2025 but, given relative stability in GGY this is also our estimate for 2026/27.
- Together, we estimate these would raise just over £3 billion for the chancellor, outlined in table 2.

**TABLE 2****Outline of proposed tax rises**

	Revenue estimate 2026/27 (£bn)
Increase RGD from 21 to 50 per cent	1.8
Increase machine games duty for all machines to 50 per cent, excluding category D	0.9
Increase general betting duty, excluding horse racing	0.5
<b>Total</b>	<b>3.2</b>

Source: IPPR and SMF calculations using Gambling Commission 2025

Note: Original SMF estimates are based on 2024/25 data and so have been updated by expected growth in GGY based on recent trends. Totals may not sum due to rounding.

## BEHAVIOURAL EFFECTS ARE DIFFICULT TO ANTICIPATE BUT THE RISK IS NOT ONE-SIDED

A key question is how gambling firms – and subsequently consumers – will respond to higher tax rates, and whether these responses might reduce additional revenue raised.

We agree with the assessment of the Social Market Foundation that previous HMRC commissioned analysis from 2014 examining the behavioural effects of levy rises are likely overstated (Noyes 2025). We do not repeat these arguments here but econometric models can struggle to capture consumer behaviour in markets where there is no clear price signal. Furthermore, the conclusions of that report are based on the authors' assumptions rather than their own econometric analysis.

Our estimates are static, however we note that:

- firms are likely to protect margins by worsening odds, which would increase GGY, all else equal
- if less attractive odds may reduce betting volumes, this puts downwards pressure on overall GGY.

However, it is likely that the first effect outweighs the latter, even if those previously estimated elasticities were to hold, as we set out in appendix 1.



## **BLACK MARKETS WILL NEED MONITORING BUT ARE UNLIKELY TO BE A MAJOR THREAT**

The gambling industry uses a range of strategies to resist regulatory action and tax reforms designed to protect public health and reduce gambling-related harm. One of its main tactics in recent years has been to highlight the threat of increased ‘black market’ gambling, in an attempt to shape public and political debate against tighter regulation.

Much of the recent evidence about the scale of the black market has been funded or produced by the industry, which has a history of overstating the scale of illegal gambling (Davies 2020). For example, the former CEO of the Gambling Commission has publicly stated that the commission’s own evidence on the impact of affordability checks on illegal gambling has been exaggerated (Davies 2021).

Where independent evidence does exist – such as studies on the banning of certain gambling products in Norway and research on consumer behaviour during Covid-19 restrictions – there is little indication that tighter regulation leads to significant shifts towards illegal gambling (Wardle et al 2021, Lund 2009)

While there are legitimate concerns about the risks posed by unregulated gambling, there is a distinction between regulation which makes gambling more difficult to access (eg through tighter affordability checks) and higher rates of taxation. Not only is there little robust evidence to suggest that stronger regulation would drive large numbers of people to the illegal market, there is even less to suggest that altering the rate of taxation will do so.

Moreover, the Gambling Commission already has enforcement powers to monitor and disrupt unlicensed activity. These powers should be maintained and, where needed, enhanced – but the threat posed by illegal gambling should not be used as an excuse to avoid reforms that reduce harm and raise fair taxation.

## **CONCLUSION**

The government understands that child poverty requires urgent action – and expanding free school meals is a welcome first step. But without reversing the two-child limit and benefit cap, any strategy will fall short. These policies are structurally driving poverty, particularly among larger and single-parent families.

Raising the £3 billion needed is achievable through fair reform of gambling taxation. This is a booming industry that enjoys favourable tax treatment despite clear links to harm. While some argue higher taxes could reduce revenue by shrinking the market, evidence suggests firms are more likely to adjust odds to protect margins – as seen following the introduction of affordability checks – with limited impact on taxable yield.

The government is right to review gambling taxation. But the question shouldn’t just be how to simplify the system – it should be whether the industry is paying its fair share. Children can’t wait, and the case for reform is clear.

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# APPENDIX 1

**TABLE A1**

**Illustrative modelling of the relative effects of worsening odds and reduction in gambling volumes**

	A: Initial situation	B: Firm makes no adjustments to odds following increase in duty rate	C: Firm shortens odds to maintain profits Stakes reduce using elasticity of -0.5
Gambling duty rate	20%	50%	50%
Win-rate offered to customers	85%	85%	61.6%
'Price' of gambling	15%	15%	38.4%
Gross revenue (stakes)	£1,000,000	£1,000,000 (no change as odds have not changed)	£625,000 (adjusted down using price-elasticity of demand of -0.5)
Gross gambling yield	£150,000	£150,000	£240,000
Gambling duty revenue	£30,000	£75,000	£120,000
Firm's post-gambling duty surplus	£120,000	£75,000	£120,000

Source: Authors' analysis

Above is an illustrative example in which we assume first (column B) that there is no behavioural response by firms to an increase in gambling duty from 20 per cent to 50 per cent. In this case, they maintain win-rates offered to customers. The price to customers is unchanged as is gross revenue and therefore gross gambling yield. So, the government's increase in revenue is exactly in proportion to the change in gambling duty rate – but profits are reduced to pay for this.

In column C, we assume the firm reduces the win rate so that, taking into account a price elasticity of demand of -0.5, it can maintain its profits. Here, they reduce the win rate from 85 per cent to 61.6 per cent, triggering a reduction in demand from customers. Applying an elasticity of demand of -0.5, this reduces gross revenue by 37.5 per cent. However, the interaction of a higher price and reduced stakes pushes up gross gambling yield so that, even though the price elasticity of demand has reduced stakes, government revenue from gambling duty goes up fourfold whilst profits are maintained.

In this example, as long as there is some response by gambling firms to reduce win rates from initial rates of 85 per cent, this is likely to push up gross gambling yield by more than the reduction in gross revenue implied by the elasticities.

# APPENDIX 2

## MACHINE GAME DUTY CALCULATIONS

- We consider GGY for each machine type in the latest year (2023/24) and assume the most recent annual growth rate for each machine type continues until 2026/27 to get a baseline estimate.
- We then calculate what the expected tax-take would be with current and proposed rates.
- We leave category D machines out of scope which are often very low-stakes with no cash prizes, often found in seaside arcades.
- We then calculate the revenue impacts as shown in table A2.

**TABLE A2**  
Illustrative modelling of the effects of reforming machine game duty

	B1	B3	B4	C
2023/24 GGY	220	1971	15	239
Projected 2026/27 GGY	369	2284	20	228
Current tax rate	25%	20%	20%	20%
Proposed rate	50%	50%	50%	50%
Hypothetical baseline revenue (£m)	72	457	4	46
Alternative revenue (£m)	144	1141.994	10	114
Additional revenue (£m)	72	685	6	68
Total	858			

Source: Authors' analysis

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