

The Churchill Betting Tax, 1926-30: A historical and economic perspective

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ABSTRACT

This paper examines British Government policy with regard to the taxation of betting, from a historical and economic perspective. The taxation of betting is traced to the introduction in 1926 of a tax on betting turnover by the Chancellor of the Exchequer, Winston Churchill. By 1930 the tax had been scrapped. This paper seeks to examine what lessons can be learned from this attempt at the introduction of a new tax and from subsequent Government policy with respect to betting taxation, and asks what policy implications can be drawn by other countries experimenting with the introduction of taxes on the turnover or gross profits of their betting operators.

1. INTRODUCTION

THE ANNOUNCEMENT by the British Chancellor of the Exchequer, Winston Churchill, in 1926 of a tax on betting was met with huge controversy at the time, and was introduced in the face of a range of sources of opposition. By 1930 the tax had been scrapped. This paper seeks to examine this tax within the context of subsequent policy regarding the taxation of betting, and to consider what lessons can be learned.

The paper adopts the following structure. Part 2 introduces a modern perspective on the options for taxing betting, and provides background to the introduction of a tax on betting in 1926. Part 3 examines the announcement of the tax itself and the ensuing effects, implications and reactions. Part 4 examines the announcement of the decision to repeal the tax and the way in which this unfolded. Part 5 assesses the legacy of the tax. Part 6 considers subsequent Government policy with respect to betting taxation and asks what lessons might be drawn from the history of betting tax since 1926 for current and future national and international betting tax policy.

2. THE OPTIONS FOR TAXING BETTING

The gradual movement in the late 1990s of British-based betting operators, subject to onshore betting tax levied on turnover, away to more tax-friendly offshore jurisdictions, led to the explicit consideration by HM Customs and Excise of the distinction between a tax on betting turnover and a tax on the 'gross profits' of betting operators. Turnover is defined as stakes or winnings of bettors. 'Gross profits' (or bettors' expenditure) is defined as the difference between the amount staked by bettors and the amount returned to bettors (i.e. the net losses of bettors).

This is a critical difference. A tax on betting stakes, levied as a percentage of stakes, is equivalent to a commodity (or unit or specific) tax. On the other hand, a tax that is levied as a proportion of the price charged to bettors is equivalent to an ad valorem tax (Paton *et al*, 2000, 2001, 2002, 2004). Such a topic has been the subject of a long-standing literature dating back at least to Wicksell (1959 [1896]). Indeed, under reasonable assumptions, it is shown that an ad valorem tax will always yield more revenue than an equivalent commodity tax. More generally, it is shown that a revenue equivalent ad valorem tax will result in lower prices and higher turnover in equilibrium, than will a commodity tax.

The intuition behind this result is that an ad valorem tax provides an incentive for firms that have any market power to adopt a low-margin/high-turnover strategy. This is in contrast to a low-turnover/high-margin strategy, which they are likely to adopt in the aftermath of implementation of a commodity tax. In fact, it can be shown that the welfare-superiority of ad valorem taxes over commodity taxes generalises to a wide range of oligopoly markets (Skeath and Trandel, 1994). In this sense, '...everyone gains from ad valorem taxation'. (Cnossen and Smart, 2005, p.39).

Supporting evidence for this perspective (Delipalla and Keen, 1992), and empirical support, is provided in several studies of excise taxes in the United States and Europe (Delipalla and O'Donnell, 2001). In particular, it has been demonstrated that specific (i.e. commodity) taxes in the EU are more likely to be 'over-shifted' (consumer prices rise by more than the tax) than ad valorem taxes (see also Stern, 1987; Baker and Brechling, 1992).

In summary, the weight of academic literature supports the contention that a revenue equivalent ad valorem tax will result in lower prices and higher turnover in equilibrium, than will a commodity tax. Even in the case in which the conditions for welfare dominance are not satisfied, it has been shown that consumer surplus will still be higher under an equal yield ad valorem tax (Skeath and Trandel, 1994).

Informed by this theoretical perspective, the UK Government introduced, on October 6, 2001, a radically different form of betting tax to that originally introduced in 1926, and indeed to that introduced in 1966. Whereas both the 1926 and 1966 betting taxes were levied on turnover, the 2001 tax was levied instead on gross profits (the difference between the sums received from bettors by bookmakers and the sums returned to bettors).

A report issued by HM Customs and Excise² concluded that the reforms had been very successful, and that betting turnover and gross profits had increased significantly, findings echoed in a report issued by the National Audit Office³ (following the introduction of the 2001 tax reforms, stakes on betting quadrupled, from £7.1 billion in 2000-01 to £32.2 billion in 2003-04). The National Audit Office reported also that the tax reforms had been successful in protecting tax revenue, and noted that a gross profits tax (GPT) is directly linked to the capacity to the pay, whereas a turnover tax is not.

A summary of some of the benefits of the switch to GPT from a turnover tax was presented in a 2003 debate on the Finance Bill:

The switch to a gross profits tax is likely to lead to lower prices and enhanced consumer welfare ... Further, the switch will ... enhance the ability of UK betting firms to compete in an increasingly competitive environment.⁴

Moreover, according to HM Customs and Excise,⁵

Racing has benefited from the move to a gross profits tax ... the level of illegal bookmaking has significantly reduced. The trade associations note that betting shops reporting the biggest increases in sales are in areas where illegal activity had previously been known ... All of the original policy objectives have been achieved ... GPT is demonstrably more efficient, fair and sustainable than the former regime.

This was a view shared generally, as summarised by the Economic Secretary to the Treasury in 2003:

We have now completed a review of the reforms and I am happy to be able to report that bookmakers, racing representatives, academics and industry observers widely hold them to have been a significant success.⁶

In 2005, Singapore followed suit, with the introduction of its own tax based on the gross profits of betting, a policy subsequently followed in whole or in part by Greece and Spain in 2011, by Denmark in 2012, and by Italy in 2013. A related perspective is the prevalence of illegal betting in many countries today. To the extent that this mirrors a feature of the British experience prior to the legalisation of off-course cash bookmaking in the 1960s, additional lessons can perhaps be learned.

In any case, Churchill's discussion of the idea of a tax on winnings at a meeting on March 28, 1927, with the Turf Guardian Society, the Betting Duty Reform Association and the Northern Bookmakers' and Backers' Protection Association, takes on, in the context of the much later introduction of a tax on gross profits, particular significance. He had argued that to produce annual revenue of £6 million, his target figure, a winnings tax would have to be set at 17.5 per cent.⁷ It was a target figure that he re-iterated in his budget statement of April 1927, although he admitted in a subsequent debate on the Finance Bill that the figure was 'speculative', and estimated a

tax yield over the year of between just £3 million and £4 million. In doing so, he stated that from November 1 to the end of the previous June the tax had yielded £1.75 million. The month of June realised £356,000. In the first three months of the then current financial year (April, May and June) the yield had been £901,000.⁸ During that debate, Philip Snowden, the former Labour Chancellor of the Exchequer noted that the actual yield for the year would be less than half of the expected yield, which he put down to widespread evasion of the tax. Snowden proposed an amendment to the Finance Bill to the effect that the tax should be repealed as from October 31, 1927. This amendment was eventually defeated by 233 votes to 152.⁹ Yet even in its best year (1927-28) the duty produced only £2.7 million.¹⁰

A reasonable estimate of the yield from a tax on the gross profits of bookmakers (their net win from their clients) can be derived from an estimate of the bookmakers' margin, i.e. the proportion of turnover which was left as 'win' before allowing for running costs. This margin was estimated in 1936 in *The Economist*¹¹ as 10 per cent to 12 per cent, which was roughly comparable with the deduction from the Tote pool. This estimate is broadly supported by reports that agents of the bookmakers were receiving 2s 6d in the pound (12.5 per cent) on their takings, though the average rate paid was lower (Chinn, 2004, p. 162). There is no reason to believe that the margin in the mid-1920s was significantly different.

The 1923 select committee of the House of Commons on betting duty had estimated the annual turnover of legal betting (including football, horse racing, dog racing and betting on other sports) at £250 million. The committee also estimated that 85 per cent of bets (by value) placed with bookmakers were legal.

In his 1926 budget speech, Churchill had estimated legal betting to constitute 90 per cent of the total amount staked on betting. The 1926 budget calculations assumed that the effect of the tax would be to reduce betting turnover by £50 million per annum (out of a slightly estimated total annual betting turnover of £200 million - £170 million legally wagered). The remaining £120 million, taxed at five per cent, would yield £6 million. Customs concluded that there would be 'no mechanical difficulty in collecting the tax'.¹²

Employing the estimate of legal betting turnover of £170 million, and applying an estimate of the bookmakers' margin of 12 per cent, gives an estimate of gross profits of about £20 million per annum. On this basis, a gross profits tax set at the level introduced in 2001 (15 per cent) would have yielded about £3 million a year. This is more than was obtained from the Churchill betting tax. Moreover, this would have allayed key concerns of the bookmakers, as argued in their memorandum of March 1928, in which they urged the Chancellor to substitute for the then existing duty a scale of licence fees payable by bookmakers in accordance with the extent of their operations. One such concern was that tax was payable on amounts staked, even if the bets were reneged upon, since betting debts were not recoverable in law. There was

also widespread evasion of the tax, with dishonest bookmakers colluding with clients to deflate the size of the sums staked. Still, instead of switching to a gross profits tax of about 15 per cent, as introduced in 2001, Churchill instead proposed as an interim measure of relief, to reduce the existing rates of duty from two per cent to one per cent on course, and from 3.5 per cent to two per cent elsewhere, to take effect from 1 October, 1928, partially paid for by a proposal to increase the following year the charge for certificates from £10 to £20.¹³

A gross profits tax, on the other hand, levied on bookmakers, would not have been payable on renege bets, since the taxable quantum was the actual net revenue from bets actually placed. Moreover, incentives are lower to evade a tax on profits actually earned, rather than stakes, which are much less directly linked to capacity to pay. Economic theory, recent evidence and the structure of incentives, combine to suggest that a tax levied on gross profits would be much less likely to have failed in its express stated purpose.

In fact, however, Churchill's Budget of April 26, 1926, proposed that all money legally risked by way of betting should incur a tax of five per cent on stakes. By law, bets made away from the racecourse had to be credit and not cash bets and the proposal was to leave that legal basis unchanged. Off-course cash betting had been criminalised by the Street Betting (Prohibition) Act of 1906.¹⁴ On-course cash betting was, however, legal. In opting not to legalise and include off-course cash bets in the tax, the proposal failed in one key respect to implement all the recommendations of the 1923 report of the Select Committee of the House of Commons set up to consider betting duty.¹⁵ That committee had concluded that a betting tax was only 'practicable' if off-course cash bookmaking was first legalised, a reasonable argument if the imposition of a tax on credit bookmaking would likely lead to a flight to illegal cash operations, or if existing illegal cash bookmaking was deemed to make up a significant element of the potential tax base.

Even so, the committee had estimated the annual turnover of betting (including football, horse racing, dog racing and betting on other sports) at £250 million, and proposed a tax of 2.5 per cent, which would bring in about £5 million, assuming that street bookmakers (which was an illegal activity) could be compelled to conduct their business on registered premises. The committee had in fact estimated that 85 per cent of bets (by value) placed with bookmakers at that time were in any case legal. The ensuing budget was thus the fulfilment of this spirit of argument and of a motion carried by a majority of 42 in the House of Lords in March, 1924, declaring the taxation of betting to be desirable and practicable.

As noted above, in his 1926 Budget speech, Churchill estimated legal betting to constitute 90 per cent of the total amount staked on betting, and so estimated that in a full year the yield from the tax would be about £6 million.¹⁶ In interesting contrast, an article on the proposed betting tax had appeared in the *New York Times*,¹⁷ in which it was asserted that betting turnover was already considerably down on the 1923 figures, and that a 2.5 per cent tax

would be unlikely to produce more than £1.5 million, and at most £2 million per annum.

At the other end of the scale, an estimate in the *Spectator*¹⁸ put legal betting turnover at £400 million, which would yield £20 million at a tax rate of five per cent. These estimates are used to suggest a range, as there are no definitive published statistics. Either way, Hughes (1927) argues that the eventual imposition of a duty of some kind on betting became almost inevitable. In the press the idea had, with the exception of nonconformist church papers and newspapers (like the *Yorkshire Post*) closely connected to the racing industry, widespread support.¹⁹ The tax of 2.5 per cent would be paid by the bookmaker with whom the bet was made. In the Finance Bill, it was also explained that a 'bet' meant a bet on any kind of event, and that a 'bookmaker' meant any person who carried on the business of receiving or negotiating bets.

To provide further legal context, the prevailing situation was (and still is) that betting and gambling, as such, did not constitute trading and as such is not liable for income tax. However, an organised activity to make profits out of the gambling public did (and still does) amount to trading.

Rowlatt J explained the position in *Graham v Green*:²⁰

It has been settled that a bookmaker carries on a taxable vocation. What is the bookmaker's system? He knows that there are a great many people who are willing to back horses and that they will back horses with anybody who holds himself out to give reasonable odds as a bookmaker. By calculating the odds in the case of various horses over a long period of time and quoting them so that on the whole the aggregate odds... are in his favour, he makes a profit. That seems to me to be organising an effort in the same way that a person organises an effort if he sets out to buy himself things with a view to securing a profit by the difference in what I may call their capital value in individual cases.

The idea that it was wrong to tax an 'evil' was countered by Churchill in his budget speech on the basis that 'about £250,000 is [already] gathered in income-tax and super-tax from the profits of bookmakers'.²¹ The positive case was grounded in the idea that it was an 'optional' tax, a good alternative to adding to the burdens of compulsory taxation. Optional taxation he defined as 'taxation which all persons could avoid perfectly legitimately if they chose, without depriving themselves of anything required for their health, comfort, morals, or business'.

In a memorandum,²² Churchill had described two ways of approaching 'luxury expenditure' — a 'wrong way: legal prohibition with wholesale disregard of the law, many abuses, and fraud by the law-breaking public, no revenue to the state' — and a 'right way: high taxation, abolition of abuses and large revenue to the state. We have followed the right way with regard to liquor and the wrong way with regard to betting.' A general reform of the bet-

ting laws was not feasible, however, due to the implacable attitude of the Home Office, which was 'strongly opposed to any action which would tend to increase betting or remove any obstacles',²³ not least because 'a great deal of crime is attributable to betting, especially as regards first offences of dishonesty.'²⁴

The basis for revenue optimism was that credit bettors were a relatively captive market who would not tend to transfer their custom to a street bookmaker simply because of the introduction of a tax on their stakes. The Chancellor was not persuaded by the proposition that the imposition of a duty would induce a credit bettor to abandon the telephone in order to 'wander around a particular district in some manufacturing town looking for a mysterious individual into whose hand he may surreptitiously place half-a-dollar.'²⁵

Even so, the budget calculations assumed that the effect of the tax would be to reduce betting turnover by £50 million per annum (out of a total annual betting turnover of £200 million — £170 million legally wagered). The remaining £120 million, taxed at five per cent, would yield £6 million. Customs concluded that there would be 'no mechanical difficulty in collecting the tax'²⁶ and Churchill was able on this basis to assure the luxury tax committee that the revenue would be 'as easy to collect as the stamp duty on stock exchange transactions'.²⁷ The experience of other countries was further testament to the likely success of a betting tax, according to those speaking in the Commons in its favour (Mallett and George, 1933).

Hood (1972) argues that such optimism and such calculations could have been inflated by a lack of appreciation that credit and cash bookmakers were by no means as clearly divided as their clienteles, and that where illegal and legal betting was combined in a single business, legal bets could be recorded as illegal bets upon which duty was not payable.

The belief in a clear division between legal and illegal betting was fostered by evidence given to the 1923 select committee on betting duty, notably that provided by the assistant commissioner of the Metropolitan Police.²⁸ The problem, as highlighted in the report of the Royal Commission on betting, lotteries and gaming, 1949-51, was that the law was sporadically enforced, and even when penalties were imposed they were not particularly punitive. Contrary evidence, such as that given by Glasgow street bookmaker, A J Croll, and Secretary of the racecourse bookmakers' association, A Tyler,²⁹ does not appear to have been influential in the policy-making process. Moreover, Customs lacked such basic administrative information as how many bookmakers existed, much less the details of their business.

Other issues included how to distinguish between untaxed bets between individuals and taxed bets with bookmakers, whether hedged bets were taxable, how to tax so-called multi-part bets such as doubles, trebles and accumulators, how to distinguish between bookmakers' agents (who required separate certificates) and assistants (who did not). These sorts of issue 'kept

gritting up the administrative machine' (Hood, 1976, p. 172).

3. THE TAX AND ITS EFFECTS

The betting tax was proceeded with, without a change in the law. Churchill decided that he would get his revenue without any need to consult the Home Office. As he put it, 'I am not looking for trouble, I am looking for revenue. I am not trying at this particular moment ... to set the world to rights ... I am trying to balance future budgets.'

This decision was approved by the Cabinet's luxury tax committee in January 1926 and announced as the 'main feature' (James, 1973, p. 227) of the forthcoming April budget. In between the committee and the budget, *The Times* newspaper published a letter³¹ from seven former dominion governors supporting the idea that such duties would generate substantial revenue. The ensuing correspondence include letters from Sir Henry Cautley in favour of a duty³² and from seven members of his 1923 committee opposing it.³³

The turnover tax of five per cent was agreed to while the Finance Bill was in the committee stage, and the introduction of betting duty was formally announced in the Budget of 27 April, 1926. At the report stage on the budget, on 4 May, 1926, one day after the start of the General Strike, the Chancellor proposed amendments, reducing to two per cent the tax rate on bets made on a racecourse and to 3.5 per cent the tax on bets made in registered betting offices, not least because of concerted arguments that it would damage the horse racing industry.³⁴ Moreover, the luxury tax committee (draft conclusions, 1926) had declared that a duty 'would hit hardest at the best form of betting, the betting by persons qualified to form a sound judgement.' (Gilbert, 1979, p. 634). The reasoning given for this reduction, however, was that further analysis of the accounts of the leading bookmakers indicated that the turnover of legal betting was actually £275 million, and that the planned £6 million could in fact be raised (even assuming £200 million as a sure basis for the tax) at these lower tax rates. As such, it was a reversal of the position Churchill had espoused before the luxury tax committee, i.e. that a duty much below five per cent 'would not be worth the trouble involved' (Gilbert, 1979, p. 634).

The reasoning behind the differential tax in favour of racecourse betting was that attendance at the racecourse supported a national sport in a way that off-course betting did not. In addition to the turnover tax, the Finance Bill provided that the bookmaker would be required to take out annually two certificates, one for acting as a bookmaker and one for the betting premises, with a duty on each of these certificates of £10 per year. At the division, eight Conservatives, 17 Liberals and 97 Labour MPs opposed it, and at the formal vote on the Finance Bill, it was opposed by 15 Conservatives, with a further 165 abstaining.³⁵

The issue of whether betting taxation should be levied on winnings rather than on turnover was already a live one and many on-course cash bookmakers adopted a rough-and-ready plan of deducting 2.5 per cent from

any winnings due to their clients. Viscount D'Abernon, President of the Thoroughbred Breeders' Association, in an address to the Association on December 8, 1926, put it thus: 'It is clear that in many details the betting tax will have to be modified.' (Hood, 1976, p.185).

The first claim was that the tax should be levied on winnings, and not on turnover. Customs had objected to this option on the ground that it 'would have led them into arguments about the appropriateness of the odds' (Hood, 1976, p. 185). Bookmakers were, however, strongly opposed to such a tax on the ground that it meant payment of duty would be required even on bets made on credit accounts which were not settled (betting debts were not recoverable in law), i.e. duty was payable on stakes that may never have been received, which compounded the problem of debt. To put this in perspective, a director of Ladbrokes, in testimony to the 1923 select committee on betting duty, claimed that bad debts totalled to 12.5 per cent of stakes.³⁶

Exemption from tax on such bad debts, argued D'Abernon, would remove a feeling of injustice: meanwhile, the loss to revenue (he argued) would be comparatively small — between three and four per cent.

In 1927 the bookmakers formed a betting duty reform association, with the aim of either abolishing or modifying the duty. Their preferred option for modifying the duty was to substitute for it a stamp tax on credit accounts and a graduated scale of charges to be paid by racecourse bookmakers, linked to the number of betting rings they frequented. But even this suggestion, which they calculated would raise annual revenue of £1.5 million, could not muster the support of the Northern bookmakers, and every competing idea met with strong sectional opposition. In particular, the idea met opposition from smaller and racecourse bookmakers, presumably because it was easier for these firms, which often employed no outside clerks, to evade a turnover tax.

In the middle of May, in the House of Lords, Lord Newton, who had already twice proposed successful motions in the Lords that a betting duty was desirable and practical,³⁷ successfully moved the second reading of a three-clause bill, the purpose of which was to legalise off-course cash betting. The key defect in the betting tax, he argued, was that it left a vast amount of betting alone, because it only taxed betting that was already legal, and this excluded off-course cash bookmaking. As such, it put bookmakers and bettors who kept within the law at a disadvantage compared with those who broke the law, notably those who indulged in 'street betting', i.e. untaxed cash betting.³⁸ This echoed a criticism made by Lloyd George, the former Prime Minister, in the House of Commons, in response to the 1926 Budget speech, in which he argued that the introduction of a betting tax would simply drive people to illegal street betting.

Instead of legalising off-course cash bookmaking, an alternative route was followed whereby the Customs secured a High Court ruling that illegal bets were taxable,³⁹ in which an illegal bookmaker was successfully prosecuted for breaches of the Finance Act, 1926, as well as the Betting Act, 1853. So

began a concerted offensive against non-payers by a mixture of 'test bets', rewards to Customs offices for success in detecting evasion, surprise visits and mass raids.⁴⁰ Although this led to a spurt of prosecutions, evasion continued on a serious scale. In particular, at the newly established greyhound racing tracks, which were brought within the duty regime under the 1927 Finance Act,⁴¹ evasion was reported to be rife (Hood, 1972, p. 186; 1976, p. 174). The bigger bookmakers found evasion less easy. Ladbrokes calculated that it paid one twenty-eighth of the entire revenue (Kaye, 1969). Churchill was in favour of simply legalising postal cash betting as a means of providing a taxable, legal source of revenue,⁴² but this was opposed by the Home Office, who continued with a policy of prosecuting those negotiating illegal bets, while Customs and Excise sought to tax all transactions, legal and illegal. So 'the Customs were prosecuting bookmakers for destroying betting-slips, whereas the police were prosecuting bookmakers for keeping them' (Hood, 1976, p.176).

Moreover, all this was set against a backdrop of the threat of transfer of business overseas, notably Northern Ireland, where Parliament had no legal authority to impose a tax, and in 1928 the big legal bookmakers began to transfer business to nominees in Belfast and to a lesser extent to continental Europe (Hood, 1972, p.187). In March, 1928, the Chancellor received a deputation representing various bookmakers' organisations, where he was urged to substitute for the existing duty a scale of licence fees payable by bookmakers in accordance with the extent of their operations.⁴³ In a memorandum they presented to the Chancellor, they identified their key concerns. First, tax was payable on amounts staked, even if the bets were reneged upon, since betting debts were not recoverable in law. Perhaps more critically, there was widespread evasion of the tax, with dishonest bookmakers colluding with clients to deflate the size of the sums staked. The authors of the memorandum calculated that adoption of the scheme of graduated licences would yield £2.37 million per annum. In the subsequent Budget speech, Churchill rejected such a strategy, emphasising instead the efforts of Customs and Excise officers to check the scale of evasion. He issued a revised estimate of £3.25 million for the year compared to £2.67 million received the previous year. He also proposed as an interim measure of relief, to reduce the existing rates of duty from two per cent to one per cent on course, and from 3.5 per cent to two per cent elsewhere, to take effect from October 1, partially paid for by a proposal to increase the following year the charge for certificates from £10 to £20.⁴⁴ This was expected to involve a surrender of £1.25 million as compared with the Budget estimate. This strategy was based on the assumption that the proposed new Racecourse Betting Act was implemented.

The Racecourse Betting Act, passed in August 1928, established a statutory body known as the 'totalisator' (or 'Tote'). Its original purpose was to offer on-course pool (or 'pari-mutuel') betting on horseracing as a legal alternative to betting with bookmakers, and to distribute its profits for 'purposes conducive to the improvement of breeds of horses or the sport of horseracing'.

Tote bets were not subject to a betting tax. The first major race meetings with tote betting were the flat race meetings at Newmarket (July Course) and Carlisle on 2 July 1929.

In the House of Commons on 30 January, 1929, the Chancellor confirmed that the yield of the duty on bets during the year ended 31 December was approximately £2,151,200, on a turnover of £89 million.⁴⁹

In the House of Commons on 27 February, 1929, the Chancellor confirmed that the net amount received from betting taxation for the month of January, 1929, was approximately £44,500, and for the 12 months ended 31 January, 1929, approximately £2.336 million. On the same day, Mr. Samuel, the Financial Secretary to the Treasury, confirmed that the number of betting certificates issued for the year ended 31 October, 1928, was 22,622 (14,917 personal and 7,705 entry).⁴⁶

The revenue raised had to be set in the context of the political fallout, culminating in the by-elections which saw bookmakers descending from all over the country to help the Labour candidate win the election. Hood (1976, p. 179) reports that at a by-election in South Battersea, 'bookmakers produced over 100 cars ... in order to help get out the Labour vote', a strategy reproduced at by-elections elsewhere (Middlemas and Barnes, 1969, pp. 509-511).⁴⁷ As it was reported in the *New York Times*,⁴⁸ the country was witnessing the breaking of the traditional alliance of 'Turf and Tories'. Moreover, the duty was held to be at least partly responsible for a decline in racecourse attendances (Gilbert, 1979, p.324; Vamplew, 1976, pp. 70-71), and there was no attempt to placate the racing lobby by transferring any of the proceeds to help support the racing industry (Grigg, 1948).

4. REPEALING THE TAX

In the 1929 Budget, Churchill explained what had been a decision of the Cabinet that the Betting Duty should be abolished: 'There is one of the new taxes for which I am responsible which has been a failure, which, indeed, has been a fiasco, and obviously has caused more trouble than it is worth ... It is being paid exclusively by the honest bookmaker, who has been unable to avoid it ... I have decided that the turnover tax upon betting should be immediately repealed'.⁴⁹ Nevertheless, the personal licence duty of £10 on all bookmakers remained, and an additional tax of £40 a year on every telephone installed in a bookmaker's office was announced, with an estimate that this would raise £500,000 a year. The 'Tote' would be taxed at a half of one per cent of the takings, which he proposed as a 'fair equivalent to the licence duty upon bookmakers'. The cost of the changes was estimated at £850,000 in that current year, and £900,000 in a full year.⁵⁰

After the ensuing general election of 1929, won by the Labour Party, Mr. Snowden became Chancellor of the Exchequer and soon announced that he would not proceed with Part II of the Finance Bill, specifically announcing the abandonment of the proposed tax on totalisator turnover and of the £40

tax on telephones in betting offices. The Chairman of the Board of Customs and Excise reported that 'we are indeed thankful to have got rid of the betting tax'. (Gilbert, 1979, p. 1470).

Bookmakers' licences were not part of the Finance Bill, and so would remain in force until the end of the tax year. In the meantime, 'the Customs continued to prosecute defaulters, pour *encourager les autres*, in spite of the evident absurdity of prosecuting people for not having a licence for an activity which was illegal and of registering them for a tax which had been abolished' (Hood, 1972, p.189). These certificates were finally abolished in the 1930 Budget, so removing 'the last vestiges of Mr. Churchill's inglorious betting duty ... so that the Statute Book would once more be entirely free from the blemish of a measure that ought never to have appeared upon it' (Snowden, 1934, p. 855). Even so, there was no announcement of any change to the policy of collecting income tax from bookmakers or entertainment tax from racing.

5. THE LEGACY OF THE TAX

A clear legacy of the failed betting tax, a failure variously described as 'resounding', 'dismal' (Hicks, 1970, p.240) and 'disastrous' (Jenkins, 1984, p.1) was that it deterred further attempts to tax gambling for many years. Another legacy was the 'tote'. Without the reaction of bookmakers to the betting duty, including a strike by bookmakers against payment of the duty at Windsor in November, 1926 (Vamplew, 1976, p.71), it is doubtful whether the impetus to the introduction of the 'tote' would have existed (Graves and Hodge, 1941, p.293). To this extent, although the betting duty failed in its express purpose, it may have well served the broader purposes of the racing community and industry.

6. SUBSEQUENT GOVERNMENT POLICY

The next key development in the history of betting taxation in the UK was the introduction by the Chancellor of the Exchequer Hugh Dalton in his budget of November 12, 1947 of a 'surprise tax'⁵² on betting. This was not a reversion to the policy of 1926-30 but instead a 10 per cent turnover tax on greyhound totalisator bets and on football pools.

Explaining the new betting tax in his budget speech, the Chancellor said: 'The amount staked [on the tote] represents a large proportion of the total expenditure on betting ... difficulties which ... stand in the way of an attempt to tax all forms of betting do not apply here ... If we now tried to collect tax on bets with bookmakers it would be necessary to divert a number of excise officers from the collection of other taxes... Too few tax collectors chasing too many bookmakers would be only a new version of the inflation merry-go-round ... On the other hand, the football pools which have also grown since 1926 to the most formidable dimensions, are now absorbing too much labour, paper and postage.'⁵³

In 1960, the Betting and Gaming Act was introduced, which legalised off-course cash-betting in properly licensed betting offices, the first of which opened in 1961.

This 'long overdue' social reform⁵⁴ was the culmination of several years of debate arising out of the recommendations of the Royal Commission on betting, lotteries and gaming of 1949-51. By making clear the distinction between expenditure and turnover, the commission had criticised as exaggerated some prevalent estimates of the cost of gambling,⁵⁵ noting also John Maynard Keynes' assertion that expenditure on gambling was economically indistinguishable from that on other entertainments.⁵⁶ The commission 'felt strongly that the existing law and practice were in the highest degree unsatisfactory, conspicuously so in the field of cash betting'⁵⁷ and that 'the failure of the existing law has been recognized for many years ... anyone who wishes to bet in cash can do so now with very little difficulty.'⁵⁸

Taxation of betting followed almost inevitably but not immediately. Although a levy was introduced on betting turnover in 1961, designed to transfer money from the pockets of bettors to the racing industry as compensation for an expected reduction in on-course attendance, a general duty on betting turnover was not introduced until the Callaghan budget of 1966. This rate was subsequently raised incrementally, peaking at eight per cent before being trimmed back to 7.75 per cent in 1992 and (in response to the introduction of the National Lottery) to 6.75 per cent in 1996. On-course betting taxation was abolished in 1987.

In 2001, as noted above, a turnover tax of 6.75 per cent on stakes placed with bookmakers was replaced with a tax on the gross profits of betting operators of 15 per cent. These key developments are summarised in the Appendix to this paper.

In conclusion, Winston Churchill had told the House of Commons that his aim in introducing a tax on betting was to look not for trouble, but for revenue. It is argued in this paper that if he had introduced a betting tax based on gross profits instead of turnover, it is likely that he would have met with rather less of the former and found rather more of the latter. This is a lesson which those countries which currently impose a tax levied on the turnover rather than the gross profits of betting, or who might consider doing so, could do well to heed.

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APPENDIX

1926: Introduction of tax on the turnover of betting.

1929/30: Repeal of betting tax.

1947: Introduction of turnover tax on greyhound totalisator bets and the football pools.

1960: Betting and Gaming Act legalises off-course cash betting in licensed betting offices.

1966: General duty on betting turnover introduced.

1987: On-course betting tax abolished.

2001: Turnover tax on bets placed with bookmakers replaced by tax on bookmakers' gross profits.

ENDNOTES

1. Nottingham Business School, Nottingham Trent University, Burton Street, Nottingham, NG1 4BU. E-mail: Leighton.vaughan-williams@ntu.ac.uk The author would like to express particular thanks to Rob Waterhouse for providing invaluable background material concerning the Churchill betting tax.
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