

**Supplementary information on reform to  
betting duty system of horse race betting**

(a) *The turnover and betting duty of football betting, lotteries, horse race betting for the last five years and the corresponding projected figures on horse race betting in the next five years:*

Football betting and lotteries

Fiscal Year	Football betting		Lotteries	
	Turnover (\$million)	Betting Duty (\$million)	Turnover (\$million)	Betting Duty (\$million)
2000-01#	-	-	4,990	1,248
2001-02#	-	-	4,174	1,044
2002-03#	-	-	4,780	1,195
2003-04	9,657	1,024	5,412	1,353
2004-05	24,706	1,928	6,649	1,662

#Authorized football betting commenced operation in August 2003.

Horse race betting

Racing year	Turnover (\$billion)	Betting Duty (\$billion)
1999/00	83.42	11.20
2000/01	81.53	10.95
2001/02	78.16	10.50
2002/03	71.47	9.52
2003/04	65.03	8.78
2004/05	60.80*	8.22*
2005/06	53.60*	7.24*
2006/07	47.80*	6.45*
2007/08	45.60*	6.15*
2008/09	44.50*	6.0*

\* denotes figures projected by HKJC assuming there is no change to the betting duty structure

(b) *Reasons for the decline in horse race betting turnover*

According to the Hong Kong Jockey Club (HKJC), while the decline in betting turnover has in part been a reflection of the prolonged economic downturn in recent years, it is largely due to certain structural reasons which have led to a shrinking share of authorized

horse race betting in the overall gambling market. The structural reasons include the growing challenges from local illegal bookmakers and offshore bookmakers, with the support of their low operation costs and improved communications technology. As the illegal bookmakers are not required to run the horse races and pay betting duty to the Government, they have an inherent advantage over HKJC by offering more attractive odds to bettors, discounts on losing bets, short-term credit and other incentives. The existing betting duty structure, however, limits the flexibility of the licensed operator in setting the take-out rates for different bet types and adjusting the odds to effectively compete against illegal and offshore bookmakers.

A study commissioned by the HKJC in January 2005 showed that, 13% of people who had bet on Hong Kong races had also placed bets with illegal bookmakers. The availability of credit was given as a major reason for using local illegal bookmakers. Over 60% of those who had used illegal bookmakers received discounts of 8-10%. There is also evidence that local illegal bookmakers are particularly attractive to those placing larger bets.

Enforcement statistics from the Police indicates that illegal bookmaking activities on horse race betting in Hong Kong have been a long-standing problem. Recent enforcement also indicate that an increasing number of illegal bookmakers have been adopting new modes of operation (mainly in making use of the Internet and intermediaries). They have also been offering a variety of gambling activities, including but not limited to horse racing betting.

*(c) Projection of the betting turnover and duty on horse racing bets*

We consider that the proposed reforms to the betting duty structure would enhance the licensed operator's competitiveness vis-à-vis the illegal and offshore bookmakers significantly as it would provide more flexibility for it to adjust the take-out rate and set take-out rate for different bet types in response to the changing market conditions. This would enable it to capture a larger share of the overall betting market by diverting demand from illegal channels into the authorized outlet.

HKJC estimates that if the betting duty structure is reformed, it would be able to capture around 40% of the existing turnover of the illegal horse race betting market (increasingly dominated by illegal

bookmakers offering concurrently a variety of other gambling activities). The existing estimated total turnover of this illegal betting market amounts to about \$50-60 billion a year. The estimated annual betting turnover of authorized horse race betting would then increase by around \$20 billion to 25 billion gradually. Assuming that the annual betting turnover would increase to \$88 billion and the gross profit margin is 11% - 13% (the actual margins would vary among different bet types), the annual gross profit would be in the range of \$9.68 billion to \$11.44 billion, and the betting duty revenue for the Government under the proposed progressive marginal betting duty structure would be \$7.02 billion to \$8.30 billion.

*(d) Public consultation on betting duty reform*

We briefed the LegCo Panel on Home Affairs on the proposed reforms to the betting duty system of horse race betting on 13 May 2005. We subsequently consulted the Football Betting and Lotteries Commission, Ping Wo Fund Advisory Committee (a dedicated fund set up by the Home Affairs Bureau to finance measures to address gambling-related problems) as well as the major concern group on gambling issues on the reform proposals in early June 2005. The proposals have also been included as a discussion topic for the Public Affairs Forum recently launched by the Home Affairs Bureau for the purpose of gauging their views.

*(e) The proposed amount of guarantee provided by HKJC*

The betting duty from horse race betting was \$8.78 billion in the 2003/04 racing year. HKJC's projection of the duty for the 2004/05 racing year is \$8.22 billion. HKJC projects that the duty revenue under the existing system (as set out in the table at (a) above) would decline by a further 30% by 2007 - 08. Hence, the proposed guarantee of \$8 billion plus the duty from overseas bets in the first four years of implementation of the reform is considerably higher than HKJC's projected duty level for 2005/06 under the current system. We will review the situation in three years' time to consider if the proposed duty system should be continued.

*(f) Assessment of the impact of the reform on gambling participation*

Our assessment is that it is not likely that the proposed reforms to the betting duty system on horse race betting would give rise to a substantial increase in public participation in horse racing. The

increased flexibility in setting the take-out rates for different bet types would mainly serve to divert bets from the illegal gambling market to the authorized channel. The extended racing season seeks mainly to stem the current leakage of betting turnover to illegal or offshore bookmakers during the summer break.

In late 2004, we commissioned the University of Hong Kong to conduct a study on Hong Kong people's participation in gambling activities. This study seeks to track the results of a similar study conducted by Hong Kong Polytechnic University in 2001. The study includes a general questionnaire survey on the pattern of gambling participation among adults and adolescents, as well as a qualitative research into some cases of problem and pathological gambling with a view to gaining a better understanding of the causes of these gambling problems among adolescents. The study is now in progress and is expected to be completed later this year.

*(g) The role of the Football Betting and Lotteries Commission in the future*

We propose that the functions of the existing Football Betting and Lotteries Commission (the Commission) should be expanded to include advising the Secretary for Home Affairs (SHA) on the regulation of the conduct of betting on horse racing; as well as compliance with licensing conditions by the licensee. In this connection, the proposed remit of the Commission would be to advise SHA on the following:

- (a) the regulation of the conduct of betting on football matches, lotteries and horse race betting;
- (b) the issuance and revocation of licences of football betting, lotteries and horse race betting and the variation of the conditions of such licences;
- (c) the compliance with the conditions of the licence and the handling of complaints that relate to non-compliance with the conditions of the licences; and
- (d) the imposition of financial penalties on the licensees.

*(h) Overseas experiences*

We understand that the betting duty in some overseas racing jurisdictions is levied on the basis of gross profits, such as the United Kingdom (UK) and Singapore as well as Victoria, Queensland and New South Wales in Australia.

The UK Government changed from a general betting duty of 6.75% applied to all stakes to a gross profits tax of 15% in 2001. The main purpose of the reform was to make it possible for UK bookmakers to develop their domestic and international business from an onshore base, competing from a position of strength in the growing global market for telephone and Internet betting.

In the Budget for 2005, the Minister of Finance of Singapore announced the change in horse racing betting duty from 12% on each bet to 25% on gross betting profits. The objective of the reform is to allow the Singapore Turf Club (the only authorized operator of horse race betting) to offer better odds and lower prices to their customers in order to compete more effectively with illegal gambling operators.

At present, both Victoria and New South Wales of Australia levy a betting duty at a rate of 19.11% on gross profits of the turnover of horse racing bets. Queensland levies betting duty on gross profits of horse race bets at a rate of 20%.

*(i) Legislative timetable*

The Administration intends to introduce a Bill to amend the Betting Duty Ordinance to give effect to the proposed reform to the betting duty system on horse race betting by end 2005.