

Addressing the harm

The many arguments for raising Machine Games Duty on
Category B machines

Gideon Salutin
Richard Hyde

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FOREWORD

Last year, the Government took the bold and necessary step of raising the rate of tax paid by remote gaming providers in order to reflect the fiscal costs associated with their activity. The move introduced a new principle to gambling taxation: forms associated with greater harm should pay higher rates.

This report applies that logic to machine gaming. Betting terminals that offer slots or which imitate casino games use highly addictive features which encourage people to stake more and more frequently than they can afford. The resulting harms do not end at a punter's bank account. The state also tends to lose out through higher welfare payments, housing benefits, policing costs, and other responses which eventually cost us all through additional taxes and debt.

Yet there are solutions. SMF's recommendation would raise the rate of tax paid by certain machine games operators. Importantly, not all machines would be liable. By focusing on Category B machines, which the authors rightly point out tend to be associated with the greatest harm, we can ensure this tax is focused where it is most needed, while protecting the hospitality industry and pubs. These taxes are popular, and could meet other Government objectives by increasing productivity and improving high streets. Importantly, their approach would raise up to £450 million per year.

Their argument is as robust as it is concise - gambling companies should pay for the harm associated with their products. As we re-evaluate our tax regime, it is worth taking a fresh look at the costs of activities which restrain growth and create a system that instead encourages it. I am pleased to see the SMF clearly set out ways that we can do so, and I encourage Ministers and civil servants to follow those ideas through with action.

By Alex Ballinger, MP

KEY FINDINGS

A review of Machine Games Duty (MGD) is long overdue.

MGD is a tax applied to any gaming machines that give cash prizes, including slot, fruit, or quiz machines, as well as those that imitate casino games. These machines are known as Electronic Gaming Machines (EGMs) and can be found in a range of venues, including casinos, betting shops, Adult Gaming Centres and Bingo premises.

In the last budget, the Chancellor almost doubled Remote Gaming Duty (RGD), a tax on online casino gaming because of its particularly harmful impact. In this report, we argue that the same principle should be applied to machine games: a higher tax for higher harm. Since MGD's introduction in 2013, the rate has not been set at a level to account for the higher economic, social, and fiscal harms associated with machine gaming relative to other types of land-based gambling, and tax rates are instead associated with stakes. As such, this paper argues for a change in the structure of tax banding to reflect Gambling Commission categories, and demonstrates why MGD should be doubled for Category B machines, which show the highest rates of harm.

Machine Games, particularly Category B machines, provoke higher rates of harmful gambling in the UK

- EGMs are designed to encourage repeat and risky play, through a combination of visual and audio effects, as well as fast gameplay.
- As a result, they see higher rates of gambling harms, with one-in-four (27%) of casino game users on machines gambling at risky or harmful levels (the highest of any major category), and one-in-six (17%) of users of fruit and slot machines, compared to 4.5% on average across all types of gambling

These machines cluster in areas of social deprivation, creating hollowed-out high streets

- EGMs are most prominent in Adult Gaming Centres, of which .
- Adult Gaming Centres are growing in Great Britain, such that today 3% of adults play “fruit” or “slot” machines each month, and 2% play casino games on terminals.

The harm caused by EGMs has a fiscal cost

- Our modelling shows that the harms associated with machine gaming lead to economic losses worth £2.33 billion and fiscal costs worth £669 million through welfare, housing, crime, and health payments.
- MGD as designed is unable to generate sufficient taxes to cover its costs (particularly while also replacing VAT), nor is it acting as a disincentive for harmful gambling.
 - MGD is designed to act as an excise tax on gambling while also replacing VAT, however the current effective rate of 20% is too low to do both.
 - Because VAT is also set at 20%, MGD is incapable of substituting for it while also accomplishing the other goals of an excise tax.
 - This implies that EGMs are benefiting from a tax advantage over other sectors by paying less or no VAT.

The Government needs to raise revenue and the 2025 budget established that more harmful types of gambling should pay higher rates of tax

- In the 2025 budget, the Government almost doubled Remote Gaming Duty (RGD). In the Government's words, this was to raise revenue, deal with the impact of harm and "better reflect the modern nature" of gambling.
- This followed support for tax differentiation by the Treasury Select Committee, when it recommended that policymakers should "take account of the different harms caused by different types of gambling."

By raising Machine Games Duty, the Government is likely to decrease financial harms while increasing employment, revenue, productivity, and GVA

Faced with a higher tax, operators would have three choices:

1. Absorb the tax increase and decrease profit
2. Offset the tax increase with cuts to operating costs to maintain profit margins (for example, by lowering executive pay or marketing)
3. Pass tax increases on to consumers (for example, by altering the odds of machines to effectively increase the price of gambling to consumers)

Any shift from gambling to other consumption expenditure is likely to have a positive economic impact:

- We find employment would likely rise as a result of any decrease in gambling expenditure, given that a 10% decrease in UK gambling expenditure results in an additional 24,000 jobs, even after accounting for losses in the gambling industry.
- Tax revenue would also increase, as £1 million in consumer spending on retail or food services tends to generate £600,000 in tax, compared to just £500,000 on gambling.
- Gambling tends to impair productivity, and a 10% decrease in gambling would likely increase the UK's Gross Value Added by £311 million.

The public supports an increase in gambling taxation

New polling shows support for increasing Machine Games Duty in particular

- New polling conducted for this report show a plurality of voters support these measures, with 43% saying Government should increase taxes on slot machines in high street betting shops, compared to 11% who would see them lowered.
 - A plurality support this measure across partisan divides, with over 40% of supporters from every major party supporting the measure.

Increasing taxes on gambling is the most popular way for Government to raise revenue, according to recent polls

- Polling shows that increasing taxes on gambling firms has more support than any other potential tax increase, with 74% of respondents ranking hiking levies on gambling firms in their top-three choices for an increase.
- This aligns with other polls showing that 68% support increasing taxes on gambling, which is higher than any other country, and is found across electoral divides.
- 73% of the UK do not want bookmakers on their high street, ranking them at the bottom of a list of 26 potential business sectors.

RECOMMENDATIONS

The Government should raise Machine Games Duty on Category B Machines in the next budget, to account for the harms caused by the sector and to restrain the proliferation of gambling at harmful levels. Doing so would help correct for inconsistencies in our gambling taxation framework, while providing additional revenue for the Government.

The Government should introduce a new tax band for Category B machines, raising duty on these machines above 20%, while keeping duty on Category C machines at 20% and lower stake machines at 5%. By limiting tax increases to Category B machines, government would protect the hospitality sector including pubs from any increase in tax given that they can only hold Category C and D machines.

We estimate that by doubling MGD on Category B machines to 40%, revenue could increase by between £275 and £458 million. Each increase of 5% in MGD on Category B machines above the current rate of 20% would yield between £51 and £114 million on average.

At the same time, by likely reducing gambling rates overall, an increase of duty on Category B machines would be likely to improve employment, productivity, and the UK's Gross Value Added, alongside reducing the harms experienced by people who gamble.

SIX REASONS WHY NOW IS THE TIME TO RAISE MACHINE GAMES DUTY

Machine Games Duty is too low. Although designed to act as an excise tax and as a tax on VAT, it is currently accomplishing neither, with the state effectively protecting gambling operators from the rates levied on their competitors and by paying for the fiscal harms that machine gaming generates.¹ At the same time, restraining a rise in MGD goes against the Government's logic in regards to revenue-raising, its strategy for high streets and public health, and the fiscal principle of "polluter pays." This report will make the case for raising Machine Games Duty based on six key reasons.

What is an Electronic Gaming Machine (EGM)?

Machine Games Duty is levied on gambling machines that offer cash prizes, including slot, fruit, or quiz machines. These are also known as Electronic Gaming Machines (EGMs) and are summarised in the box below.²

EGMs are computer-based gambling devices housed in Adult Gaming Centres (AGCs), licensed betting offices, casinos, pubs, and clubs. They can utilise cash or digital credits, and the outcomes of the plays are determined by a process of random number generation rather than skill. Common types of EGM include:

- Traditional slot machines with physical reels containing symbols and paylines.
- Video slots with digital screens with animations, themes, and bonus features.
- Skill-based machines, which involve games where the players have to make choices that, in turn, influence the outcomes.
- Electronic table games, which are virtual versions of casino games such as blackjack and roulette, or card games such as poker.
- Progressive jackpot machines, which have cumulative prizes that grow until they are won.
- Multi-game machines that provide access to multiple formats through a single terminal.

EGMs generate much of the profit for the gambling industry globally, as well as the harm associated with it.³

Machine Games Duty was introduced in 2013, replacing Amusement Machine License Duty which had charged an upfront license fee to per machine, as well as VAT which had previously been charged on gaming machine income. Originally this charged operators of standard EGMs a 20% rate, as well as a lower 5% rate on machines with low costs and small prizes. Lower rate machines include crane-grabs, games with non-money prizes, and games with money prizes of worth less than £10 (usually coin-payout slot machines). In 2015 a new higher rate of 25% was added for machines where stakes can exceed £5. In 2019, after pressure from campaigners, regulations further were imposed reducing maximum stakes on

most EGMs from £100 to £2, effectively ending most higher-rate machines outside of casinos which were given an exemption.

Table 1: EGM Machine Types

	Cost to play	Prize	Rate paid	2024-25 Revenue
Machine type 1 - lower rate	20 pence or less	£10 or less	5%	£7mn
Machine type 2 - standard rate	21 pence to £5	£11 or more	20%	£600mn
All other machine types - higher rate	More than £5	Any	25%	£0.5mn

Source: HMRC

ONE: THE GOVERNMENT AGREES TAXES SHOULD BE SET RELATIVE TO HARM – BUT THIS LOGIC IS NOT APPLIED TO MACHINE GAMING

Harms associated with machine gaming are high relative to other types of gambling

Tax has an impact on consumption and, therefore, in the case of gambling, an impact on rates of harm. When the Chancellor announced that Remote Gaming Duty (RGD) would rise, she did so saying “Remote Gaming is associated with the highest levels of harm... ..and so I am increasing Remote Gaming Duty from 21% to 40%.”⁴ This followed The Treasury Select Committee also advocating for tax differentiation when before the budget it recommended that policymakers adjusting gambling tax rates “take account of the different harms caused by different types of gambling.”⁵

To some extent this is already occurring. Lottery duties, such as those paid on national lottery draws and scratchcards, tend to have low rates of harm and see a relatively low tax rate of 12%. Likewise the recent rise in RGD is a step towards a fairer gambling taxation framework geared towards harm-prevention, given that it levies a high tax on a gambling product with high rates of harmful gambling.

Yet this logic has not been applied to machine gaming, which has higher rates of harm relative to many other forms of gambling. Research shows that EGMs are one of the most detrimental forms of gambling and are associated with higher gambling rates.⁶ One study identified a strong connection between higher degrees of EGM accessibility and higher levels of annual per adult gambling losses.⁷

These qualities are baked into the technology by design. For instance, EGMs have been linked to gambling harms as they entice repeat playing with high event frequency and multiple stake opportunities.⁸ This type of gambling is known as “hard” or “intensive” gambling and tend to increase harm.⁹ Other work, which examined common layouts of venues that host EGMs argued that their features and design often encourage solitary gambling, uninterrupted play, and minimal scrutiny, which “promote a style of play more oriented towards heavy and problematic gambling.”¹⁰ A paper for the Australian Gambling

Research Centre described EGMs as designed around “psychological principles” to encourage players to maximise their time on the device and the amount they spend.¹¹

In a recent review of machine gaming published in the *Journal of Gambling Studies*, the authors explained that “EGMs have in the decades since their invention become one of the main drivers of gambling expenditure worldwide and are one of the gambling products most strongly associated with harm.”¹² The authors identify ways in which EGMs can incorporate features which encourage riskier engagement, including turbo features, quick spins, autoplay (which has been prohibited on online slots but still exists in land-based venues), multi-line betting and the potential for “losses disguised as wins” where a small payout is received that is less than the size of the original bet. More recently, the authors argue, features have been introduced that mimic video gaming and give the illusion of skill-based activity. Typically, all game events – whether wins, losses disguised as wins, near misses or losses – are all described with the same “happy” soundscape and iconography, hence making the experience of losing money, supposedly nearly winning, and winning all have the same sound and visual associations. For the authors, each of these features can increase the machine’s appeal and could contribute to harm.¹³

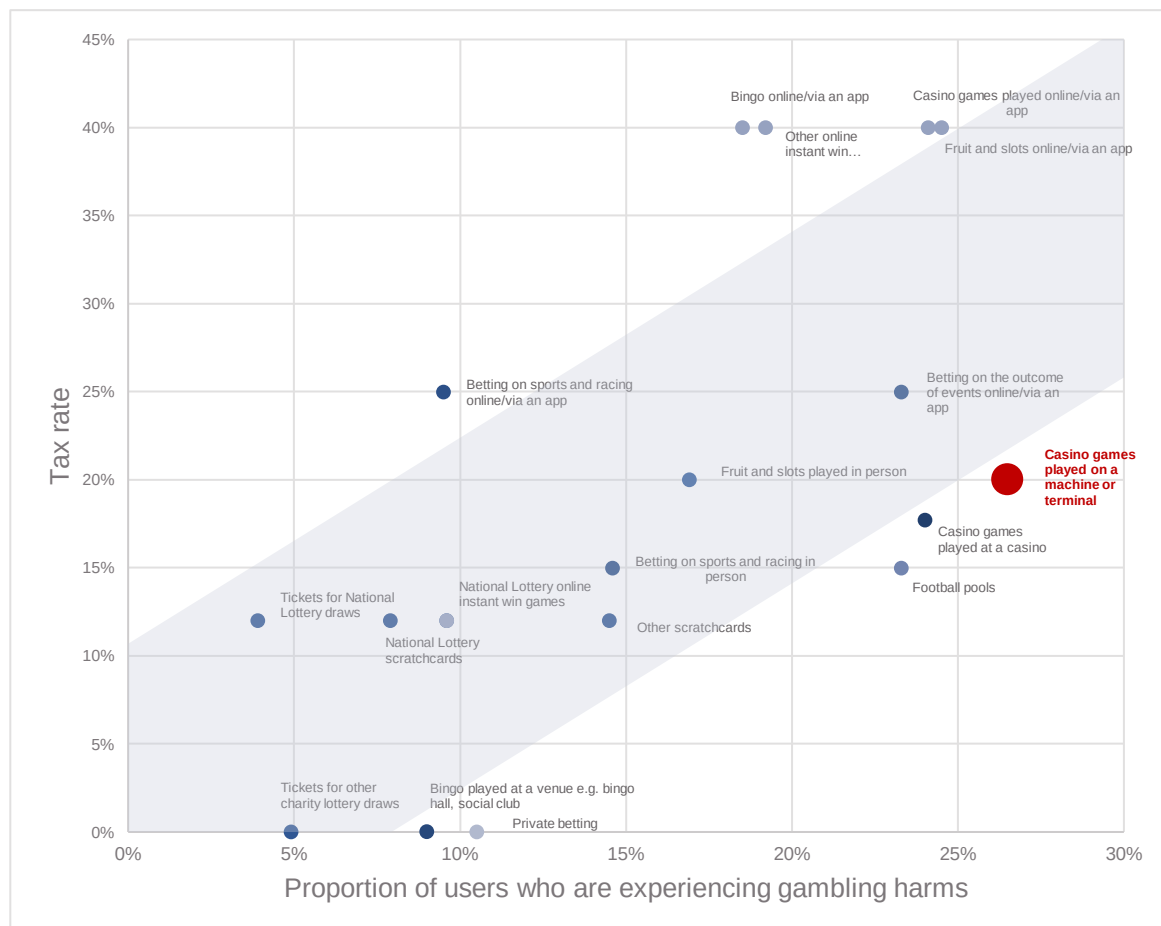
On the ground, the combination of the proliferation of EGMs and their design have contributed to higher gambling harms. Accessibility to EGMs is a considerable predictor of harm related to gambling, as revealed by an analysis of the implementation of different policies towards EGMs in Australia. Looking at data on individuals in Western Australia where EGMs are more tightly controlled, and comparing that to the situations in other Australian states, the study found that whilst gambling participation was higher in Western Australia, EGM use was approximately half that of the Australian average, and, at the same time, aggregate gambling problems and harm were about one-third lower in Western Australia than the Australian average.¹⁴ It reported that self-reported harm from EGM use by gamblers was 2.7 times lower in Western Australia, and amongst what the study terms “affected others”, harm was four times lower.¹⁵ The authors concluded that less frequent use of EGMs in the state, as a result of the restricted accessibility, accounted for the vast majority of the difference in gambling harm levels, with little evidence of a transfer or displacement problem to other types of gambling where restrictions are in place. This suggested that there is a quality about EGMs specifically that attract people to use them.¹⁶ In an inverse example, when Switzerland allowed new casinos to open with high spending levels but cracked down on EGM availability, harmful gambling decreased from 2.1% to 1.3%.¹⁷

The international evidence is supported by research in the UK, where machine gaming has been documented as generating relatively high rates of harm. The Gambling Commission provides estimates of the prevalence of gambling that compromises, disrupts, or damages family, personal, or recreational pursuits, referring to this as “problem gambling.” Problem gamblers are defined as having a Problem Gambling Severity Index (PGSI) score of eight or higher, meaning a player has answered through survey questions that they have experienced adverse consequences from gambling and may have lost control of their behaviour. By this metric, MGD is an outlier, seeing relatively high rates of users experiencing this while benefiting from a relatively low tax generally worth 20%. Casino gaming on a machine or terminal is a particularly harmful outlier, seeing one in four users (27%) gambling at risky or harmful levels - the highest rates among any activity tracked by the Gambling Commission

excluding betting on non-sport live events.ⁱ Risky or harmful gambling on fruit and slot machines, which also pays MGD, sees 17% of users gambling at risky or harmful levels (Figure 1).

Figure 1: Gambling tax rates are beginning to align with harms, but machine gaming is an outlier despite seeing the highest rate of players experiencing gambling harmsⁱ

Gambling tax rates vs proportion of users with a PGSI score of 8 or more, including trendline



Source: Gambling Commission and SMF analysis

This implies that to apply the Government's logic holistically, the rate of MGD will need to be raised to accurately account for its relatively high rates of gambling harm and addiction.

Category B3 machines are particularly harmful relative to other EGMs

The Gambling Commission separately categorises types of EGM, and these categories determine the permitted venue, maximum stake and maximum prize which players can access via these machines. For example, Category D machines include penny pushers and crane grabs found in Family Entertainment Centres, often in seaside towns. Category B machines in contrast include slot machines and other games, are widely available in betting shops, adult gaming centres, bingo premises and some casinos. B1 machines are exclusively

ⁱ Betting on non-sport non-racing live events is an uncommon activity and may include betting on entertainment awards or weather patterns in person. Just 1% of the population reports this type of gambling. Due to its relative unpopularity it has been excluded from this analysis.

available in casinos, but category B2, B3, and B4 machines are widely available and offer higher maximum prizes for higher stakes.

The rate of duty on different categories of machines is not the same. Category D machines are mostly taxed at 5%, because the general cost to play them is 20 pence. Category B machines are taxed at 20%, because the cost to play them is between 21 pence and £5.

Certain categories of EGM are more harmful than others, with risks extenuated by the amount that can be staked, and the pace at which games can be played. Previously, category B2 machines (also known as Fixed Odds Betting Terminals) allowed £100 stakes, but in 2019 this was reduced to £2 rendering them similar to category B3 and B4 machines. Yet these remain dangerous. EGMs categorised as B3 under the Gambling Commission's classifications can make a £2 spin every 2.5 seconds, with the enticement of being able to deliver a £500 jackpot.¹⁸ following the changes made to the maximum stake of Category B2 machines, the Gambling Commission published advice which stated that B1 and B3 machines have a risk factor comparable to B2 machines.¹⁹

Table 2: Categories of EGMs

Category	Maximum stake	Maximum money prize	2023-24 GGY	MGD rate paid
B1	£5	£10,000	£220mn	20%
B2	£2	£500	£0	20%
B3	£2	£500	£1,971mn	20%
B4	£2	£400	£15mn	20%
C	£1	£100	£239mn	20%
D	Generally 20p	£5	£67mn	5%

Source: Gambling Commission

In a review of Category B3 Machines, the UK Government noted evidence from the Gambling Commission that players of high-stake high-prize machines are among the groups most likely to contact gambling help services, that those with gambling problems play gaming machines more frequently than those with fewer problems, and that it results in problem gamblers spending relatively more time and money on machines.²⁰

Taxing all categories of machine at the same rate would not take into account the principle of differentiation – the principle that some products are associated with more harm than others – which has underpinned the Government's recent reforms to gambling regulation and taxation. Further, as Category B machines are not allowed in pubs, raising taxes on them would not effect the hospitality sector, and may benefit them if punters were to shift their activity towards lower-risk Category C and D machines that publicans offer.

TWO: DESPITE THE HARM OF EGMS, THEY ARE GROWING IN PREVALENCE IN AREAS OF SOCIAL DEPRIVATION

Increasing the tax on MGD should also be understood as a measure improving public health and the economy by decreasing harms associated with machine gaming, particularly in deprived areas.

Currently, Electronic Gaming Machines can be found in betting shops, adult gaming centres, pubs, bingo halls, and casinos. The breakdown of where EGMs are located is shown in:

Table 3: EGMs by venue in Great Britain

Venue	Number of machines	Number of premises	Annual GGY	Machine GGY (£)	Machine GGY (%)
Adult Gaming Centres	79,609	1,454	£729 mn	£729 mn	100%
Bingo venues	74,694	719	£672 mn	£443 mn	66%
Licensed Betting Offices	22,611	5,782	£2.48 bn	£1.19 bn	48%
Family Entertainment Centres	10,429	164	£41 mn	£41 mn	100%
Casinos	3,622	135	£937 mn	£232 mn	25%

Source: Gambling Commission and SMF analysis. Note that the number of machines is based on figures from September 2025 as these are the latest available statistics as of writing, and GGY figures are based on the year up to that date (October 2024 – September 2025).

EGMs are particularly prominent in Adult Gaming Centres (AGCs), which account for 42% of all machines in Great Britain.²¹ These are arcade-style venues whose sole or primary purpose is gaming machines. Like betting shops, these tend to be found on high streets and can host a large number of machines. Although 80% of gaming machines are meant to involve lower stakes, previous SMF research has found that these regulations are often flouted. As described in SMF's "High Streets at Stake" report, adult gaming centres which offer easy 24-hour access to gaming machines have proliferated as legislation enshrines an "aim to permit" rule holding back local authorities from refusing new license applications. These are adult-only high-street outlets which host EGMs, including "slots", casino-style games, and fruit machines.²² AGCs must have a Gambling Commission licence.²³ There are around 1,400 licensed AGCs across the UK, which are the home to a total of 74,523 slot machines.²⁴

Data for the year to March 2024, from the Gambling Commission, showed that gambling revenues grew by 3.5% to £11.5 billion.²⁵ Within that overall envelope, AGCs experienced much faster growth of 11% year-on-year, with revenues reaching £623 million.²⁶ These estimates imply that AGMs account for around 5% of the gambling industry's total turnover in Britain. More specifically, higher stake category B3 machines generated revenues of £463 million, up 16%.²⁷ Data on B3 machines suggest there are 14,484 in operation across Great

Britain's AGCs, each taking in, on average, more than £32,700 each year.²⁸ These figures imply that such machines could account for three-quarters (74%) of AGCs' turnover.

However, AGCs are unevenly distributed across Britain, with a significant proportion found in some of the most deprived areas.²⁹ A link has been specifically identified between higher EGM density in the UK and the socioeconomic status of areas, noting that areas with higher numbers of EGMs were typically places of greater socioeconomic distress.³⁰ More specifically, Gambling Commission data showed that 47% (664) of those licensed premises are situated in the top 20% most deprived areas.³¹ A different study looking at the geography of AGCs across Great Britain identified that there were 384 High Density Machine Zones (HDMZ) in Britain, i.e., places with 1 or more gambling machines per hectare.³² The analysis identified a clear correlation between machine density and socio-economic deprivation, showing that HDMZ places tended to have higher deprivation levels, with economic inactivity rates typically around 37%, compared to other areas in the study, where the rate was 33%.³³ By contrast, the absence of AGCs in affluent parts of the UK is similarly notable. For instance, 14 local authority areas have no AGCs, and 93% of them are in the top 50% wealthiest council areas, whilst 57% are in the top 20%.³⁴

Table 4 shows the number of AGCs in England's fifteen most and least deprived local authorities. England's fifteen most deprived local authorities have 111 AGCs, compared to just 11 in England's least deprived.³⁵ Accounting for population, the average most-deprived local authority sees more than six times as many AGCs as the least-deprived.

Table 4: Number of AGCs in England's most and least deprived local authorities

15 least deprived local authorities	Number of AGCs	15 most deprived local authorities	Number of AGCs
Hart	1	Blackpool	13
Wokingham	2	Middlesbrough	8
Rushcliffe	1	Burnley	3
Epsom and Ewell	0	Manchester	6
Surrey Heath	1	Birmingham	18
Elmbridge	1	Hartlepool	6
Fareham	1	Hastings	8
St Albans	0	Hull	11
Waverley	0	Liverpool	14
South Oxfordshire	1	Blackburn with Darwen	3
Mid Sussex	2	Oldham	5
Windsor and Maidenhead	1	Bradford	11
Harborough	0	Knowsley	1
South Cambridgeshire	0	Hyndburn	3
Guildford	0	Pendle	1

Source: Gambling Commission, ONS, and SMF analysis

Further, the number of AGCs in deprived areas is growing. Analysis by the Guardian for example, found that the number of AGCs grew by 7% between 2022 and 2024, but that a

third were in the 10% most deprived neighbourhoods in the country.³⁶ At the same time, poorer households tend to lose a higher proportion of their income on gambling.³⁷

Bingo halls account for the next-highest proportion of EGMs. These venues often offer bingo, but are increasingly being used to offer machine gaming, which now account for two-thirds (66%) of their GGY.³⁸

Betting shops, also known as bookmakers or Licensed Betting Offices, also offer EGMs, which account for 48% of their revenue. These are familiar to UK residents, and tend to be operated by major companies like Ladbrokes or William Hill and they offer EGMs on their premises.

Like AGCs, these also tend to concentrate in more deprived areas. When comparing the number of venues in England's local authorities which offer machine gaming with that local authority's average Index of Multiple Deprivation (IMD) score, a clear pattern emerges showing that gambling venues tend to proliferate where deprivation is higher.³⁹ For every ten points a local authority increases its IMD score, it is likely to see approximately two more venues offering machine gaming.

Figure 2: Machine gaming venues tend to concentrate in local authorities where deprivation is higher

Local authorities in England based on average IMD score and number of venues licensed for machine gaming



Source: Gambling Commission, ONS, and SMF analysis. Venues include AGCs, LBOs, Bingo, Casinos, and FECs

Other venues which offer EGMs include family entertainment centres (FECs) and pubs, which are able to offer low-stake machines, as well as casinos.

International analyses have also observed the link between harm and accessibility to opportunities for gambling, making the regional analysis important. An analysis of the position in the Czech Republic looked at how “encounters” with gambling establishments across more than 200 Czech municipalities influenced individual behaviour.⁴⁰ It found that those areas with the most extensive gambling offerings had the highest proportion of at-risk gamblers.

Such activity runs counter to the Government’s emphasis on local⁴¹ communities. The strategy focusses this funding towards high streets in ways that generate growth within neighbourhoods in order to build beneficial institutions that improve social capital, health wellbeing, and education and mitigate problems associated with crime. The Government in particular warned against the prevalence of gambling outlets on high streets and in vulnerable areas, stating that the Government wants

“To empower local authorities to curate healthy, vibrant public spaces that reflect the needs of their communities. For example, to strengthen councils’ tools to influence the location and density of gambling outlets, we will introduce Cumulative Impact Assessments in gambling licensing when Parliamentary time allows. This will allow local authorities to take data-driven decisions on premises licences, particularly in areas that have been identified as being vulnerable to gambling-related harm.”⁴²

Such legislation should assist local authorities in regulating the gambling market, yet more needs to be done to prevent and respond to gambling-related harm in line with the Government’s current strategies.

MGD has not been reviewed since 2019, and over the seven years since, AGCs have increased, increasing the risk that local residents will experience harms associated with gambling alongside the communities around them which often bear the cost. The amount of EGMs in bingo halls and licenced betting offices has also grown. Although the 2024 gambling White Paper reflected shifting views in government of the gambling industry, and a move away from permissive approaches to those that reduce harm and support public health, these changes have not yet been reflected in Government’s approach. A new approach is therefore needed to align MGD with wider changes in the gambling and taxation landscape.

THREE: MGD DOES NOT ACCOUNT FOR THE HIGH COSTS ASSOCIATED WITH MACHINE GAMING

Excise taxes are designed to target specific goods or services, and are often applied to products that carry high social costs, such as alcohol and tobacco. These act as “Pigouvian taxes” which are levies applied to activities that generate negative externalities on third parties in order to discourage harmful behaviour when the market cannot do so alone. At the same time they generate revenue for the state that can be spent recovering some of the cost of these activities. For instance, the Climate Change Levy exists to encourage energy efficiency within the private sector and to generate revenue to be spent on environmental initiatives.

However, as an excise and Pigouvian tax, MGD is failing. Further, its exemption from paying VAT gives it an advantage over other economic sectors, while depriving the Treasury of resources. This section breaks down the harms associated with machine gaming and the costs associated with these harms.

Gambling causes widespread economic and fiscal harm

The cost of harm associated with gambling is large. A Public Health England study has suggested that there 0.5% of adults in England experienced problem gambling yet higher rates have since been observed by The Gambling Survey for Great Britain which found that 2.7% of individuals in Great Britain had a PGSI score of eight or more, experiencing problem gambling by which a person will have experienced adverse consequences from gambling and may have lost control of their behaviour. Involvement in gambling can be at any level, but it is likely to be heavy. This number would significantly exceed prior estimates.⁴³

Those dealing with gambling addictions are more likely to owe money to pay for gambling, borrow money without paying it back, borrow from loan sharks, declare bankruptcy, sell property to gamble, or use pawnbrokers to acquire gambling funds.⁴⁴ International evidence suggest these individuals tend to hold significant debts, with estimates ranging from £1,850 to £39,000 per gambler depending on the sample.⁴⁵ Evidence also indicates that an estimated 3.8% of the population gamble at “elevated risk”. Using the latest Office for National Statistics (ONS) population estimates, this would imply that across Great Britain, around 2 million people could fall into this category.

The kind of harm that people with a gambling addiction may cause to themselves as a result of their gambling includes employment and financial problems, as well as mental and physical health issues.⁴⁶ ⁱⁱ The impact also varies across different sub-populations in society, with people from some social strata more likely to suffer greater negative effects than others when engaging with gambling.⁴⁷ A UK study found that men, younger people, those from poorer neighbourhoods, and those in manual employment and without a university degree are more likely to suffer higher levels of harm as a result of gambling.⁴⁸ Researchers have noted, however, that there is a “harm paradox” afflicting some social cohorts, whereby gambling levels may be lower than across the wider population, but the harms can be more severe.

The harms that accrue to some individuals from excessive gambling can be modelled to calculate wider social and economic costs. However, the costs are inevitably greater than a crude aggregation of individual impacts because, as several experts and analyses have pointed out, the impacts extend beyond those who are gambling.

High risk gamblers tend to spend more and therefore account for a disproportionate share of gambling revenue. The Lancet Public Health Commission on Gambling has argued that the

ⁱⁱ Scholars now argue that the harm caused by gambling should be understood as a continuum rather than a discrete category of effects separate from so-called “safe” gambling, in which harm is either present or not. (Source: John et Al, “Gambling Harm as a Global Public Health Concern: A Mixed Method Investigation of Trends in Wales” (*Frontiers in Public Health*, July 2020).

persistence of the harm created by gambling is central to the business model of the industry, arguing that:

“The business model of commercial gambling relies disproportionately on a small proportion of users who consume a substantial proportion of the products and generate the majority of industry profits...The so-called addiction surplus is particularly apparent in connection with the most harmful gambling products and formats including, but not limited to, Electronic Gaming Machines (EGMs) and casino style games.”⁴⁹

- Lancet Public Health Commission on Gambling

The extent of the harm varies depending on the type of gambling activity, with greater harm generated by online gambling and through the use of EGMs.⁵⁰ The Lancet Commission argued that accessibility to high-risk gambling products could be a cause of some groups experiencing higher propensity to harm. In particular, the Commission highlighted that studies have linked higher densities of EGMs to elevated risks of gambling harm.⁵¹ At the same time, EGM players have been found to have higher current and lifetime debts on average than those that gamble in other ways.⁵²

Beyond aggregated individual health costs and the indirect impacts on others, there are sizeable consequences for taxpayers as well. For instance, the Lancet Commission revealed how those who experience gambling harms have a higher propensity to claim welfare benefits, and that those with gambling issues are at a higher risk of going on long-term disability benefits.⁵³ A study conducted in New Zealand for instance, found that those with a gambling disorder spent more time on welfare benefits compared to those without such problems.⁵⁴

To better understand the financial impact of gambling in the UK and its associated harms, the British government updated a previous evaluation to estimate the fiscal and social costs associated with gambling harms.⁵⁵ Fiscal costs include those where the Government provides additional assistance to individuals experiencing gambling-related harms, such as supporting their housing, providing unemployment benefits, or treating them for alcohol dependency. Researchers have found that because EGMs in particular have high potential to correlate with harmful levels of gambling relative to other forms and correlate with more gambling-related crimes.⁵⁶ This creates additional fiscal and social costs for each gambler, reported in Table 5.

Table 5: Government estimates of the fiscal and social costs associated with gambling harms

Category of harm	Sub-category	Population cohort	Fiscal costs (£ millions)	Social costs (£ millions)	All costs (£ millions)
Financial	Statutory homelessness	Adults	£49	N/A	£49
Health	Deaths from suicide	Adults	N/A	£241.1 – £961.7	£241.1 – £961.7
	Depression	Adults	£114.2	£393.8	£508
	Alcohol dependence	Adults	£3.5	N/A	£3.5

	Illicit drug use	17-24 year olds	£1.8	N/A	£1.8
	All health sub-categories	All health cohorts	£119.5	£635 – £1,355.5	£754.4 – £1,475
Employment and education	Unemployment benefits	Adults	£77	N/A	£77
Crime	Imprisonment	Adults	£167.3	N/A	£167.3
Excess cost (£ millions)	All	All	£412.9	£635 – £1,356	£1,047 – £1,768

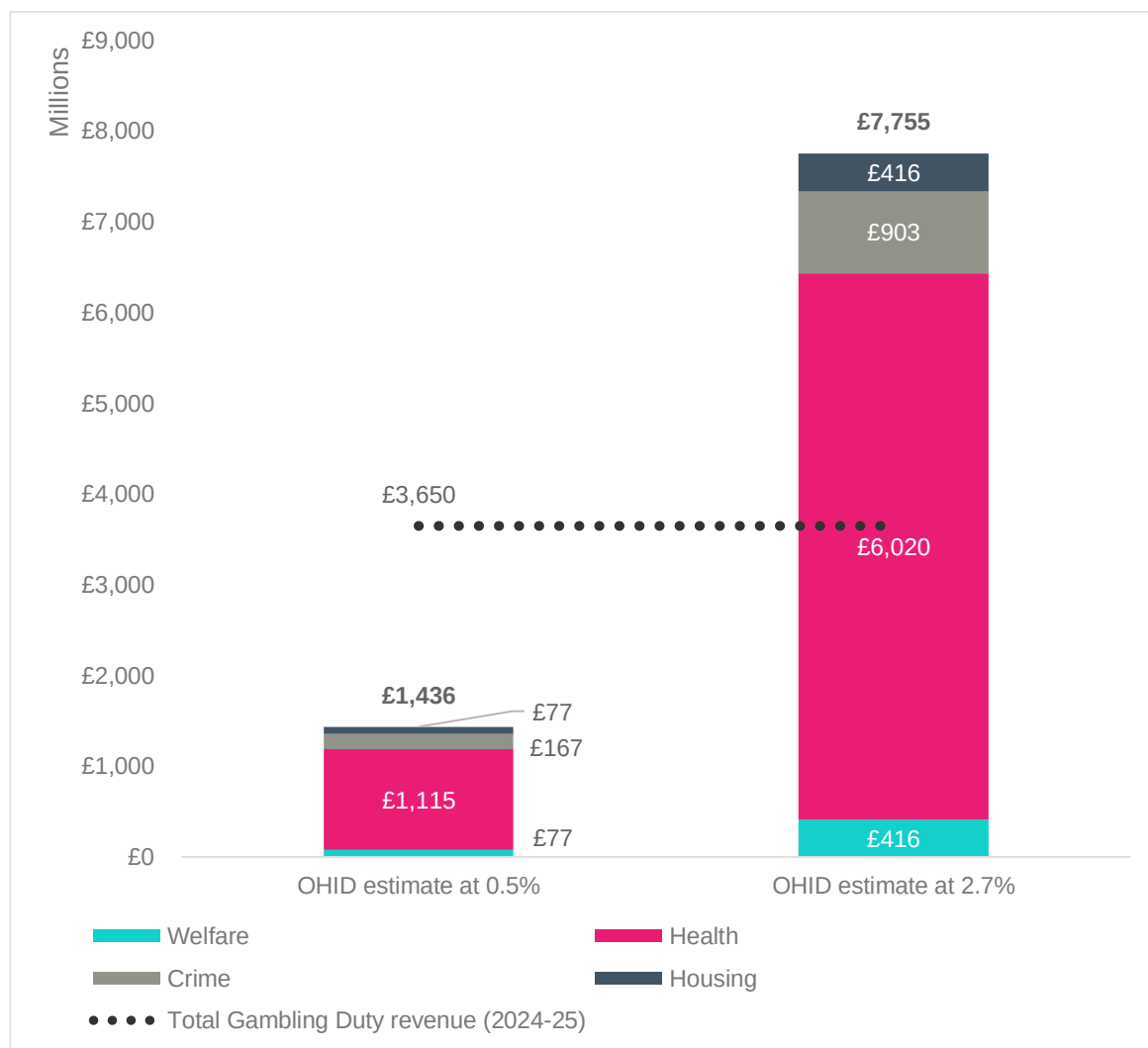
Source: HM Government

N.B. Costings are in 2021-22 prices.

Government analysis found that the total cost associated with gambling harms ranged between £1.05 billion and £1.77 billion, with a mid-point of £1.44 billion. However, as pointed out in SMF's previous report "Fiscally Responsible," Government estimates assume gambling addiction and the experience of gambling harms only affect approximately 0.5% of adults. More recent surveys, including the Gambling Survey for Great Britain, estimates the prevalence is much higher, at 2.7%.⁵⁷ While this may represent an upper estimate, it substantially increases the economic cost associated with gambling to £7.8 billion, including £2.2 billion in fiscal costs. There is substantial uncertainty over the precise cost of gambling, yet it is clear that it is in the billions, rather than hundreds of millions.

Figure 2: The total economic cost associated with gambling likely outpaces gambling tax revenues

Economic cost estimates by OHID



Source: OHID and OBR. Note that OHID costs associated with gambling are based on 2022 prices, while Total Gambling Duty revenue is based on 2025 prices.

Meanwhile, gambling duty generated £3.65 billion for the Treasury in the 2024-25 fiscal year, meaning the sector is likely failing to cover externality costs. It is therefore likely that, as a Pigouvian tax, gambling duties are failing as their revenue does not equal the cost of the social harm.

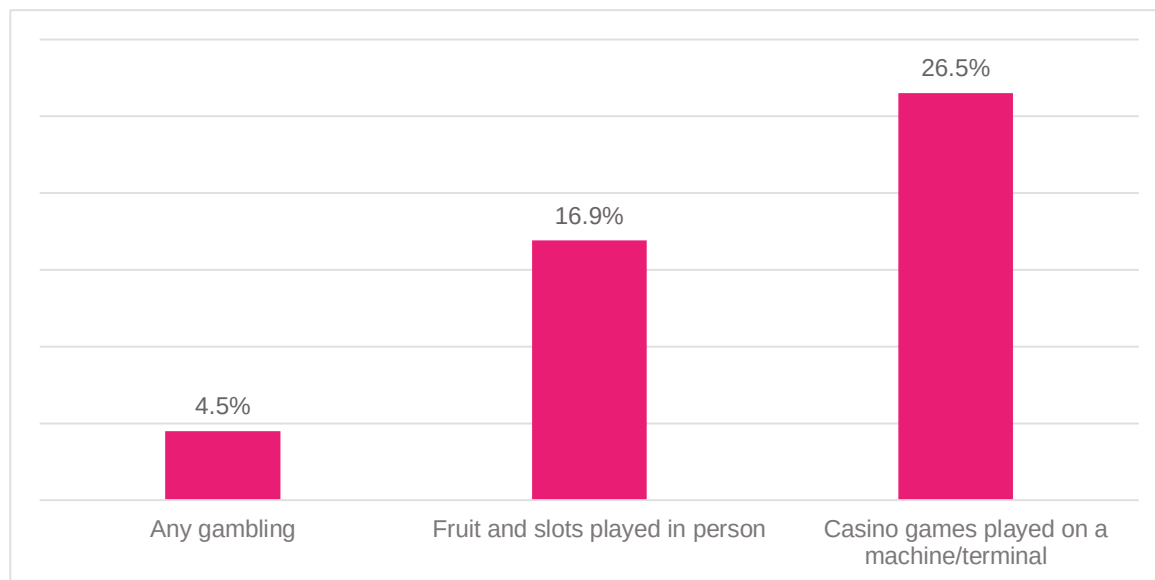
OHID's analyses also look at gambling generally, avoiding the accepted fact that certain forms of gambling are more harmful than others. Applying a "polluter pays" principle to gambling, as recommended by the SMF and IPPR, among others, would see EGMs taxed at a higher rate than other forms of gambling.⁵⁸

Machine Games Duty is not currently covering the cost of its own harms

As discussed above, the Gambling Commission defines "problem gambling" as affecting those gamblers who have experienced adverse consequences from gambling and may have lost control of their behaviour.⁵⁹ The Commission provides breakdowns of the prevalence of problem gambling based on activity, and estimates that the prevalence of problem gambling on casino games on a machine or terminal 26.5%, and for fruit and slot machines is 16.9%.⁶⁰ While this does not show the specific rates of problem gambling for Category B machines,

there is no reason to think these are less addictive than other machines, and can cost users much more due to their relatively high stakes. The rates of harm for machine gaming are both much higher than the 4.5% average rate found across all types of gambling.

Figure 3: Problem gambling rates are higher for machine games than the industry average
Proportion of participants with a PGSI score of 8 or higher among those who had gambled in the past 12 months, by gambling activity



Source: Gambling Commission

The results of the latest Gambling Survey for Great Britain showed that 4% of adults played “fruit” and other kinds of “slot machines” in person in the preceding month, and 2% reported playing casino games on terminals. If we apply these numbers to the UK, where there are 55 million adults, 2.2 million people (4%) participated in fruit and slot machines and 1.1 million people (2%) participated in casino games on terminals.

Of the 2% of adults in Great Britain who participated in in-person casino games at a machine or terminal in the past four weeks, 26.5% are likely experiencing problem gambling. This means that of the 1.1 million people who participated in casino games at a machine or terminal, 291,500 experienced problem gambling.⁶¹ Note that this is likely an under-estimate, as this only counts those who have participated in gambling over the past four weeks, and because addiction to gambling often involves frequent turnover, more than 2% of the total population are likely to play over the course of a year.⁶²

At the same time, 4% of Great Britain’s population participated at fruit or slot machines, and 16.9% of these individuals are estimated to be experiencing problem gambling. Applying these numbers to the UK as before, this implies that 371,950 experienced problem gambling linked to fruit and slot machines.

Because these measurements are per person, and many of these individuals are likely to be playing at both slot machines *and* casino-style machines, finding the combined number of individuals experiencing problem gambling on machines is not possible through publicly available data. However, we can confidently say that *at least* 371,950 individuals experienced this over four weeks last year. It is likely higher given that crossover between

fruit and slot machines and casino games is unlikely to be 100%, and that not all problem gamblers who play at fruit or slot machines will also play casino games.

OHID's mid-range estimate of the total economic cost associated with problem gambling was £1.44 billion in 2021/22, rising to £1.67 billion in April 2026 prices. As OHID estimated that 0.5% of the UK adult population suffered from problems associated with gambling, equivalent to 267,650 people, this equates to an economic cost of £6,253 per person experiencing problem gambling. However, as noted above, OHID's 2021 estimate does not reflect modern surveys distributed by the Gambling Commission. When applying their estimate that 371,950 individuals experience problem gambling associated with EGM use, this equates to a total economic cost of £2.33 billion.

Applying the same per capita measurement, the fiscal cost associated with problem gambling is worth £1,798 per person in 2026 prices, costing Treasury £669 million per year. Given that MGD is only generating £600 million annually, this implies it is currently failing to fulfil its role as a Pigouvian tax.

It should be noted that both economic and fiscal cost estimates are conservative, and likely understate the problem. As described, the number of problem gamblers accounted for only includes those who have gambled in the past four weeks, rather than the past year, and conservatively assumes a 100% crossover between slot and casino game users, leaving the true totals likely to be higher.

Machine Games are currently exempt from VAT

Although MGD is currently failing to compensate for the harms associated with machine gaming, it is also expected to substitute for VAT. Gambling is an anomaly when it comes to VAT. Most forms do not currently attract VAT, and while this is not unusual internationally, it tends to generate economic distortions by keeping the cost of gambling low relative to other goods and services, and gives operators an advantage in attracting customers. As a result, it has been explicitly referenced as an anomaly Government needs to address.⁶³

This is partly due to the difficulty in determining the "price" of gambling. VAT usually applies an additional charge to goods and services based on a percentage of the price (20% in the UK). Most goods have a clear, listed, and stable price, making this calculation simple. However, the "price" of gambling shifts constantly in line with odds, as it is calculated as the difference between a consumer's stake and their winnings. As result of this complexity, gambling has been exempt from VAT since the 1994 Value Added Tax Act, in line with many other countries.

When MGD came into effect in 2013, it replaced the Amusement Machine License Duty (AMLD), which charged a license fee to operate an EGM as well as VAT on any income generated. It was set at 20% to ensure revenue neutrality between the two regimes, combining the income from VAT and from the excise duty AMLD charged on EGMs. It is reasonable to ask how given that the 25% rate is effectively defunct, an MGD maximum rate of 20% could possibly replace *both* the UK's VAT rate of 20% as well as further AMLD charges. The answer lies in the difference between gross VAT and net VAT. Under the previous regime, operators could reclaim input VAT on their costs, leaving their effective VAT burden lower than 20%. This in combination with AMLD charges brought net takings in

line with the MGD standard rates.⁶⁴ The second justification for this exemption was to bring MGD in line with other gambling taxes which were already VAT-exempt.

However, these arguments no longer apply. Firstly, setting MGD at 20% was designed to ensure revenue neutrality. It was not designed to mitigate harm or to compensate the state for the fiscal costs associated with EGMS. Second, this ignored the fact that absolving MGD from paying VAT would give it an advantage over other goods and services in the economy. Thirdly, the argument that exempting MGD from VAT would harmonise it with other taxes no longer applies now that we are seeing widespread changes in the taxation of gambling.

Current rates are much too low if gambling duty is designed to *both* correct for externalities *and* make up for VAT, as was argued for MGD in the 2013 transition. It is therefore incapable of functioning at its current rate both as an effective excise tax and VAT substitute. Our view, and the view established by this Government by raising Remote Gaming Duty, is that those forms which cause the most harm should incur the highest tax. In its report to the Government, the Treasury Committee recommended that “to take account of the different harms caused by different types of gambling, the Treasury must ensure that Remote Gaming Duty and Machine Gaming Duty (Standard and Higher rates) are always set at a higher rate than Gaming Duty.”⁶⁵ In addition, the Committee concluded that “Different forms of gambling cause varying levels of harm to individuals, families, and society. We are not convinced that current Treasury policy on the taxation of gambling captures the varying extent of those harms.”⁶⁶

FOUR: GOVERNMENT NEEDS NEW REVENUE

To realise its goals, the Government will require new sources of revenue which do not prevent growth and instead incentivise it. At times this will mean increasing public investment in strategic sectors, while in other it will mean increasing regulations and shaping markets to support a healthy economy. The Chancellor’s Mais lecture this Spring exemplified this strategy, promising, among other things, to:

- Provide public investment
- Improve productivity and growth
- Protect families from high costs
- Reform markets to give a fair deal to working people
- Create an active and strategic state that shapes markets to support wealth-creation rather than extraction
- Overturn doctrines that claim government should leave “stand aside and leave markets to their own devices”

Growth is a priority for this government. Prior to the 2024 election, the Labour Party made growth its stated first mission, declaring it to be “the only route to improving the prosperity of our country and the living standards of more people.”⁶⁷ The Government went on to publish the Modern Industrial Strategy in 2025 as a plan to boost investment, productivity, and resilience in key strategic sectors like manufacturing, technology, and defence which were coupled with major financial pledges.⁶⁸ Further policies have been introduced to support growth, including the creation of the National Wealth Fund, planning reforms, and financial regulation.

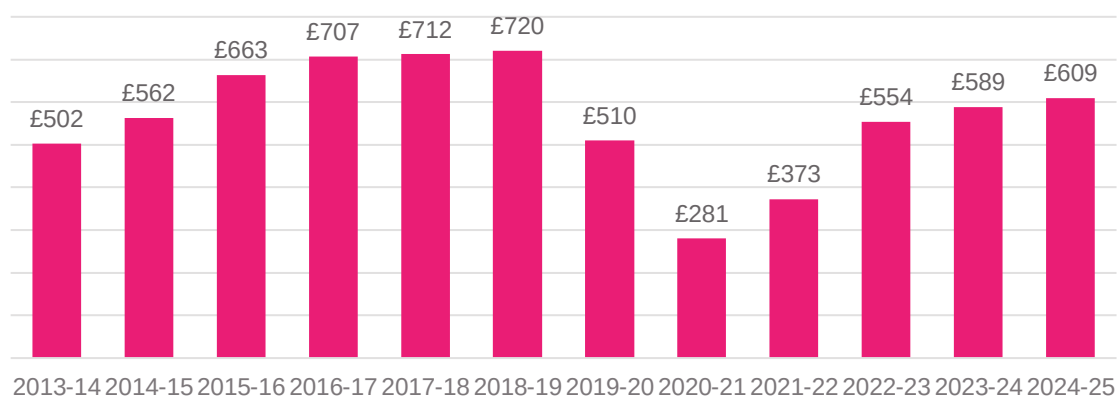
At the same time, investment is required by Government to fund strategic operational and capital projects including those designated as growth objectives. Gita Gopinath, deputy managing director of the IMF, stated that “public investment is needed in the UK” adding that “if you compare the UK to G7 countries, investment has fallen short.”⁶⁹ This has left the UK with a chronic underinvestment gap. OECD data shows UK investment in infrastructure, including rail, road, and air, lag behind peers like France, Germany, Japan, and the United States which act as a drag on productivity.⁷⁰ Public investment in Research and Development – also positively linked to long-term growth – is similarly light.⁷¹ The Government therefore adjusted the fiscal rules to support a £20 billion increase in public investment, with the Chancellor stating that it was done “so that government counts the financial benefits of investment and not just the costs.”⁷²

Yet more funding is required, and this Government’s goals require policymakers to raise public sector revenue while limiting costs. Raising revenue is difficult while remaining committed to fiscal rules as well as election promises not to raise income tax, national insurance, or VAT. However, certain sectors remain under-taxed. One is the land-based gambling sector, where many types of betting and gaming have been given preferential treatment to the detriment of the public purse. These activities have at times avoided VAT, paid less in excise duty than other socially harmful sectors, secured profits above what is needed to maintain market viability, and/or failed to compensate the public purse for the fiscal harms of externalities associated with gambling. As such, it is an ideal sector from which Government can raise revenue in the current strained fiscal environment. The 2025 budget recognised this opportunity when it doubled the rate of Remote Gaming Duty. We argue that the same should now happen to Machines Games Duty.

Since the pandemic, revenue from lower rate machines has maintained a steady trickle, never worth more than £7.5 million a year, given that they apply to very few machines. As a result, 99% of MGD revenue today comes from machines taxed at the standard rate, and MGD currently raises £600 million per year.

Figure 4: Machine Games Duty is recovering, but remains lower than 2019

Revenue from Machine Games Duty over time



Source: HMRC

Spending limits were put in place in 2018, limiting the amount consumers could take on Fixed Odds betting Terminals (FOBTs) from £100 to £2. Prior, these had allowed high levels of harm as players could stake up to £100 every 20 seconds. By lowering stake limits,

Government effectively rendered any high-stake FOBT, which had been taxed at a 25% rate, into a standard type-2 machine, now taxed at a 20% rate, generating less revenue for operators and the Treasury. This was a worthwhile reform given the high rates of harm generated by FOBTs, but has limited the tax revenue generated from machine gaming. The experience acts as a case study in prioritising social policy over the gambling industry's commercial interests, and also means that any study of MGD tax reform must focus on machines liable to pay at the standard rate, which make up the vast majority of revenue raised for the treasury.

FIVE: DECREASING GAMBLING CONSUMPTION WOULD BE OFFSET BY MORE PRODUCTIVE SPENDING ELSEWHERE ON THE HIGH STREET

During the debate over the 2025 increase in Remote Gaming Duty members of the gambling industry asserted that they would be forced to worsen odds leading consumption would fall, and that this would lead players to the black market. However, these arguments do not apply when considering taxation on physical venues operating EGMs.

We do not currently know how operators would respond to a tax increase. However, faced with such an increase, they would effectively have three response options:

1. Absorb the tax increase and decrease profit
2. Offset the tax increase with cuts to operating costs to maintain profit margins (for example, by lowering executive pay or marketing)
3. Pass tax increases on to consumers (for example, by altering the odds of machines to effectively increase the price of gambling to consumers)

Absorbing the tax increase would maximise Treasury revenue. While this would not have a direct effect on harm, it would provide government with funding to offset what we have calculated to be over £1 billion in fiscal harm. The second option, decreasing discretionary spending such as on executive pay or marketing, would likewise provide revenue benefits without affecting consumers, and would likely provide social benefits if it led to a decrease in advertising, which disproportionately affects those with experience with problem gambling.⁷³

The third option would see operators pass the cost of tax increases onto consumers, potentially decreasing demand. This could be accomplished by altering the return-to-player which effectively increases the price of the product. While this could lead to a decrease in consumption, the following subsection details the net-positive impacts of such behavioural change.

Decreasing gambling consumption would be offset by more productive spending

DCMS analysis finds that the gambling industry contributes £5 billion to the UK economy.⁷⁴ This is far below numbers often mentioned in discussion, such as the £7.1 billion the Gambling Commission estimates the industry contributes.⁷⁵

DCMS further finds that the gambling sector currently employs 94,000 people.⁷⁶ However, this includes the entire gambling sector, and only a portion of these roles would be effected by an increase in MGD.

The resources no longer employed in or spent on gambling in a locality, such as a coastal town, may be utilised in alternative ways. Work by the SMF found that the economic multiplier for gambling was lower than for other industries that might reasonably be considered viable alternatives in the kinds of communities where AGCs predominate.⁷⁷

If consumption on gambling falls, individuals will spend their money on other goods and services. Previous research by the SMF has highlighted the negative effects of gambling on jobs. The money spent on gambling has a lower multiplier effect than discretionary spending on other activities. SMF modelling found that £1 million spent on retail creates 34 additional jobs when all effects are considered, which is more than twice as many as the number of jobs created by the equivalent spending on gambling.⁷⁸ The report found that if gambling expenditure fell by 10%, or approximately £1 billion, the number of jobs would be 24,000 higher.⁷⁹ This confirms previous research on Fixed Odds Betting Terminals, which found that £1 billion in consumer expenditure on average created approximately 20,000 jobs, while the same spend on FOBTs supported only 5,000 jobs.⁸⁰ While FOBTs are now widely unavailable following 2019 reforms, similar business models apply in the machine gaming sector.

Tax revenue would likely also benefit from a shift in consumption. Gambling has a tax multiplier 20% lower than other sectors. This means that while £1 million in net consumer spending on retail or food services generates £600,000 in additional tax revenue, the same spending on gambling generates just £500,000.⁸¹ Recent NIESR research has found that those who reduce gambling spending would likely redirect that money towards retail like food, daily shopping, and household needs.⁸² Overall, SMF has found that if net gambling spending declined by 10%, or roughly £1 billion, and individuals redirected that spending towards retail, UK GVA would be £311 million higher, and the Exchequer would receive an additional £171 million in revenues.⁸³ Other research again confirms this, with one report finding that net tax receipts over ten years would be £80 million lower each year due to EGM expansion.⁸⁴ This is because increasing revenue from MGD fails to offset the reduction in receipts from income tax, national insurance contributions, and VAT which result from lower employment and reduced spending on other goods and services.

Further, gambling revenue often “leaks” out of the country with the Sheffield Addictions Research Group (SARG) publishing in 2026 new data showing how a significant proportion of revenue from gambling enters global supply chains and international corporate headquarters rather than the UK.⁸⁵ As a result, they found a 10% reduction in British gambling led to a £1.25 billion increase in Gross Value Added and 22,000 new jobs. By shifting that spending to retail, recreation, or trades, the authors suggest the money will remain in the UK for longer, effectively “recycling” wealth in the economy and supporting more jobs.

Finally, this Government has promised to kickstart growth and productivity, and both could benefit from a shift in consumption away from gambling. The Faculty of Public Health notes that the harms caused by gambling include workforce productivity, while the Office for Health Improvements and Disparities found that employment is negatively impacted by

gambling spending.⁸⁶ Gambling is further associated with debt, credit score reductions, increased food bank uptake, and homelessness. These problems are driven by the loss of income and wealth caused when someone loses their stake, but has also been found to increase gambling as desperation forces people seek out ways to improve their financial situation.⁸⁷ All of this reduce productivity by causing absenteeism, reducing engagement, limiting labour mobility, and misallocating capital among individuals while increasing demands on public services.⁸⁸

As a result of a tax increase, operators may choose to close certain locations. The idea that we can decrease the harms associated with EGMs without decreasing the extent of EGMs is unrealistic, as is the idea that we can reduce gambling without reducing revenue. This could lead to job losses in the sector, however, these losses would be more than offset by increasing employment elsewhere due to the relatively low labour costs associated with EGM outlets.

Consumers' behavioural shifts should be welcomed by Government

Some consumers may shift their behaviour. The most likely solution for these individuals is to shift their behaviour online. Here again, proportions are difficult to estimate, as the HMRC has acknowledged there is sparse data on cross-price elasticities across different sectors of the gambling market. Some international studies have found only minor evidence of substitution effects across in-person and remote gambling.⁸⁹ That said, it appears logically reasonable to presume that, if faced with higher prices, some consumers may shift their spending to the online market.

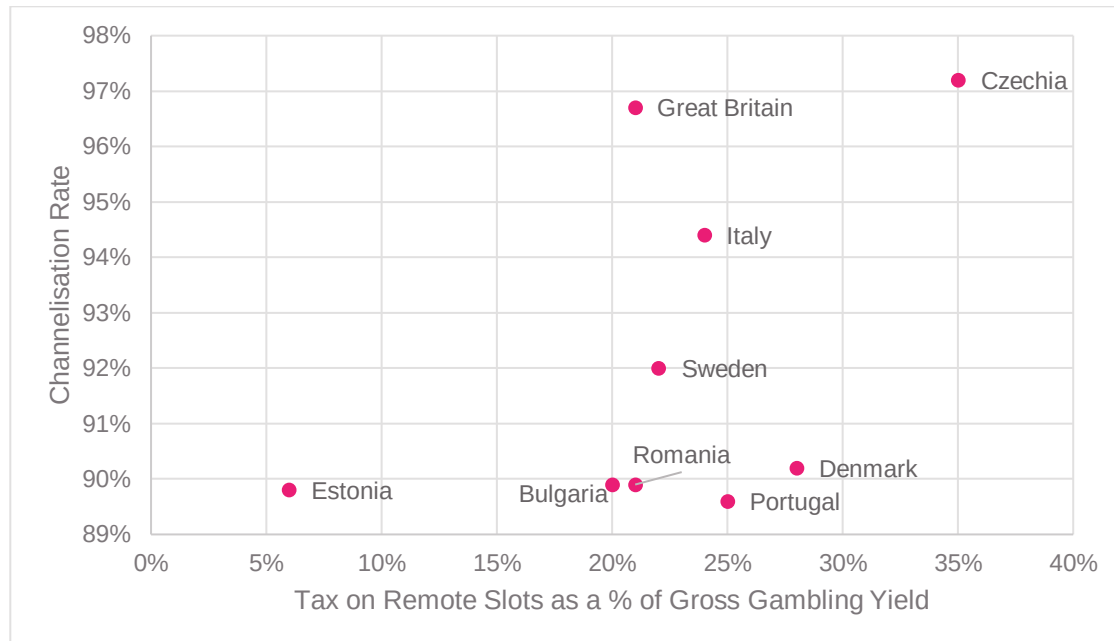
This should be welcomed by Government. From a fiscal perspective, it would mean double the revenue per game given that online gaming sees higher rates of taxation following the Government's move to raise Remote Gaming Duty in 2025 from 21% to 40%.⁹⁰ Further, certain factors likely to cause harm are worse for in-person gaming than online. Online slots stake limits have been introduced, and game designs have been altered so that they cannot offer highly addictive features such as autoplay, turbo, or quick spins which incentivised faster plays.⁹¹ Online users are unable to play multiple games on the same platform, which is not the case for in-person venues, and also are unable to see harmful offers like "gamble-mode" which allows users to bet beyond the stake limit if they use their winnings. Other reforms are still pending, but currently stand to limit visual misrepresentations and icons which show losses described as wins and near misses, and introduce risk checks.⁹² However, as SMF has previously recommended, more work clearly must still be done to decrease the harms associated with remote gaming.

It is not the case, despite claims made by the gambling industry, that an increase in taxes will lead to a shift in behaviour into the black market. This claim is frequently made by the Betting and Gaming Council, including in June 2025, when they claimed an increase in gambling taxes would lead a *majority* of consumers to move to the black market. It mimics language made by the Tax Foundation, an American thinktank which claims that if taxes were increased "sportsbooks would be forced to offer games with substantially worse odds for consumers and pass on the new tax burden to consumers. The likelier outcome, if the tax is so substantially increased, would be the death of the legal sports betting industry as it exists today."⁹³ These claims are exaggerated and hyperbolic, and often fail to be coupled

with evidence. In the remote market, it is clear that there is no correlation noted between “channelisation” (the proportion of gambling which is legal) and tax rates.⁹⁴

Figure 5: There is no positive correlation between tax rates for remote gaming and illegal gambling

Channelisation rate vs tax on remote slot machines as a % of gross gambling yield by country



Source: Danish Gambling Authority, 2023, and SMF analysis

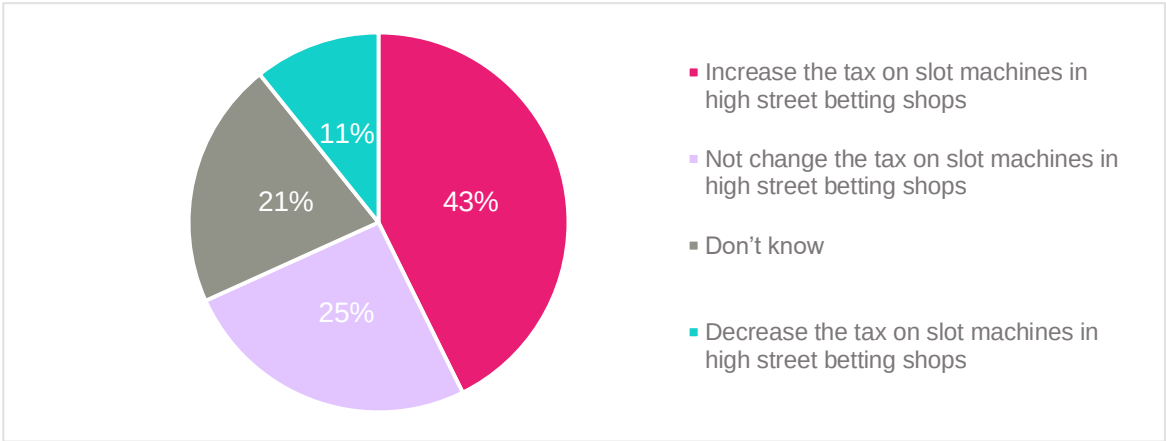
As there is no correlation between taxes on remote gaming and black market gambling, and given that the black market is even less accessible for in-person gambling, it is difficult to argue that increasing taxes will cause a large exodus into illegal gambling in the British context. Physical premises are generally detectable, geographically fixed, and easily disrupted, increasing the risk of prosecution for illegal operators. A dual-licensing structure exists such that any land-based gambling facility must have a license from the Gambling Commission and relevant local authority, meaning premises require oversight from two separate institutions. Conversations with experts on this subject have confirmed that consumers’ awareness of these locations and their ability to access them is extremely limited. These combined factors make in-person illegal gambling a rare phenomenon in the UK.

SIX: THE PUBLIC CONTINUES TO SUPPORT INCREASING GAMBLING TAXES IN GENERAL, AND MACHINE GAMES DUTY IN PARTICULAR

Polling conducted for this report by Survation showed that a plurality of the UK supports raising Machine Games Duty. 2,047 individuals across the UK were by Survation for the SMF between the 2nd and 7th of April 2026, with responses weighted by age, sex, education level, income, and political views. To simplify descriptions, we asked individuals what should be done regarding taxes on slot machines in high street betting shops.

In total, 43% of individuals supported increasing taxes on machine gaming, compared to 11% who wanted to decrease it and 25% who wanted to avoid a change.

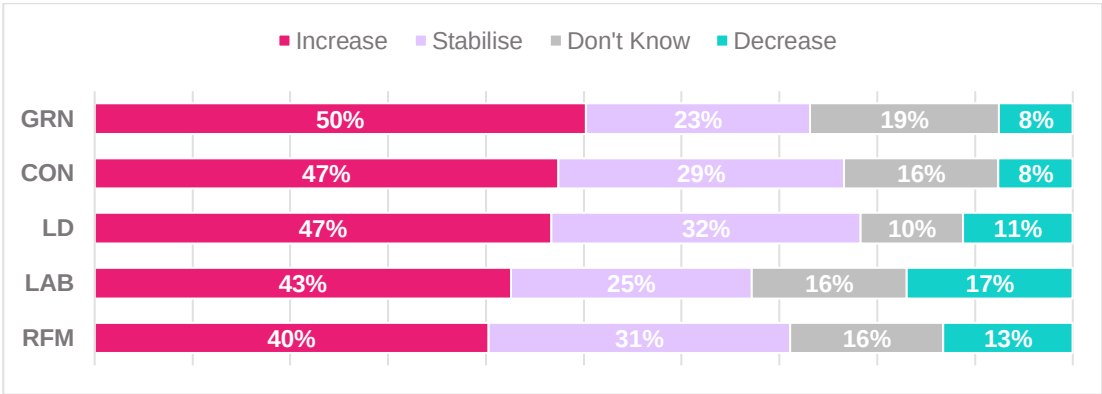
Figure 6: 43% want to see taxes increased on slot machines
Responses to “The government should...” as a percentage.



Source: SMF-Survation polling and SMF analysis (N = 2047)

This held true across political divides, with at least 40% in every major national party in favour of increasing the tax.

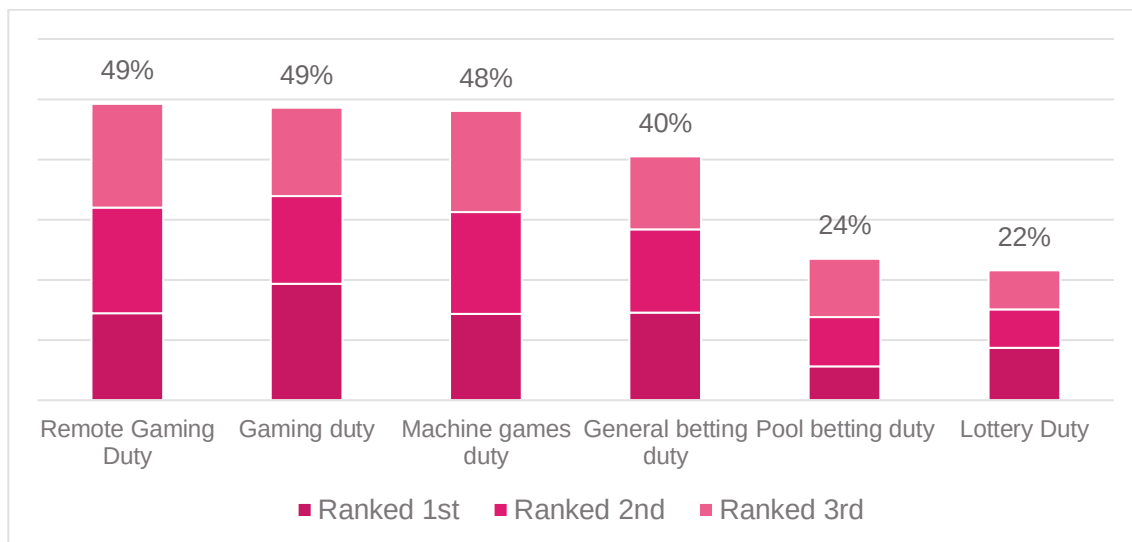
Figure 7: Over 40% of supporters from all major parties support raising taxes on machine gaming
Responses to “The government should...” as a percentage split by voting intention



Source: SMF-Survation polling and SMF analysis (N = 2047)

In general, the public favoured raising MGD, with 48% ranking it in their top three gambling taxes to prioritise raising, just behind 49% for RGD and Casinos.

Figure 8: 48% of respondents favour raising Machine Games Duty when compared to other gambling taxes
Responses to “Which of the following taxes should the government prioritise raising?” by top three choices

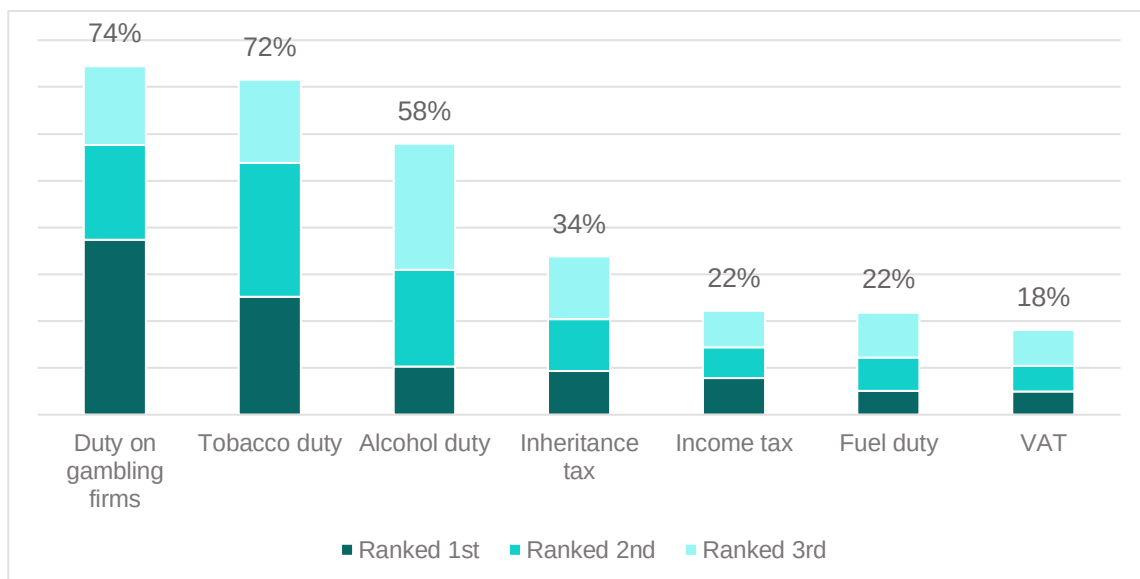


Source: SMF-Survation polling and SMF analysis (N = 2047)

This aligns with polling undertaken for SMF by Survation in 2025, which showed that, more widely, increasing taxes on gambling firms had more support than any other potential tax increase. Polling showed that 74% of respondents ranked boosting duties on gambling firms in their top-three choices for tax increases, and 37% ranked it first.

Figure 9: Raising duty on gambling firms is the most popular tax to increase

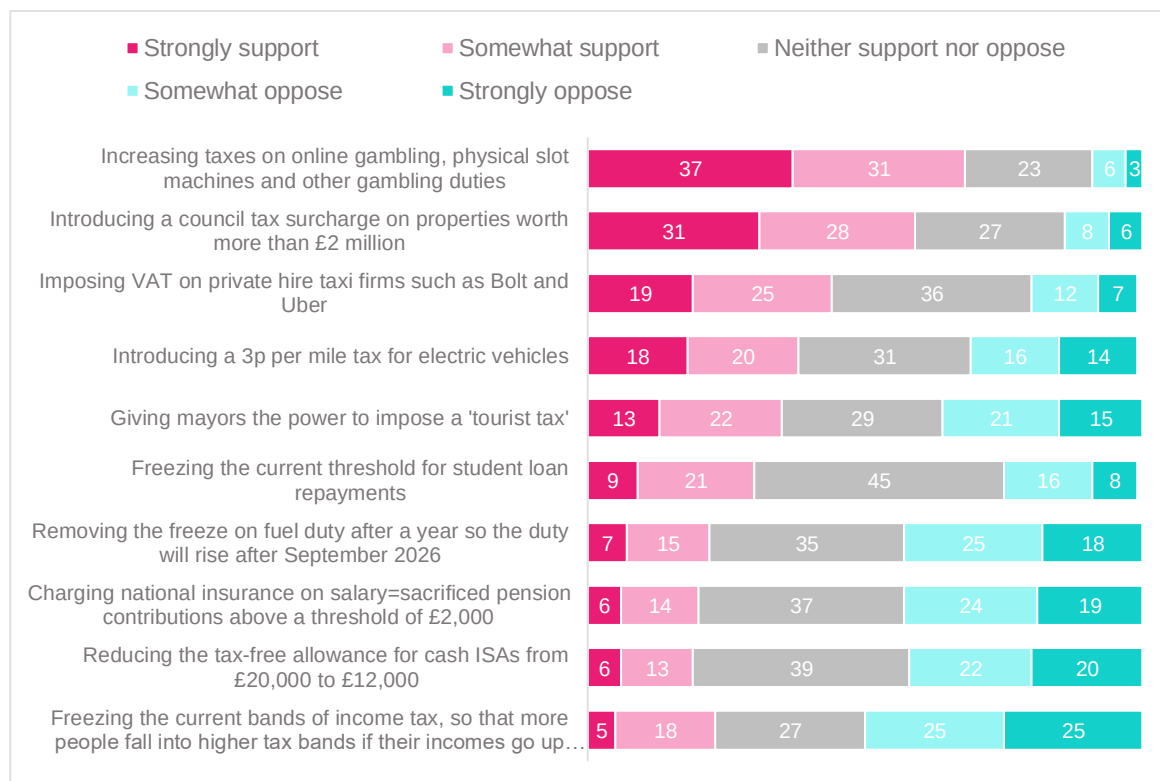
Responses to “which of the following taxes should the government prioritise raising?” by top three choices



Source: Survation poll commissioned by SMF undertaken in 2024.

Further surveys have confirmed this trend. In 2025 More in Common polling found that 68% support increasing taxes on gambling, higher than any other category, including increasing taxes on physical slot machines.⁹⁵ This was found to be bipartisan, with a plurality of voters in every electoral demographic in the poll supporting raising taxes on the gambling industry, including a majority of “Progressive Activists” (76%), “Traditional Conservatives” (72%), and “Dissenting Disruptors” (62%).

Figure 10: The public continues to support gambling taxes over other excise tax options
 Responses to “Below is a list of tax measures in the Government’s budget. For each of them, please indicate whether you support or oppose them” as percentage

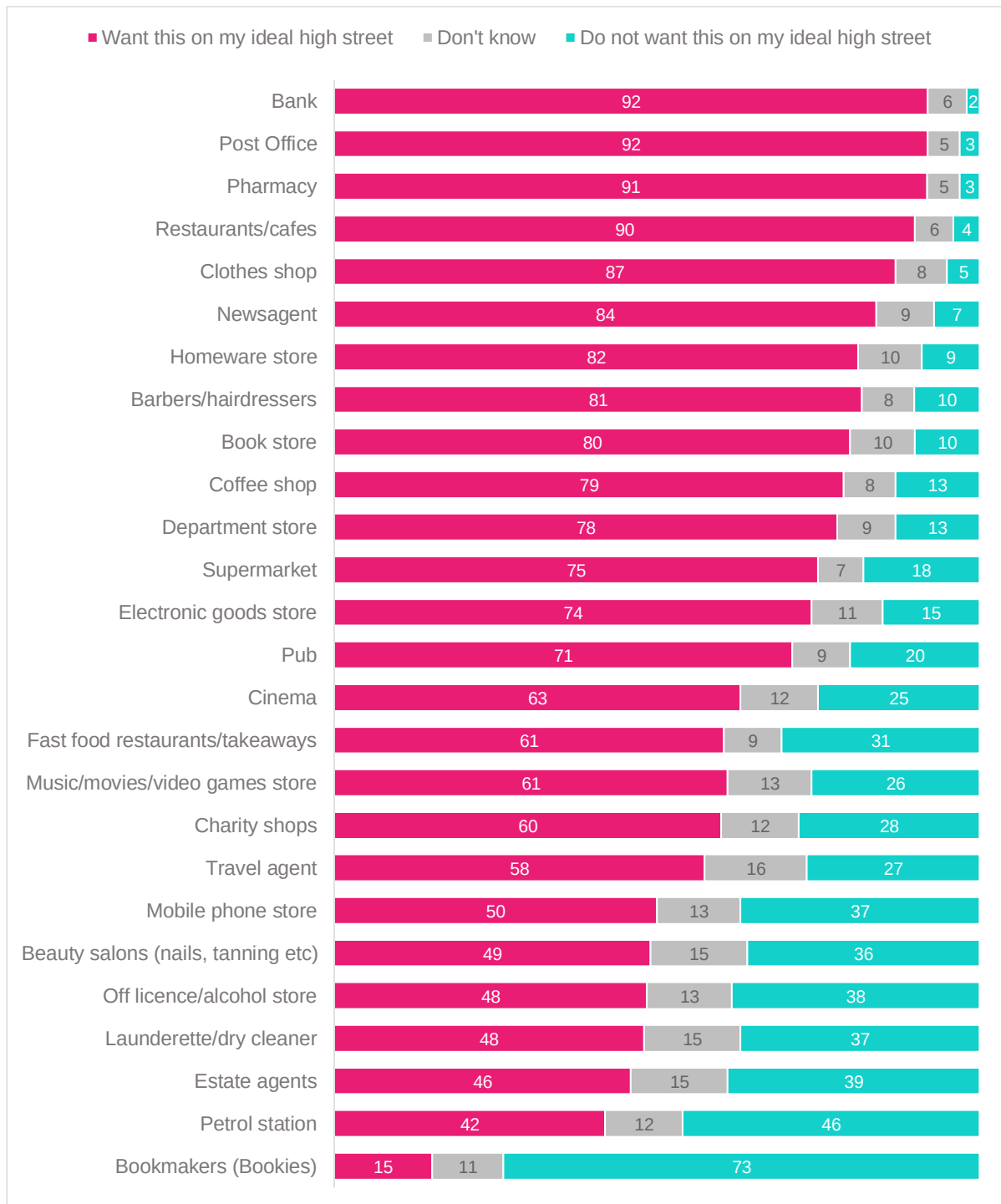


Source: More in Common poll conducted November 2025

This is an issue on which people feel strongly not only when responding to national debates but also on their local streets. When surveyed in 2025 what types of shops they want to see on their high street, respondents ranked bookmakers at the bottom across 26 sectors, with 73% opposing them on their high street compared to 15% supporting them. Bookmakers were the only shop that saw a majority opposed to their installation.

Figure 11: Brits want to see fewer bookmakers on their high streets

Responses to “Thinking about your ideal high street, which of the following types of shops would you want or not want to see on it?” as percentage



Source: YouGov

Politicians echo their constituents' views, including a majority of Labour MPs. Prior to the 2024 election, 82% of Labour MPs had an unfavourable view of gambling companies, implying there is wide support both in the public and in Government for reforms to rein in excessive and harmful gambling practices.⁹⁶

DISCUSSION AND RECOMMENDATIONS:

The standard rate of Machine Games Duty should be increased in this year's budget

The Government should raise Machine Games duty on Category B Machines in the next budget, to account for the harms caused by the industry and to restrain the proliferation of gambling at harmful levels. Doing so would help correct for inconsistencies in our gambling taxation framework, while providing additional revenue for the Government.

The 2025 budget acknowledged that excise taxes on gambling should be associated with levels of harm. As the Chancellor explained, "Remote Gaming is associated with the highest levels of harm and so I am increasing Remote Gaming Duty." Remote gaming is indeed one of the most harmful forms of gambling, ranking as the most harmful of the nineteen types of activity which the Gambling Commission measures for prevalence of problem gambling.ⁱⁱⁱ Yet second, and not far behind, is casino gaming on a machine or terminal. And since the Chancellor's speech, the situation has only worsened, with more in-person gambling venues emerging and which are particularly concentrated in poorer areas. At the same time, public finances are under strain, and this report has demonstrated how machine gaming is partially to blame for public costs related to health, welfare, and crime, as well as a drag on growth and productivity.

To address these issues, this report has one central recommendation. Raise Machine Games Duty on Category B machines in this year's autumn budget.

This report has outlined a number of reasons MGD is currently set too low on Category B machines. The disproportionate level of harm associated with machine gaming is not accounted for by its current rate. Insofar as it is designed to both account for this and substitute for VAT, it is failing in both respects. This means that machine gaming is given preferential treatment by the state relative to other goods, which absolves it from having to pay VAT while paying for the health, welfare, and criminal justice responses which result from its externalities. The country further pays in the form of restrained growth and productivity. Despite reforms in the sector over the years, operators have continued to avoid levels of taxation which would account for these irregularities. Further, concentrating tax increases on Category B machines would avoid any increase in costs for pubs and other hospitality venues, which can only offer lower-risk Category C and D machines.

Currently, Category B machines currently generate £458 million per year in revenue for the Treasury in Machine Games Duty. These numbers are based on Gambling Commission data showing Category B machines showing a gross gambling yield of £2.288bn in the 2024-25 fiscal year, with tax revenue modelled at the standard 20% rate. If this were to double, bringing MGD to 40% in line with RGD, and assuming no change in activity, this would produce an additional £458 million. In practical terms we may expect operators to pass on some additional taxes to consumers, such as through worse odds, or to decrease discretionary funding for marketing, both of which would likely decrease activity. They may

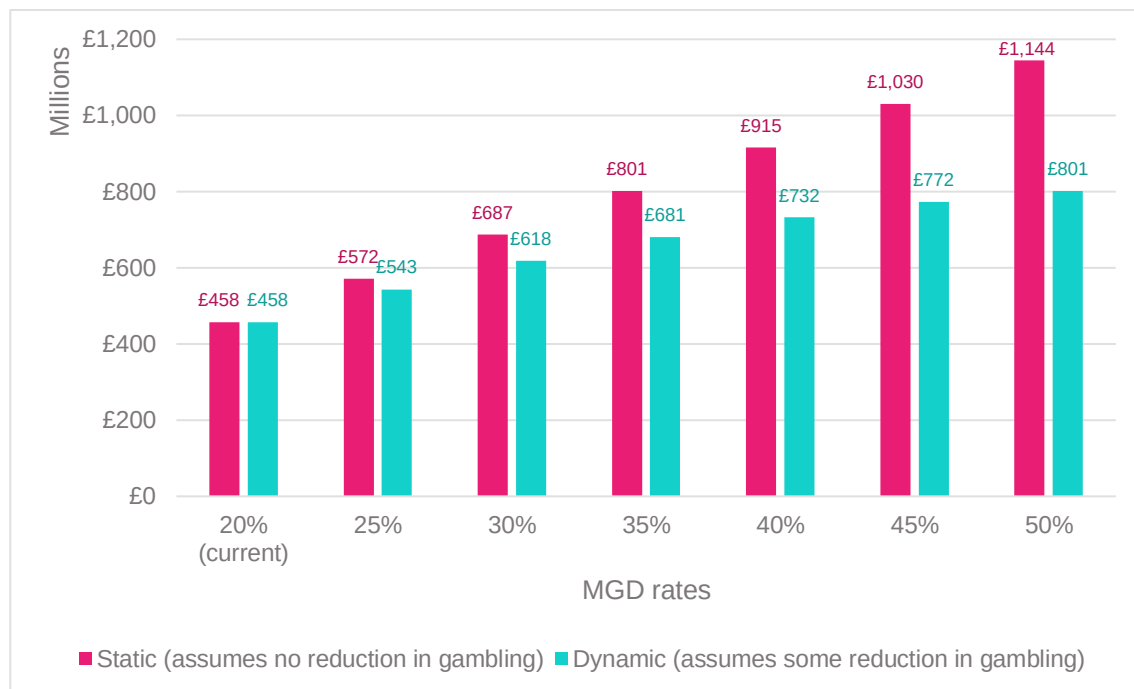
ⁱⁱⁱ This excludes betting on "non-sport live events" which sees very low levels of gambling participation, and might include someone betting on the winner of awards shows or the weather on a certain day

alternatively close certain locations, but this would benefit the British economy as net job creation, value add, and tax receipts tend to be higher in other sectors.

As discussed, we believe this would have positive effects on government finances and on economic priorities like growth, productivity, and employment. However, to account for the direct fiscal impacts of this decreased activity we also estimated dynamic effects. HMRC research suggests an own-price elasticities for machine gaming of around -1, though this evidence comes from the US, and UK-data suggests an elasticity for machine gaming ranging from -0.4 to -0.9.⁹⁷ To provide a lower-bound estimate, we assumed unit elasticity of -1, indicating a 1% increase in tax leads to a 1% decrease in activity. Even in this low estimation, the effects are dominated by higher rates, with tax revenue increasing from a doubling of MGD by £458 million in the static estimate and £275 million in the dynamic estimate.

Figure 12: Raising MGD on Category B machines to the level paid on remote gaming would generate an additional £275 to £458 million

Projected revenue from an increase in MGD including static and dynamic assumptions



Thus we estimate that doubling MGD would lead to an increase in tax revenue worth between £275 and £458 million. Every 5% increase in tax up to 50% would generate additional revenue worth on average between £51 million and £114 million.

Importantly, these lower end estimates generated from dynamic modelling do not include any increase in taxes likely to be seen in other sectors as consumption shifts. As previously explained, consumption spending on retail or food services tends to see higher tax revenue than the equivalent spending on gambling, so we expect revenue from other goods and services to rise.

We have avoided recommending the precise rate at which MGD should be raised. This answer depends on a number of factors including the priorities of policymakers and the extent to which they wish to increase revenue or decrease harm. However, it is important to

reiterate here that machine gaming generates billions in economic costs annually and over £600 million in direct fiscal costs before accounting for its avoidance of VAT. To properly function as intended, MGD must both accommodate the cost of its harm while also substituting projected revenue from VAT.

Doing so would help correct a fundamental disconnect in our gambling taxation framework, which fails to account for differing levels of harm between different gambling activities. Tax reforms made over multiple parliaments have been layered overtop of one another, making it difficult for users to understand the complex market and the varying stratifications within it. As previously argued by the SMF, there is scope for the Government to fully review gambling taxation to explore urgent questions asked by this paper and which extend beyond them, as previous governments have pledged to do. In the meantime, an increase to the rate of MGD, such that it accounts for its fiscal harms while substituting for VAT, would help increase revenue and work towards a number of Government objectives related to health, growth, productivity, housing, welfare, and employment.

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