24 March 2021

NSW Treasury
52 Martin Place
SYDNEY NSW 2000

By Hand
Also by Email: tax.consultation@treasury.nsw.gov.au

Dear Sir/Madam,

Point of Consumption Tax Review

We refer to the statutory review (**"the Review"**) of the Point of Consumption tax (**PoCT**) to be undertaken by NSW Treasury in accordance with the provisions of the *Betting Tax Act 2001* (NSW) and the Consultation Paper issued by NSW Treasury in relation to the Review.

We thank you for providing Greyhound Racing New South Wales (**"GRNSW"**) the opportunity to make submissions in respect of the subject matter of the Review.

We **enclose** GRNSW's submissions in response to issues raised in the Consultation Paper, for consideration.

We would be pleased to respond to any queries you may have in respect of our submissions, or those of other interested parties.

Yours sincerely,

Tony Mestrov
Chief Executive Officer
Greyhound Racing NSW

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1. EXECUTIVE SUMMARY

This document is Greyhound Racing New South Wales' (**GRNSW**) Submission to the statutory review of the Point of Consumption Tax (**PoCT**).

GRNSW submits that the key aims of the introduction of the PoCT in 2019 have been met but there are areas within which adjustments ought to be made to allow GRNSW to further its principal objectives under the *Greyhound Racing Act 2017* (NSW).

The key points of GRNSW's submissions are as follows:

- that a greater share of PoCT revenue, namely 80%, be redirected back to the three racing codes in NSW to fund welfare programs whilst ensuring the long-term sustainability of an industry facing its most important funding challenge;

- that the current PoCT rate of 10% should not increase for the reasons outlined in these submissions;

- that to meet its obligations under the *Greyhound Racing Act 2017* (NSW) and deliver its strategic plan objectives of a responsible, competitive and sustainable industry for NSW greyhound racing's participants and greyhounds that funding inequities must be addressed;

- that distributions to GRNSW from TAB revenue via the Racing Distribution Agreement, Tax Parity, and PoCT should be reformed to fairly reflect the market contribution of greyhound racing to the raising of those revenue streams and, if that is achieved, that GRNSW should remain responsible through Government for paying the Greyhound Welfare and Integrity Commission's (**GWIC**) reasonable operating costs.

2. NOTES

Purpose:

These submissions are made pursuant to the Call for Submissions made by NSW Treasury in its Consultation Paper released in February 2021.

Complementary Purpose:

These submissions are designed to complement, not displace, various oral and written submissions made by GRNSW to Government in the normal conduct of GRNSW's business. As such, they should be interpreted as an adjunct to the various views, requests and suggestions made by GRNSW from time to time.

Publication:

GRNSW consents to these submissions being published.

3. HOW HAS THE TAX PERFORMED AGAINST THE OUTCOMES SUGGESTED IN THE CONSULTATION PAPER?

Prior to the introduction of the PoCT, the NSW wagering tax only captured bets placed with the totalisator licensee in NSW, TAB, and did not capture interstate-located online wagering operators offering bets to customers based in NSW.

The PoCT has rebalanced this disconnect between wagering operators' place of operation and taxation, and in doing so has delivered commercial benefits to GRNSW at the current rate of 10%.

GRNSW receives only 2% of the PoCT's 10% tax rate based on a distribution formula from the 1998 Intercode Deed which results in the greyhound industry receiving just 13% against a greyhound wagering revenue market share of at least 21%. Therefore, the PoCT has in actual effect only in part compensated GRNSW.

The compensation GRNSW receives is disproportionate to the contribution of PoCT collected from greyhound racing in NSW and is thus not aligned to the original intention of Government in 2018 to compensate stakeholders in the industry for the impact of PoCT and its funding of industry stakeholders.

The growth in greyhound racing recently, and since implementation of the distribution formula in the 1998 Intercode Deed, has led to a corresponding increase in costs associated with this growth to maintain best practice regulation, animal welfare and industry governance, improving prizemoney returns to participants and maintaining our regional economic and social contribution.

While the intention of a 2% distribution of PoCT receipts to assist the industry has been a positive contribution, its current apportionment across the racing codes does not match the increased costs of greyhound racing NSW and is not a sustainable formula if the NSW greyhound industry is to continue to grow, operate and maintain best practices.

Key Point: GRNSW submits that any increase in the current rate of 10% could have a negative and damaging impact on its other revenue streams, a concern which will be outlined in latter parts of this submission.

GRNSW also submits that the NSW Government's introduction of the PoCT as a 10% tax on all wagers placed by NSW residents, has closed the loophole in NSW tax wagering tax laws.

4. IS THE CURRENT TAX RATE AND TAX-FREE THRESHOLD APPROPRIATE? WHY OR WHY NOT?

GRNSW firmly submits that the current PoCT rate of 10% **should not increase** for the reasons outlined below:

A. Any increase in the PoCT *exponentially reduces* GRNSW's capacity to control the one pure revenue stream via the Race Fields Information Use (**RFIU**) Product Fee Model.

B. Actual wagering data analysis highlights the immediate negative impact PoCT has had on NSW wagering activity up until the start of the COVID-19 pandemic. The PoCT rate should not increase beyond 10% because the full impact of the PoCT on the delicate wagering ecosystem has been considerably disrupted by the COVID-19 pandemic, thus making it impossible to draw positive conclusions that would support an increase to the rate.

C. Australian racing is already the most highly regulated and taxed in the world: bookmakers must contend with five taxes: Company Tax, GST, RFIU Product Fees, PoCT and Payroll Tax.

D. Victoria recently reviewed its own point of consumption tax and settled on a 10% tax rate. Any deviation away from this benchmark level will result in a loss of competitive advantage by NSW and accentuate the negative collateral impact of greater taxation on NSW wagering outcomes. Observations of a 15% PoCT and the subsequent harm to the South Australian racing industry need to be taken into account.

E. Racing faces challenges to its long-term sustainability; GRNSW believes there is a strategy involving PoCT that can ensure the long-term viability of the racing codes and the challenges posed by welfare and its associated cost.

A. Any increase in the PoCT *exponentially reduces* GRNSW capacity to control the one pure revenue stream via the Race Fields Information Use (RFIU) Product Fee Model

Since 2009, Principal Racing Authorities (**PRA's**) like GRNSW, Racing NSW and Harness Racing NSW have been able to apply autonomous RFIU Product Fee structures to wagering service providers as the cost for allowing the operators to wager on their racing content. These fees can differ depending on the PRA's fiscal requirements and current background funding arrangement with their incumbent state-based TAB. RFIU fees have been steadily rising over time to account for a shift in market share away from totalisator operators.

The market share dynamics of racing wagering across the past decade have showcased a substantial shift away from state-based TABs towards corporate bookmakers. This has been off the back of innovation within the digital landscape, propelling strong growth via new channels such as mobile devices. The TABs haven't been as successful in their approach and, as such, have lost considerable market share over time, placing pressure on the major funding mechanism of the racing industry. The flipside has been the surge in corporate wagering activity and subsequent RFIU fees that for many PRA's have overtaken the TABs as the primary revenue stream for racing.

There is only so much the racing industry can charge bookmakers via product fees for use of their content. Like in any industry, there is a tipping point where if the tax burden is so significant, future outputs are seriously curtailed. This is even before consideration is given to other major taxes that bookmakers must pay including company tax, payroll tax, GST and the PoCT.

The greater the taxation burden placed on Australian bookmakers' racing product, the greater the incentive for these bookmakers to steer their client base away from betting on racing to other betting products. Even though PoCT encompasses all sport bets placed by NSW residents, the fundamental difference is that racing is reliant on wagering for funding, while many other sports are not. Therefore, the correct balance must be struck and maintained. An increase in PoCT would not only divert potential

RFIU funds away from racing (currently PoCT only returns 20% of revenues back to racing and then on top, greyhound racing does not receive distributions based on market share), but also dilute the PRA's ability to drive product fee revenue *<u>where it receives 100% return on those fees</u>*.

PRA's, like GRNSW, must be able to maintain absolute autonomy over the scope upon which they can implement and trigger such important revenue levers. It would seem incongruous to have PRA's Product Fees replaced by a Government imposed tax that only returns a fraction back to racing.

Key Point: Whilst GRNSW supports the need to 'level the playing field' by imposing a tax derived from NSW residents' wagering activity, this tax must not be to the detriment of racing. Any upward move in the PoCT rate from 10% has an extremely high probability of destabilising the racing industry and its most important funding mechanism.

B. Actual wagering data analysis highlights the immediate negative impact PoCT had on NSW wagering activity up until the start COVID-19 pandemic. The PoCT tax rate should not increase beyond 10% because the full impact of PoCT on the delicate wagering ecosystem has been considerably disrupted by the COVID-19 pandemic, thus making it impossible to draw plausible conclusions that would support an increase to the current tax rate.

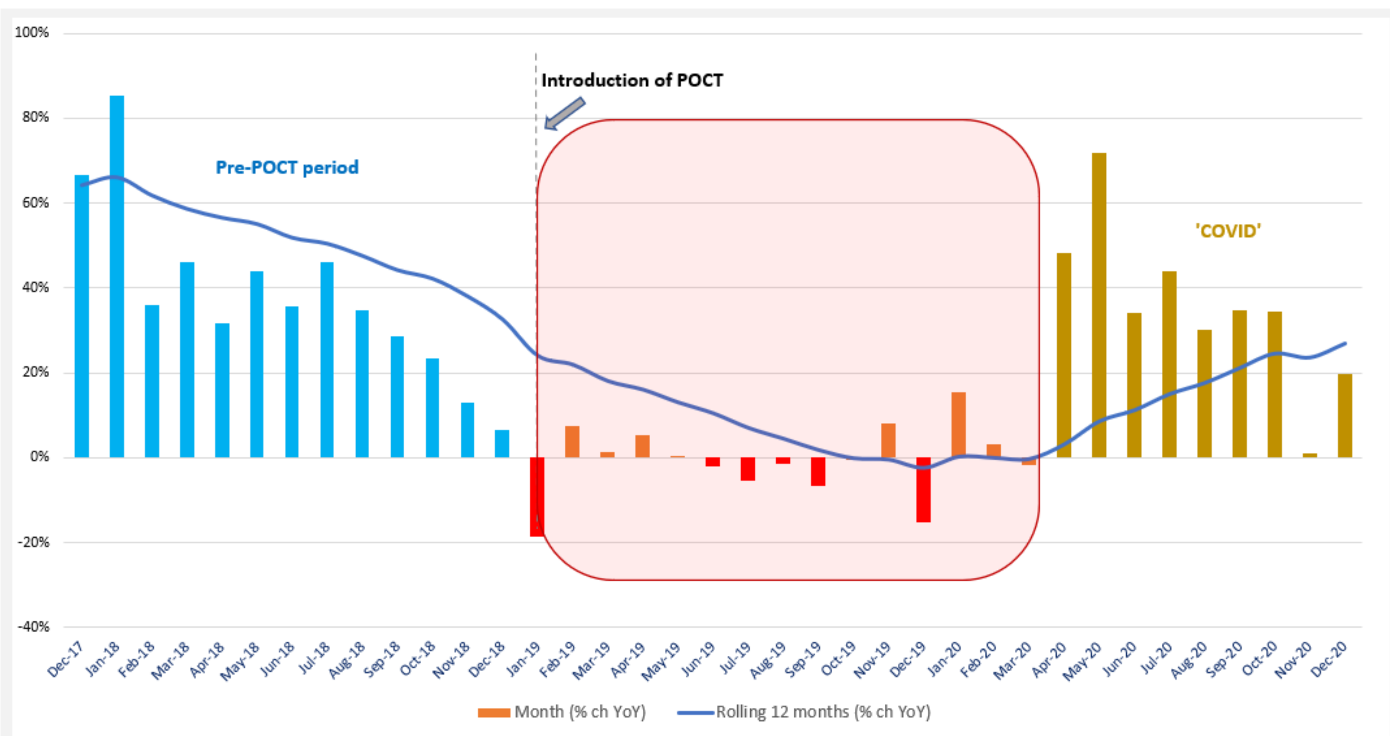
Below is a graphical illustration of wagering growth by NSW residents on all three codes of racing by a large percentage of racing wagering market share, representative of three key phases:

(i) Pre-PoCT (Prior to January 2019);

(ii) Introduction of PoCT and the ensuing 15 months; and

(iii) Commencement of COVID-19 pandemic from April 2020 onwards

Impact of PoCT introduction



Pre-PoCT period: The 12 months prior to the introduction of PoCT represented incremental growth in wagering from NSW residents. This is illustrated in the graph above, with a highly competitive marketplace driving digital engagement and wagering uplift through FY17, FY18 and the first half of FY19.

Introduction of PoCT and the ensuing 15 months: The immediate impact of the introduction of PoCT on NSW residents' wagering is clearly illustrated in the graph. There is no doubt that bookmakers were cautious as to how the tax would impact their activity and their response was to offer lower odds and increase their starting price percentages, effectively passing the tax on to their customers. This has a two-fold impact on wagering turnover:

(a) punters are dis-incentivised to bet on racing given the lower (worse) odds offered by bookmakers; and

(b) those punters who do bet are wagering into higher margins and percentages for bookmakers, meaning that over shorter periods of time, they will churn out their betting bank quicker.

Given the steady upward creep of taxes and fees on racing wagering, one real consequence is that bookmakers factor these costs into the margins via odds on offer to their customers. Simply put, the tax burden is shifted onto the customer. There is no shortage of sports betting options competing for the wagering dollar. If taxation dictates that there is a more profitable avenue for bookmakers, then they will naturally steer their client base towards those sports. This is why operators such as the TAB have struck commercial deals with sporting organisations such as the NBA, to stimulate a growing market but also one where taxes imposed on wagering activity are either negligible or non-existent – so profitability is maintained. The migration of wagering from tote pools to fixed odds betting across the past decade and a half has also seen a rise in the price elasticity of customers as they become more sophisticated. If the perceived value is eroded by excessive taxation, the ever-increasing band of educated punters will take their activity somewhere else, or simply stop wagering altogether. Given that this cohort of punters are generally high turnover individuals, neither scenario is one that racing can afford to entertain.

Churn is a vastly under-estimated but crucial stimulus for wagering turnover. It is the ability of the punter to recycle their money from their wagering activity. If the punter is forced to bet into higher margin markets by virtue of increased taxes being passed on by bookmakers via lower odds, the punter will invariably receive less over time from their successful bets, meaning they will experience a net lower turnover level for any given period.

Graphically, this is illustrated in the first period of PoCT's application to NSW residents between January 2019 and March 2020 where growth retreated to zero and, in some months, was negative YoY.

This snapshot of time is of considerable concern to racing authorities as very distinct parallels can be drawn between the tax's introduction and the observed anchor on growth.

It is on this basis that GRNSW submits that it would be diligent for the Government to maintain the PoCT tax rate at the current level of 10% as a worst-case scenario.

Commencement of COVID-19 pandemic from April 2020 onwards: The COVID-19 virus gained considerable momentum in February and March 2020 forcing countries around the world to take drastic action. By virtue of being an island nation, Australia had some significant strategic advantages in the battle with COVID-19, none more so than its isolation. The racing industry was able to move swiftly to introduce strict safety protocols and ensure the continuation of all three codes despite other sports being stopped.

This meant that for a prolonged period, racing was the only sports entertainment product in the market. The wagering peaks are captured graphically in April and May 2020 where YoY wagering growth surged.

During COVID-19, the Federal Government embarked on an extensive program of economic stimulus, via the Job Keeper and Job Seeker programs. Others who remained in active and ongoing employment worked from home or on reduced hours for extended periods. Interstate and international travel restrictions meant

Australians couldn't go anywhere for long periods of time and, as such, had increased reserves of disposable income. States like Victoria entered into prolonged periods of full lockdown. Gambling increased in popularity as people sought an entertainment outlet and this drove the exceptional levels that have been seen since April 2020.

Key point: GRNSW firmly believes that all wagering data relating to the COVID-19 period (April 2020 to present) should be disregarded for the purposes of this Review. This time period does not reflect 'normality' from which diligent conclusions can be extracted or inferences drawn from observations of wagering data.

(c) Australian racing is already the most highly regulated and taxed in the world and bookmakers must contend with five taxes: Company Tax, GST, RFIU Product Fees, PoCT and Payroll Tax

The Australian racing industry has been deeply intertwined with Australian society since the 1800s. It is one of the largest industries for employment and generates exceptional economic activity that drives notable contributions to GDP. There are many challenges to racing's long-term sustainability, none more so than welfare and the associated costs of the introduction of world-class programs that adhere to societal expectations around animal racing.

Wagering is the most important revenue stream to the racing industry. If there is no wagering, there is no industry as we know it. Bookmakers combine the aggregated costs on each racing product they offer and some already take measures subduing activity on the most expensive racing content. Excessive taxation curtails wagering growth and leads to longer term declines in overall activity. In this submission, GRNSW have already stated the impact of the loss of autonomy an increase in the PoCT rate will have on the industry's ability to control the most vital revenue avenue – RFIU fees.

Key Point: GRNSW submits that an increase in the current PoCT tax rate will result in considerable damage to a PRA's autonomy and the future RFIU product fee revenue streams in an already highly taxed environment

(d) Victoria recently reviewed its own PoCT tax rate and settled on a 10% tax rate: any deviation away from this benchmark level by will result in a loss of competitive advantage by NSW and accentuate the negative collateral impact of greater taxation on NSW wagering outcomes. Observations of a 15% PoCT and the subsequent harm to the South Australian racing industry need to be taken into account.

The Victorian Government recently reviewed its own PoCT tax rate, entering into an extended period of consultation with stakeholders before reaching a decision. The PoCT in Victoria was raised from 8% to 10% to bring it in line with the benchmark level established in NSW.

It was acknowledged in the Victorian Department of Treasury and Finance report the *Review of the Point of Consumption Tax on Wagering and Betting* that the PoCT introduction did have a real impact on wagering on Victorian content that runs in parallel with observations outlined in the '*Impact of PoCT Introduction*' graph above.

"*There has been a reduction in the growth of turnover on racing products, which has impacted race field fee revenue, particularly for codes that exclusively use turnover in the calculation of race field fees".* It is noted that both Harness Racing NSW and Racing NSW use turnover models exclusively for their RFIU fees.

Victoria had an opportunity to implement a tax rate above the 10% threshold, and if there was genuine benefit in doing so they may have done so. Victoria arguably conducts the equal of any optimal racing product across all three codes in Australia, it speaks volumes that they did not increase their PoCT tax rate higher than 10%.

GRNSW believes that if Victoria had determined that the impact from a higher level of tax would be negligible, or that the perceived benefits would far outweigh the negative impacts, there is no doubt the tax would have been increased. The fact that Victoria was not prepared to go to a higher taxation rate should be a leading indicator to our own NSW stakeholders that the current tax rate is 'optimal'. Such a position should also discourage any potential upward move by NSW, where competitive advantage will be lost – having long-lasting negative ramifications for the NSW racing industry as a result.

It is interesting to observe the machinations of the South Australian Racing industry and how it has suffered as a result of being the first to move on PoCT, going straight to a 15% tax rate. This impost had immediate negative impacts on wagering turnover and subsequent funding, forcing prizemoney to be cut, impacting fields sizes – itself a key wagering driver – and forced many participants interstate. Jobs were lost and an industry suffered irreversible damage requiring the Government to hastily arrange a stimulus package rolled out across four years, but the damage had already been done. The South Australian example should be a warning that the detrimental impact of excessive taxation can be, and is, real.

(e) Racing faces challenges to its long-term sustainability: GRNSW believe there is a strategy involving PoCT that can ensure the long-term viability of the racing codes and the challenges posed by welfare and its associated cost

The period from 2017 to date has been a period of uncertainty and disruption due to a number of political factors and, most recently, the COVID-19 pandemic. The industry needs an opportunity to stabilise and focus on matters of importance in regard to industry objectives related to integrity and welfare, increasing jobs, education in the industry and provide for longer term forecasting of capital expenditures to improve racetracks and bolster track safety. This will not be able to occur efficiently if further disruption is created by an increase to the PoCT rate above 10%.

The racing industry faces considerable headwinds into the future. The outlier impact of the COVID-19 pandemic has masked many of the racing industry shortcomings that were playing out prior to the COVID-19 pandemic. Welfare is a non-negotiable element of racing that has been subject to intense scrutiny in recent times, given the shift in general societal views on animal racing.

There are three significant threats to racing sustainability going forward:

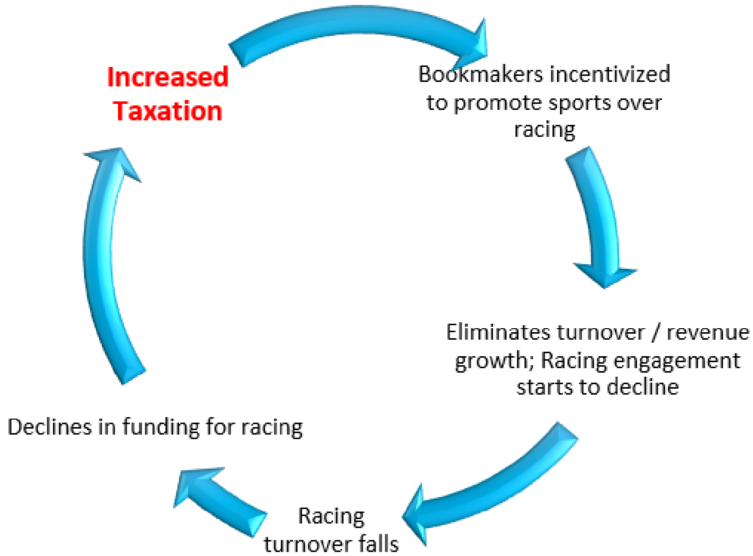
(a) sports betting;

(b) racing taxation exceeding critical levels; and

(c) welfare.

Sports betting's growth has far outpaced that of racing wagering over the past two decades. The new generations of punters differ from those prior to the turn of the century. By default, young people used to grow up with racing as a part of the mainstream narrative and, as such, any interest in wagering progressed directly into racing. Since 2000, sports betting has penetrated the mainstream and now many of the younger generation are likely to first experience wagering in the form of a sporting event, not racing.

Bookmakers play a very important part in stimulating the next generation of race wagering punters. The ability for racing to grow organically is severely limited and the majority of growth comes from the cross-selling of younger sports punters into racing. If racing becomes too expensive as a product offering for bookmakers due to the cost base derived from the multitude of taxes, the bookmakers are likely to be incentivised to steer punters away from racing. This has potential to negatively impact racing, and anyone working within the industry, as illustrated below:



If this dynamic plays out, it will place intolerable levels of funding pressure on the racing codes in the face of their greatest challenge: the ongoing funding of animal welfare outcomes.

The ABC's *Four Corners* programs in recent years have highlighted racing welfare issues and showcased how all racing codes across Australia have been susceptible to practices that are not acceptable or no longer accepted within society. Animal welfare is of paramount importance and PRA's like GRNSW have embarked on industry-leading strategies to establish new global benchmarks in animal welfare outcomes. However, such strategies are extremely costly and the racing codes are challenged to finance these projects from revenues driven by product fees alone. PRA's essentially have three choices:

(a) exponentially increase product fees – currently at very high levels globally on top of a highly taxed environment, risking the creation of the dynamic outlined above;

(b) reduce prizemoney and industry expenditure in other areas; and/or

(c) receive Government support for an outcome that delivers a higher percentage of PoCT tax receipts being returned back to racing.

The first two points will create critical damage to racing, place thousands of jobs at risk and drive down tax revenues as the industry contracts. Given racing is a major employer in regional and rural NSW where a potential downturn will have a devastating impact on local communities that can ill afford such blows, the Government must be cognisant of the threat the (a) and (b) options pose.

The third point is one that other states in Australia have realised is a perfect conduit to channel funding back to racing for welfare purposes. See section 7 of this submission. Tasmania recently committed to channelling 80% of its PoCT receipts raised back to TasRacing, with a key focal point being animal welfare.

The recent rise in the Victorian PoCT rate (from 8% to 10%) has seen **all of the increase** being directed back to the three racing codes. Currently, in NSW, only 20% of the total PoCT collected is redirected back into racing – see further in section 7 of this submission. GRNSW submits that this percentage is simply too low. The NSW Government can lock in long-term racing sustainability by a straightforward, two-pronged strategy of:

(i) keeping PoCT at a level that will not negatively impact the wagering ecosystem; and

(ii) redirecting the vast majority of revenues generated by PoCT back to the racing industry.

It is vitally important for the Government to get this balance right. PRA's must focus on building sustainable welfare strategies that procure the social licence of racing via full accountability of the lifecycle process. Wastage from animal racing is no longer tolerated. Horses and dogs need to be properly cared for across the whole lifecycle spectrum. Greyhounds live on average until they are ~12 years old and horses ~25 years old.

With 25% to 35% of all racing stock bred never making it to the racetrack and an average 'racing life' of 2 to 3 years for racing animals, it creates a significant – and costly – welfare challenge that falls squarely in the lap of the PRA's.

Given how restricted PRA's are in terms of current revenue streams and the fact that the PoCT's existence curtails pursuit of an extended product fee strategy, redirection of PoCT receipts back to racing is the major opportunity to confront this welfare challenge and ensure suitable funding for racing to achieve animal welfare objectives, which will be subject to ever increasing public scrutiny.

Key Point: GRNSW submits that a greater share of PoCT revenue, namely 80%, be redirected back to the three racing codes in NSW to fund welfare programs whilst ensuring the long-term sustainability of an industry facing its most important funding challenge going forward.

5. IS THE CURRENT TAX BASE AND DEFINITION OF NET WAGERING REVENUE APPROPRIATE?

Free bets are an important driver of wagering activity in NSW for the TAB and bookmakers. You do not have to look far to see a plethora of offers to punters on racing content, particularly on the major race day of Saturday. These offers are not restricted to thoroughbreds, with both harness and greyhounds the recipients of an ever-increasing suite of free bet offerings.

The NSW PoCT tax base currently includes free bets and the winnings derived from those bets, in its calculations. Victoria does the same.

It is worth noting that Queensland and Tasmania – whilst charging a 15% PoCT – do not include free bets in their calculations. This is important because when the free bets are included, like they are in NSW and Victoria, it means the actual rate of tax paid by the bookmakers on *Net Gaming Revenue* (free bets excluded) is between 12% and 15%. For the bigger operators, this is skewed towards the higher end of this range. Therefore, whilst it is a 10% level of taxation, it actually imposes a bigger burden on bookmakers and is actually commensurate with the 15% PoCT rate in QLD and Tasmania.

Key point: GRNSW submits that the tax base is acceptable with the inclusion of free bets but this is dependent on the PoCT rate remaining at 10%.

6. ARE THERE ANY OPPORTUNITIES FOR EFFICIENCIES IN THE COLLECTION AND ADMINISTRATION OF THE TAX?

Under the current collection and administrative arrangements, all taxpayers are required to lodge monthly returns to Revenue NSW and make any payment of any tax liabilities which may then arise within 21 days after the end of the lodgement month. However, the distribution of PoCT receipts to the racing industry only occur on a quarterly basis.

Key Point: GRNSW submits that PoCT distributions to the racing industry should be made on a monthly basis thus aligning with the collection cycle for PoCT. For tax parity an alignment of the collection and distribution cycles is a more appropriate scenario.

7. ARE THE HYPOTHECATED FUNDING ARRANGEMENTS APPROPRIATE?

Under the current funding arrangements, the NSW racing industry receives 2% of the total 10% PoCT collected with the NSW Government retaining the remaining 8%.

The 2% is distributed between the three racing codes as follows:

- Thoroughbred 72%
- Harness 15%
- Greyhound 13%

Note: The current PoCT revenue splits are based on the Racing Distribution Agreement which is a structure solely applicable to the TAB post-privatisation. The above splits in no way represent racing derived market share of PoCT receipts from the three NSW racing codes.

In terms of the overall amount reinvested into the racing industry this compares to other states (where a similar model is used) as follows;

- Victoria currently reinvests 1.5% of the 8% collected, however from November 2020 this changed to 3.5% of the total 10% collected.

- Tasmania currently reinvests 12% of the 15% collected.

- Western Australia reinvests 4.5% of the 15% collected.

NSW ranks well below the other states using a comparable model in terms of the amount of PoCT receipts that are reinvested into the racing Industry. As a result, other sources of revenue are used to deal with important issues such as industry sustainability, welfare, integrity and compliance.

Key Point: In the 2021-2022 financial year, GRNSW will spend more than $10 million on welfare which is over and above the $12 million already being paid by GRNSW to GWIC for its operational expenses. Accordingly, GRNSW submits that there be an increase in the amount reinvested in the racing industry from the current 20% of total PoCT revenue to a more equitable 80% and which should be mandated for welfare.

The amount of total PoCT revenue that GRNSW receives under current funding arrangements deprives the NSW greyhound industry of funds, which directly and improperly reduce the ability to extend and improve on the already substantial reforms being undertaken by GRNSW in relation to animal welfare.

GRNSW is the designer, funder and deliverer of all "boots on the ground" greyhound welfare programs in NSW. GRNSW desires and hopes to be able to continue in this role to expand both the breadth and scope of these programs. The recommendations of the Greyhound Industry Reform Panel of February 2017 included a stated intention that:

"If they [the Recommendations] are implemented, it will mean:

(a) A new governance framework will be put in place that builds public trust in the integrity of the greyhound industry and sets the benchmark for all other jurisdictions.

(b) The NSW greyhound racing industry will be subject to strict animal welfare regulations with no tolerance for animal cruelty.

(c) The industry will be self-sustaining and meet the costs of greyhound racing including the new governance and animal welfare arrangements.

(d) Progress will be reviewed after two years with an expectation that improved data should allow a specific target to be put in place for unnecessary euthanasia. A full statutory review would not occur until at least three years after the legislation is commenced."

GRNSW has five sources of funding:

1. TAB-derived revenue distributed via the Inter-code Deed (RDA);

2. Tax Harmonisation (Tax Parity) distributions

3. Point of Consumption Tax (PoCT) distributions;

4. Race Field Information Use (RFIU) fee income; and

5. modest non-wagering revenue.

It is well-known that distributions via the first three income streams are inequitable. They are so because the distributions from each of those streams are not market-aligned, and instead are either rooted in outdated agreements (Racing Distribution Agreement (**RDA**)), or have suffered from some arbitrary assignment of distribution (Tax Parity), or the arbitrary and inequitable mirroring of the RDA split for new Government taxation interventions (PoCT).

Incomes from the fourth income source (RFIU fees) is artificially limited and the market distorted by an arbitrary cap on RFIU fees that is unique to NSW.

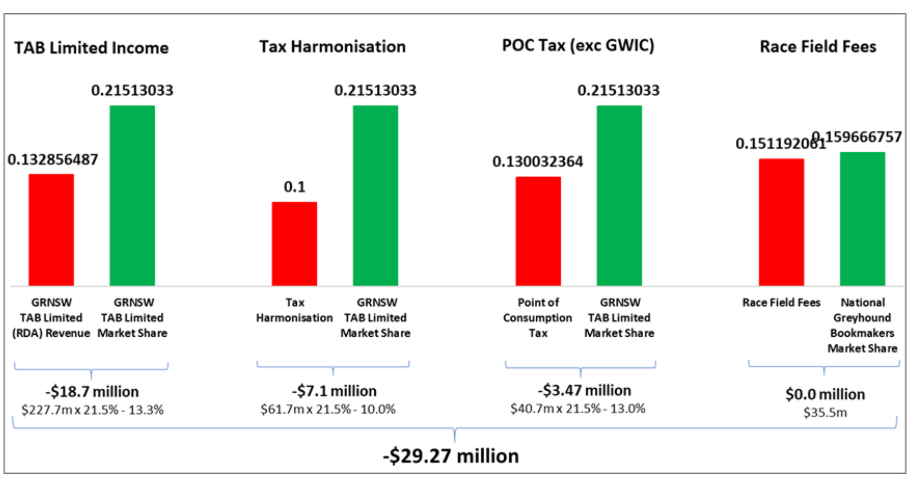
It is directly within the power of Government to fix GRNSW's inequity problems with Tax Parity and PoCT distributions, and to lift the cap on RFIU fees.

The distributions to the racing industry from PoCT were loosely based on the RDA fixed percentages under which GRNSW receives only 13%; that is, GRNSW receives only 13% which does not reflect the growth or popularity of greyhound racing, which has grown and overtaken harness racing to be the second most popular racing product in NSW behind thoroughbred racing.

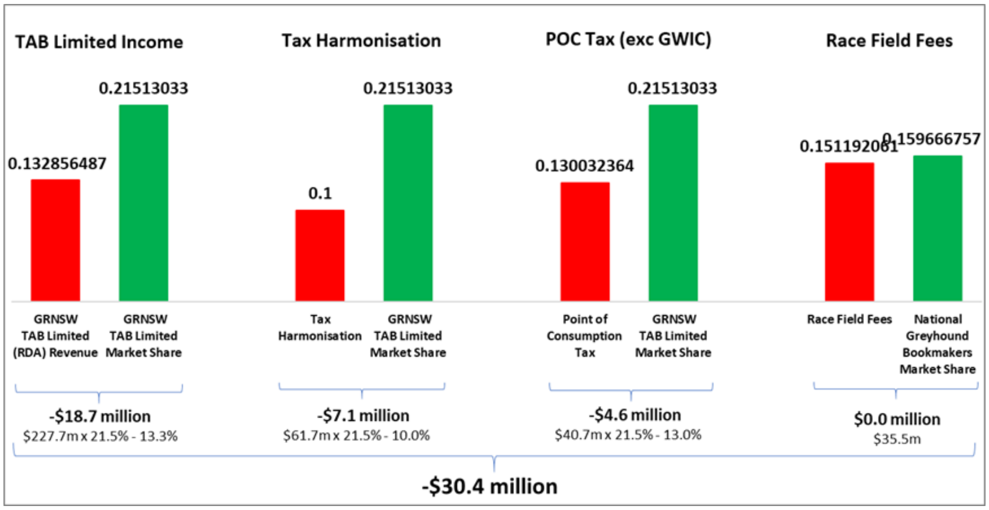
In addition, this amount does not reflect the funding requirements of establishing and operating a separate and independent commission to manage the animal welfare and integrity operations of the GWIC.

Greyhound racing is the only racing body in NSW to have a separate and independent commission to manage animal welfare and integrity operations.

In the FY19/20, as shown in the graph below, this ongoing inequity has resulted in direct lost revenue to GRNSW from the PoCT distribution of $3.47 million.



With the PoCT ranging at $3.722 million for the first half of FY21, even taking only 90% of that figure for H2 of FY, the inequity is illustrated in the graph below:



In accordance with GRNSW's submission as to the distribution of PoCT receipts, if 80% of PoCT receipts were distributed to the NSW racing industry, and based on GRNSW's market share of 13%, such a distribution would yield an equitable distribution to GRNSW as shown in the table below:

D: 2020 POCT Receipts forecast Appendix D	$203,671,230
80% back to the NSW Racing Industry	$162,936,984
GRNSW **13%** of NSW Racing Industry Split	$21,181,808

Under the current terms of section 24(1)(f) of the *Greyhound Racing Act 2017* (NSW), GRNSW is required to directly fund the costs of the GWIC.

That current statutory provision is contrary to recommendation 47 of the Greyhound Industry Reform Panel (**GIRP**), which advised that GWIC's budget "should be based on the efficient cost of performing its functions and it should seek annual funding from the consolidated fund via normal State budgetary processes." Thus, GWIC is the subject of a funding arrangement that is both contrary to the recommendations of the GIRP, and unique amongst NSW Government agencies.

That is, instead of being funded either entirely from general revenue or by special appropriation, GWIC enjoys an indemnity for its costs from a commercial entity, GRNSW. This is without GRNSW having any power to require efficiencies in the funding of its operations.

The effect of the unique GWIC funding model is that GWIC has little NSW Treasury oversight into how many people it employs, how much money it spends, or what it spends it on. The cost burden, whatever that happens to be, efficient or otherwise, is simply imposed upon a commercial operator, GRNSW, and thus on all greyhound racing participants.

These unique funding arrangements have protected GWIC from being required to provide productivity dividends, unlike nearly every other State agency.

It is GRNSW's view that the finite funds available ought to be spent wisely, and allocated to the rehoming side of welfare and the "boots on the ground" operations of GRNSW to care for greyhounds during the racing to re-homing lifecycle rather than on increased policing and compliance-type welfare, when, in GRNSW's opinion, those latter functions are already more than adequately funded.

GRNSW entirely endorses the views expressed by the Australian Government Productivity Commission on this issue in its Report on Australian Gambling Industries (2010) (Part 16.24):

Ideally, the share of TAB payments should correspond to the proportion of wagering turnover derived from each code of racing. However, in between review periods, these inter-code agreements can lead to an inappropriate allocation of funding if the share of wagering that takes place on one code of racing changes, relative to the other two (or if agreements are entered into that do not properly reflect market share in the first place). For example, greyhound racing accounts for 17 per cent of wagering turnover, but the industry receives only 13 per cent of the total payments made by the New South Wales TAB to the three racing codes. The greyhound racing industry estimates that:

… over the past 11 years because of the inequities of this arrangement, they have subsidised thoroughbred and harness racing in New South Wales by the tune of $92 million.

(sub. 248, p. 7)

Note: The wagering turnover percentage in the Report was for that year, 2010. It is now more iniquitous at 21%.

The inequity addressed by the Productivity Commission continues unabated even a decade later. In FY20, the same factor criticised by the Productivity Commission will cost the greyhound industry $18,732,753; the three distortions together – RDA/TAB, Tax Parity and PoCT – will cost the greyhound industry $29,626,005 in FY20 alone.

Key Point: GRNSW submits that the distribution to GRNSW from PoCT receipts should be reformed to fairly reflect the market contribution greyhound racing makes to the raising of those revenue streams.

GRNSW also submits that GWIC's operating costs be funded directly by Government, either:

(a) in full from the consolidated fund via normal State budgetary processes; or

(b) by special appropriation under section 13O of the *Betting TAX Act 2001* (NSW) whilst preserving the future PoCT distribution made to GRNSW.

8. What have been the impacts on the racing industry from the PoCT tax?

Please refer to Part 4 (beginning on page 4) and Part 7 (beginning on page 13) of this Submission.