Monthly Despatch

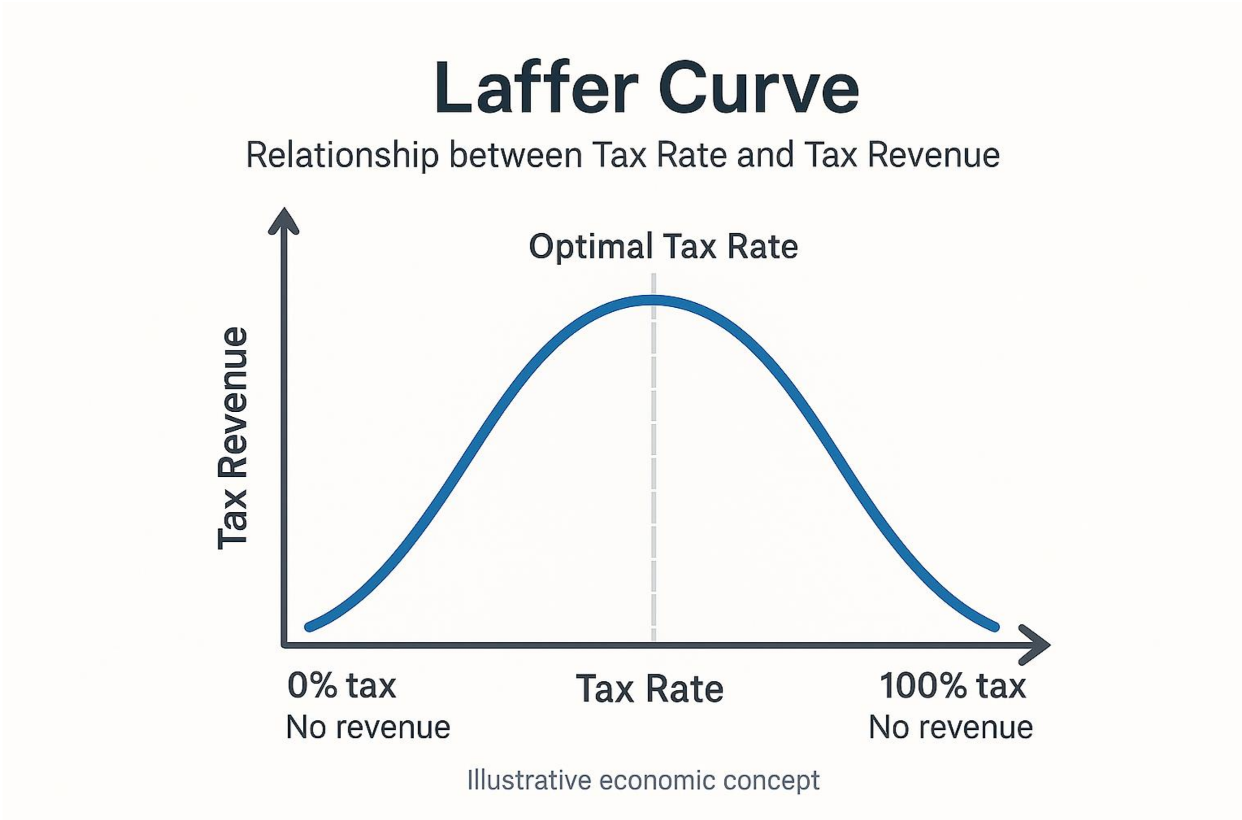
Excessive Gambling Tax and the Laffer Curve intersection with Illegal Betting

By Martin Purbrick

International Federation of Horseracing Authorities (IFHA)
Council on Anti-Illegal Betting and Related Crime

January 2026

Excessive Gambling Tax and the Laffer Curve intersection with Illegal Betting



Introduction

There is growing understanding of the increased movement of consumers from legal to illegal betting markets in many countries around the world over the past decade, but limited insight into the role of excessive taxation as a driver of this behaviour.

Recent increases in gambling tax by some governments raises the question of how high taxes can be raised before there is a major shift of consumers away from taxed, legal products (i.e. licensed in the jurisdiction where the consumer is located) into untaxed and illegal products (i.e. to operators not licensed in the jurisdiction where the consumer is located).

The fundamental challenge with gambling tax policy lies in effectively managing the highly-elastic nature of gambling markets. When legal operators face tax burdens that significantly reduce their competitiveness compared to illicit alternatives, consumers migrate to unregulated platforms that offer better odds, higher payouts, and fewer advertising as well as marketing restrictions. This consumer migration not only reduces government revenue but also eliminates crucial consumer protections and responsible gambling measures that legal operators provide.

Gambling tax is fraught with contradictions because government policy makers seek to reduce gambling harm for consumers but can become reliant upon the taxation revenue. Additionally, over-taxation of gambling may lead to consumers migrating to the illegal market, which is now easier than ever with borderless Internet-based gambling services. Because of these contradictions, “The optimal design of a tax system is a topic that has long fascinated economic theorists and flummoxed economic policymakers,” [1] certainly in relation to gambling.

The purpose of this article is to assess the impact of excessive gambling taxation as a driver of illegal betting markets and identify the point on the Laffer Curve at which this is likely to materialise.

This article contends that gambling tax is not an effective policy instrument to discourage consumers from gambling as a means of lessening overall gambling harm and can have an adverse effect as consequent price rises in legal gambling products are likely to drive consumers to the illegal market. This ultimately has an even more detrimental impact on consumers as there are no regulatory controls in illegal gambling markets and the impact of harm can be unchecked.

Considering the Laffer Curve in relation to gambling tax is a useful means of assessing where the point of optimal taxation lies so that consumers gamble legally, they are protected, and the price point of gambling does not cause them to migrate to illegal markets.

Understanding the Laffer Curve

The “Laffer Curve” is a sometimes controversial concept, but it offers a useful analytical lens through which to assess various forms of taxation and the impact on society.

The origin of the concept was a discussion about taxation between Arthur B. Laffer (then professor at the University of Chicago), Donald Rumsfeld (Chief of Staff to President Gerald Ford), and Dick Cheney (deputy to Rumsfeld) in Washington, D.C.

Laffer contends that the basic idea behind the concept is that whilst the arithmetic impact of tax rates is that lower tax leads to lower revenue and the reverse is true for higher tax, there is also an economic effect that relates to the impact of tax on work, output and employment. The consequence is that “Raising tax rates has the opposite economic effect by penalizing participation in the taxed activities.”[2]

[1] Mankiw, N. Gregory, Matthew Charles Weinzierl, and Danny Ferris Yagan. 2009. Optimal taxation in theory and practice. Journal of Economic Perspectives 23(4): 147-174.
[2] Arthur B. Laffer, The Laffer Curve: Past, Present, and Future, 1 June 2004 (https://www.heritage.org)

The concept of the Laffer Curve has a simplified basic meaning, indicating that at a tax rate of zero percent the government would collect no tax revenues, at a tax rate of 100 percent the government would also collect no tax revenues because no one would willingly work for an after-tax wage of zero, and between these two extremes, there are two tax rates that will collect the same amount of revenue: a high tax rate on a small tax base and a low tax rate on a large tax base.

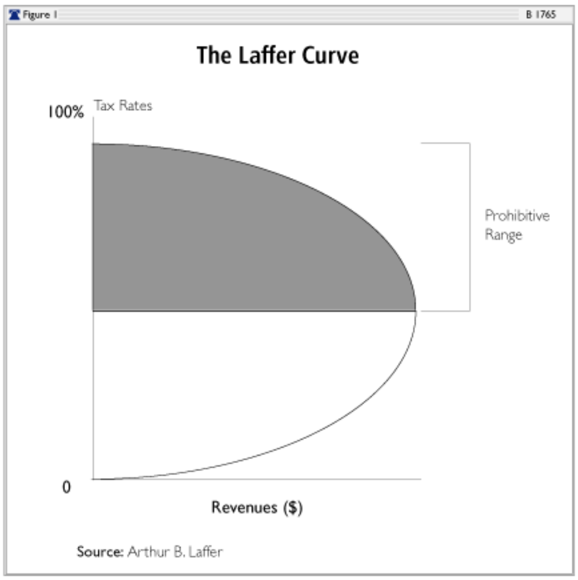


Figure One – The Laffer Curve (Source: Arthur B. Laffer, Heritage Foundation, 2004)

Laffer has pointed out that the concept does not propose that simply reducing or increasing tax rates will lessen or raise tax revenue as the impact depends upon the tax system, but he does suggest that “the ease of movement into underground activities” is a factor.

The Laffer Curve Applied to Gambling

The Laffer Curve concept is primarily focussed on the impact of taxation on work and output, that is what happens when people reach a certain tax point and their labour becomes less financially rewarding.

The impact of gambling tax on people in relation to the Laffer Curve concept involves the point at which people find the price of gambling services too high because of the impact of tax, and change their behaviour by reducing their gambling, ceasing to gamble, or changing to the illegal market where the absence of any tax provides a lower cost gambling service.

Despite the differences between tax on work and tax on gambling services, the Laffer Curve is a useful instrument to assess the optimum levels of both. Just as revenue from income taxes cannot rise exponentially from continually-increasing levels of tax, neither can revenue from gambling taxes which must also reach a critical point before declining, as excessive taxation diminishes the underlying taxable base.

The Laffer Curve has an even more pronounced effect when applied to gambling markets because gambling is highly sensitive to shifts in price (especially sports betting) and with the advent of borderless internet services, consumers can seamlessly shift from onshore (legal) to offshore (illegal) gambling platforms. Because of these two factors, the revenue-maximising point on the Laffer Curve for gambling tax is likely to be comparatively lower than that for income taxes.

The aim of taxation of gambling is to deliver stable and predictable revenue whilst supporting a well-regulated and channelled legal gambling market that provides optimum protection for consumers. If gambling tax rates go beyond an optimum level, which will differ in every jurisdiction, there is a risk that licensed operators may reduce their own costs (e.g. less marketing) and/or increase prices to consumers, which consequently may drive consumers to the illegal market where offshore operators are not compelled to protect players.

The Laffer Curve in relation to gambling tax underscores the basic idea that sustainable gambling taxation depends not on maximisation but on optimisation. Optimisation of the legal gambling market requires appropriate products and prices that can outcompete the illegal market, which must be allowed to prosper in order to protect consumers through regulation and avoid mass migration of consumers to illegal markets.

Case Studies

Denmark

The Danish government increased online gaming tax from 20% to 28% on Gross Gaming Revenue (GGR) with effect from 1 January 2021.

Betsson Group, a major gambling company in Denmark, announced that although the company had previously carried the cost themselves they would pass on the tax rise in commission calculations for operators under the Betsson Group Affiliate platform.[3] This approach by operators means that ultimately the costs of a tax increase are passed on to customers.

Prior to the tax increase, gambling data analysis firm H2 Gambling Capital assessed that "Market analysis using standard economic theory of a smooth Laffer Curve shows that any increase in tax rate would lead to a decrease in onshore channelling, but that the optimal tax rate for maximising tax revenues would be 26% to 27%." H2 explained that the Laffer Curve in Denmark is likely to be more "stepped" as small tax increases would not likely affect operator behaviour but that "at a certain point, the increase in tax rate would cause a significant shift in operators' behaviour."[4]

[3] Betsson Group, Denmark to increase online gaming tax to 28%, 29 December 2020 (https://www.betssongroupaffiliates.com)
[4] H2 Gambling Capital, Denmark Online Gambling Market – Impact Analysis, April 2020 (https://h2gc.com)

The channelisation rate in Denmark has historically been high, as measured by H2 Gambling Capital for the regulator, at 89.21% in 2022, 90.15% in 2023, and 90.29% in 2024.[5] However, legal gambling spend by consumers has fluctuated in the past few years. The Danish Gambling Authority statistics for October 2025 show a decrease of 3.4% in the total gambling spend in comparison to the same month the previous year, with a decrease in sports betting (a subset of the total gambling spend) of 46% whilst spend on online casinos rose by 24.4%.[6] We note that since the regulator's report, H2 Gambling Capital has reduced its onshore channelisation estimates for Denmark as it now takes into account all illegal gambling operators, with 2024 channelisation now estimated at around 70%.[7]

Despite the increase in gambling tax, the problem of consumer harm from gambling has not decreased (i.e. the tax increase and the consequent cost increase have not diminished gambling harm). In October 2025, Denmark's Minister of Taxation announced negotiations with other political parties on new measures to tackle gambling-related harm, including stricter marketing rules, improved prevention programmes, and expanded treatment for addiction.[8]

In this scenario in Denmark, whilst the efforts to reduce gambling harm are commendable and sensible, it is clear that the increase in gambling tax from 2021 has not had the desired impact of reducing gambling harm as consumers have not been deterred from gambling, and potentially may have worsened the problem as some consumers are likely to switch from the legal to the illegal market where there are no responsible gambling controls in place.

Netherlands

In the Netherlands Government budget in September 2024, the Dutch Ministry of Finance presented legislative proposals to gradually increase the Betting and Gaming tax from 30.5% to 34.2% in 2025 and to 37.8% in 2026.[9] In August 2025, the Royal Netherlands Gambling Authority (KSA) announced that although the tax increase to 34.2% in January was intended to increase government tax revenue this objective had not been achieved and the gross gaming revenue (GGR) had in fact declined. Michel Groothuizen, chairman of the KSA, stated that:

The measures we have taken to offer players more protection have made it financially more difficult for providers…A financially driven measure like gambling tax is at odds with the policy objective of offering players more protection. If we want to offer players a protected gaming environment in the future, this requires serious, responsible providers. A financially sound, legal market is essential for this.[10]

5 Danish Gambling Authority, Report on Illegal Gambling 2024, March 2025 (https://www.spillemyndigheden.dk/)
6 Danish Gambling Authority, Large decrease in betting consumption in October, 9 December 2025 (https://www.spillemyndigheden.dk/)
7 H2 Gambling Capital, December 2025 [Note: Clarification was made directly with H2GC management]
8 Danish Gambling Authority, The Minister of Taxation calls for negotiations on gambling, 11 September 2025 (https://skm.dk)
9 Bird & Bird, Dutch Betting and Gaming Tax gradually increases in two steps to 37.8% in 2026, 4 October 2024, https://www.twobirds.com)
10 Netherlands Gambling Authority, Increasing gambling tax does not have the intended effect, 5 August 2025 (https://kansspelautoriteit.nl)

Strategic advisory firm Regulus Partners has commented on the tax situation in the Netherlands, in October 2025 stating that:

the January tax change has almost certainly created the conditions for this flow to the Black Market to be one way. A regulated market needs to be able to bonus at about 20% of GGR in order to even vaguely compete with Black Markets… At 30.5%, a 20% bonus rate creates an effective tax rate of 38% - a dangerously high rate that was almost certainly fuelling previous Black Market leakage. However, at 34.2% GGR, competitive bonusing costs a punitive effective tax rate of 43% - the tipping point of the Laffer Curve has been found in a Netherlands context.[11]

The Netherlands gambling industry trade organisation, VNLOK, claimed in August 2025 that €30 million less in tax revenue from online gambling was collected in the first half of 2025 than in the same period in 2024, whilst the government had expected higher revenue from the higher gambling tax. VNLOK claimed that increased tax as well as more strict regulations were making legal gambling less attractive for consumers and that half of all online gambling in the Netherlands is now illegal.[12]

In the above scenario in the Netherlands, an increase in gambling tax has led to a decrease in tax revenue and migration of more consumers to the illegal market.

Sweden

In 2019, the government in Sweden introduced a regulated gambling licensing structure to replace the monopoly position of Svenska Spel, which controlled most gambling activities, with a tax rate of 18% of GGR. In 2024, Sweden increased gambling tax to 22%. Before the licensing system was introduced in 2019, the Swedish Gambling Authority estimated that the channelisation rate was estimated to be less than 50% but by 2024 had grown to 85%.[13]

However, the Branschföreningen för Onlinespel (BOS - the Swedish Trade Association for Online Gambling) commented in September 2025 that the channelisation rate decreased from 86% in 2023 and for a long-term sustainable gambling market it should be at least 90%. In addition, data from H2 Gambling Capital was included in 2023 but excluded from the 2024 assessment and the consulting firm had recently adjusted its estimate for Sweden down from 91% to 72%.[14]

In May 2024, the BOS commissioned Copenhagen Economics to assess the impact of an increase in gambling tax from 18% to 22% and concluded that the legal regulated licensed market share would reduce by 1.2 to 2.5 percentage points, the unregulated (i.e. illegal) market would pick up those losses, which would involve 2,881 to 6,085 individuals switching to unlicensed alternatives. The BOS assessed that this would lead to more people suffering gambling harm because of the lack of consumer protection in the illegal market. Copenhagen Economics estimated that the expected

[11] Regulus Partners, Netherlands: Online Gambling – going black (email mailing list), 14 October 2025
[12] VNLOK, Financieel Dagblad: higher gambling tax, lower revenues and less player protection, 4 August 2025 (https://vnlok.nl/)
[13] Swedish Gambling Authority, Channelization rate in the Swedish gaming market in 2024, 1 September 2025 (https://www.spelinspektionen.se/)
[14] BOS, New channelization assessment from the Gambling Authority confirms Sweden's problem. 1 September 2025 (https://www.bos.nu/)

increased tax revenue calculated by the Ministry of Finance at SEK 539 million annually would actually be significantly lower at SEK 214-399 million (USD 22.9 to USD 42.7 million).[15]

The introduction of a gambling licensing system in 2019 has brought large numbers of consumers into the legal market, with strong controls such as mandatory deposit limits, enhanced identity verification, restrictions on advertising as well as bonuses, and a self-exclusion database allowing individuals to ban themselves from all licensed gambling sites simultaneously. However, the offshore illegal market reportedly continues to attract consumers because unlicensed operators typically offer a wider variety of betting markets (i.e. more varied and lower level sports), more generous welcome bonuses, higher betting limits, and a broader range of payment options including cryptocurrencies.[16]

In the above scenario in Sweden, an increase in gambling tax leads to a decrease in channelisation, a decrease in tax revenue, and an increase in gambling harm.

United Kingdom

In November 2025, the UK Government announced different changes to taxation on various forms of gambling. From April 2026, the rate of Remote Gaming Duty will be increased from 21% to 40%. From April 2027, a new rate of General Betting Duty of 25% will be introduced for general bets made remotely and online, although online bets on UK horse racing will remain taxed at 15%, in recognition that operators contribute 10% towards the statutory Horserace Betting Levy, resulting in an existing *de-facto* 25% rate for bets on UK horse races.[17]

There is some confusion in the policy objectives of raising gambling tax rates. Political lobbying for the tax increase by think tanks associated with the Labour Government positioned the increased revenue as a means of financing the extension of benefits to fund child poverty alleviation. The Institute for Public Policy Research (IPPR) stated in a report titled "Reforming Gambling Taxation: How to Lift Half a Million Children out of Poverty" in August 2025 that "Raising the £3 billion needed is achievable through fair reform of gambling taxation."[18]

The UK Government commented, when announcing the increased gambling taxes, that "Increasing gambling duties will raise over £1 billion per year to support the public finances and form part of our ambition to create a fair, modern and sustainable tax system."[19] It is apparent that the increase in gambling taxes was intended by government for general revenue raising, which detracts from the role of gambling taxes as a policy lever to protect consumers.

In October 2025, consulting firm EY modelled the impact of potential tax increases in the UK before the budget announcement and based on the assumption that any increase in tax rate is passed

---

[15] BOS, New report from BOS: the gambling tax increase creates one thousand new problem gamblers, 29 May 2024 (https://www.bos.nu/)
[16] Reuters, Understanding Licensing and Regulation in Sweden's iGaming Industry, 10 November 2025 (https://www.reuters.com/)
[17] HM Revenue and Customs, Gambling Duty Changes, 26 November 2025 (https://www.gov.uk)
[18] Institute for Public Policy Research, Reforming Gambling Taxation: How to Lift Half a Million Children out of Poverty, August 2025 (https://www.ippr.org/)
[19] HM Revenue and Customs, Gambling duty changes, 26 November 2025 (https://www.gov.uk/)

on in full to customers in the form of higher prices (i.e. reduced probability of winning or lower pay-outs) also assumed that such higher prices lead to reduced consumer demand. EY assessed that if Remote Gaming Duty was increased to 50% (which is 10% higher than the 40% announced later by the UK Government) then based on a central price elasticity (i.e. how sensitive consumers are to an increase in price) around GBP 6 billion in stakes (bets) would migrate to the "black market" (i.e. illegal) and around GBP 210 million in gambling tax would be foregone.[20]

H2 Gambling Capital (H2GC) has also published an assessment of the impact of the increases in tax. H2GC estimates that tax generation from the increased tax rates will increase by around GBP 800 million, which is less than the UK Government projection in the November Budget of "over £1 billion per year." H2GC assess that the lower than forecast revenue generated will be due to adverse behaviour, with onshore channelisation to fall to 84% as consumers shift to offshore illegal operators and the iGaming illegal market doubling in size.[21]

It must be stressed that the EY and H2GC assessments are speculative and time is required to determine the actual impact of the UK gambling tax increases, which are not effective until 2027 and hence no impact on consumer behaviour is likely to be seen until later that year at the earliest.

In the above scenario in the UK, the increase in gambling tax is forecast to lead to a decrease in channelisation, a less than projected increase in tax revenue, and an increase in migration of consumers to the illegal market.

[20] EY, Impacts of changes to betting and gaming taxation, 27 October 2025 (https://bettingandgamingcouncil.com)
[21] H2 Gambling Capital, H2 Analysis of UK Online Tax Increase Leads to Onshore Channelisation Falling to 84%, 27 November 2025 (https://h2gc.com/)

Conclusions

Gambling tax is often used as a policy lever with the intention of reducing the proportion of consumers engaging in gambling or as a revenue-raising mechanism to fund the treatment of problem gambling. Revenue maximisation, for whatever purpose, however, is not the same as market health.

As a result, there is often confused policy-making regarding the purpose of gambling taxation as well as the impact of changes in tax levels. There is also often an assumption by government policy makers, as well as think tanks advising them, that consumers faced with higher gambling taxes will simply stop gambling.

Most consumers are highly price and product-sensitive in gambling markets and when faced with major changes in price, reflected through lower odds and less chance of winning, will often migrate to illegal markets. Licensed operators may also exit the legal market because of low margins, which leaves consumers with less legal options and the potential growth of the illegal market.

The design of an optimal tax system requires building relationships with licensed operators so that the objectives of government policy makers and gambling regulators to protect consumers can be closely managed (which the gambling regulator in Denmark has tried to do). Effective channelisation to the legal market is key to success, and the measurement of this should be credible and if possible, independent from government.

Governments should avoid the gambling tax revenue trap, which entails an eventual reliance on income from this form of taxation for purposes not related to the gambling market. An adaptive gambling tax framework that can respond to changing market conditions should also be developed in parallel with effective monitoring and enforcement of the illegal market, which must now be a collaborative international effort.

Lastly, government policy makers and gambling regulators should pay attention to the Laffer Curve. Regulus Partners have stated recently that in the Netherlands "The Laffer Curve as it relates to online gambling tax rates hits somewhere between 25% and 30% of GGR, after which the Black Market starts to grow exponentially, causing tax yields to fall."[22] The experience in the Netherlands indicates that the gambling tax tipping point on the Laffer Curve can be estimated.

The concept of the Laffer Curve also provides a solution to assessing what should be optimal gambling tax rates, which should ideally be between 10 to 20% of GGR in order to retain as large a proportion of gambling within the legal, licensed and controlled market. In order to accurately assess what is optimal gambling tax, government policy makers and regulators must also accept that offshore illegal gambling markets are a reality and that if there is not a harmonised approach to tax and regulation then more consumers will migrate from legal to illegal markets.

[22] Regulus Partners, UK Budget: creating win-win, avoiding lose-lose, 28 October 2025 (email newsletter)