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The unequal effects of gambling and other sin taxes on low-income households

What you need to know

Gambling taxes are regressive in that people with lower income tend to spend more of their budget on gambling products. Therefore, they contribute more to gambling tax revenues. Using data from the 2014 Household Budget Survey in Italy, the researchers compared how regressive gambling taxes are to other consumption taxes, especially taxes on other sin goods (i.e., cigarettes, beer, and wine). In the short term, based on income, gambling taxes were the most regressive of all the sin goods. In the long run, based on the amount of money spent, gambling taxes were less regressive than cigarettes and beer. However, gambling taxes were still more regressive than the consumption taxes of some other goods. Despite the focus on the Italian context, the findings of this study could offer insights for other countries. The results highlight the need to control the social costs of gambling and offset its unequal effects on vulnerable groups.

What this research is about

Legal forms of gambling have been expanding in Italy since 2003. In 2017, tax revenues collected from the gambling sector increased to more than 10 billion euro, which was about 2% of the total tax revenues. Italy's gambling market is now the largest in Europe. There are concerns that gambling taxes have different effects on different population groups, raising issues of inequality. In particular, people living in poverty are more attracted to gambling in the hope of changing their economic situation.

Sales taxes on most goods are regressive in that people with lower income spend more of their budget on them. Certain goods, namely alcohol, cigarettes, and gambling, are deemed 'sin goods' due to the harms that can arise from their excessive use. They are subject to sin taxes which are under different regulations from other consumption taxes (e.g., clothing, vegetables, meat, and fish). The aim of this study was to examine the economic effects of gambling taxes in Italy. It compared how regressive gambling taxes are to other consumption taxes, especially sin taxes on cigarettes, beer, and wine.

What the researchers did

The researchers used data from the Household Budget Survey (HBS) in 2014. The HBS is an annual survey of household spending on goods and services in Italy. It also asks for the demographic and socioeconomic characteristics of each member of the households, such as gender, age, education level, and employment. The 2014 survey collected data from 16,804 households.

The HBS dataset did not have any data on income. Therefore, the researchers matched income data in the Statistics on Income and Living Conditions (EU-SILC) survey to the HBS survey. Matching was done according to five categories of workers: employed full time, self-employed full time, employed part time, self-employed part time, and pensioners. This method allowed the researchers to attribute an income for each individual in the HBS survey.

The researchers used two-part models to estimate the amount of taxes paid if the household had at least one gambler. In the models, they included socioeconomic factors that could contribute to gambling, such as education. The models estimated the amount of gambling taxes paid by looking at income and money spent on gambling. Income offered a short-term perspective as income level could change (e.g., decrease due to sickness or increase due to promotion). In contrast, the amount of money spent on a product was generally more stable and offered a long-term perspective.

What the researchers found

About 17% of the households gambled in the year 2014, making gambling less common than the purchase of other sin goods. In general, households spent more on tobacco and alcoholic products than on gambling. Households in the lowest income level spent more of their budget on gambling than households in the top income level. Similar findings were found for the purchase of cigarettes, beer, and wine.

When measured in the short term by looking at income, gambling taxes were the most regressive compared to other sin taxes on cigarettes, beer, and wine. However, those sin taxes were still more regressive than other consumption taxes, such as vegetables. These results suggest that households with lower income spend a much higher percentage of their income on gambling and other sin goods. As a result, a larger portion of their income is subject to gambling and other sin taxes.

Over the long term, based on the amount of money spent, gambling taxes were less regressive compared to cigarettes and beer. However, gambling taxes were still more regressive than several consumption taxes. Taxes on wine, clothing, and recreational goods were not regressive in the long term.

Several socioeconomic factors were found to be connected to gambling. In particular, people with lower education and those without a property house were more likely to gamble. People who were gamblers were also more likely to drink and smoke, suggesting the likelihood of multiple addictions. These results suggest that people living in vulnerable conditions are most attracted to gambling. People who already contribute more to gambling taxes are also likely to contribute more to other sin taxes.

How you can use this research

Although this study focuses on the Italian context, the findings could offer insights for other countries. The findings could be used to support actions aimed at controlling the social costs of gambling. Knowing how regressive gambling and other sin taxes are, policies could be developed to help offset the unequal effects on vulnerable groups. For example, sin tax revenues could be transferred to initiatives to help low-income people and combat problems associated with the use of those goods. Policies could also take into account the gambling environment and avoid increasing the demand for gambling.

About the researchers

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