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Lottery winnings: the winner is the state – taxation of lottery winnings should change

Dear Sir or Madam,

A legislative change in tax law is supposed to no longer allow lottery winnings to be subject to tax, so that they stand on equal footing with winnings made through casino gambling, which are tax-free. Let us analyse the Swiss lottery.

The annual report states: "the gross lottery revenue (GLR) represents the total sum of players' stakes minus the winning amounts of the prize categories." This means the payout ratio is not published, and is consequently in breach of the accounting principle of gross statement of returns.

The payout ratio of total winnings is roughly around 50 percent. "[...]the findings remain unchanged: the lottery is not worth it, and if, then only in absolutely exceptional circumstances. The reason is mainly that only 54.5 percent of entries are returned to the participants, which means the expected winnings are way below the entries. The overwhelming majority of the remaining 45.5 percent go to cantonal trusts leading cynics to compare the lottery with a (voluntarily paid) tax." (Source: Tagesanzeiger, 23/08/2014).

Whereas roulette has a clear-cut structure of winnings payments, where stakes and winnings are well-known thanks to a transparent methodology; the payout ratio of the winnings of the lottery is determined via resolution, which inevitably leads to the lottery company making a profit. The incentive to play the lottery is winning millions without a comprehensible relationship between bet, risk and winnings.

What is happening with the reported turnover?

The annual report states in detail that more than half a Franc placed as a bet goes back to the lottery winners. A third of the turnover generated goes to charitable causes, the rest is used to cover expenditures. The turnover stated in the annual reports has been between CHF 421m and CHF 599m (2003 – 2017), which represents only around 45%. Thus the average turnover is around CHF 1bn per year, with an upward tendency.

Included in the operating costs are the salaries for around 200 employees and the distribution costs. The seven-member board of directors in total received a compensation of CHF 160'479 in 2016 (CHF 147'806 the previous year).

Currently lottery winnings are subject to tax, and the tax for the jackpot is between 25 and 35%, depending on the canton. Thus in total around 3/4 of the gross revenues go to the state, making it the clear-cut lottery winner. Those tax-free lottery winnings below CHF 50 are nothing but a drop in the ocean in these statistics. Now there are provisions to make lottery winnings exempt from taxation, which would be a just and fair solution. However, a special tax concession it is not. Lottery winnings had been exempt from tax until the end of the last millennium.

Swisslos, the Swiss lottery company, always points to the good causes it supports. Around 90% of its net profits are transferred to cantonal trusts and then from there on to the Sports Toto Company.

Here is how it goes: six numbers between 1 and 42 are selected, and now on top of that, a lucky number – between 1 and 6 – must be marked with a cross for each bet. One bet costs CHF 2.50 per draw, with a minimum number of two bets to be placed. Possible fees are already included in that price.

The winning chances are as follows:

Prize category	Number of correct predictions	Winning probability 1 in...(in %)	Average expected win
I	6 plus lucky number	31.474.716 (0.0000032%)	
II	6 without lucky number	6.294.943,20 (0.000016%)	CHF 1.000.0004
III	5 plus lucky number	145.716,28 (0.00069%)	CHF 5.000

Source: Wikipedia

The probability of winning the lottery jackpot is smaller to that of being struck by lightning. As being struck by lightning is such a rare occurrence, it is often used as a comparison with events that are exceptional. With a probability of 1 per 3'000'000 persons, a lightning strike is indeed very rare. Nevertheless it is still 176 times more likely than winning the lottery jackpot (Source: kelbet.de).

Conclusion

Playing the lottery is not worth it. The likelihood of winning bears no relationship whatsoever to the bet. The desire to play the lottery is fed by the regular publication of the current level of the jackpot.

Whereas the lottery is scrimping with a meagre payout ratio of 55% of winnings to stakes, which has been determined by resolution, it is considerably higher in roulette. Including the zero, the casino has a house edge of $1/37 \times 1/2 = 1.35\%$ on all bets on single numbers. As the profit ratios for all bets on multiple numbers have been calculated as if zero did not exist, i.e., as if roulette only consisted of 36 numbers, the house edge with bets on multiple numbers is $1/37 = 2.70\%$. Thus the payout quotas are 98.65% and 97.30% respectively. (Source: Wikipedia)

Thus the payout ratio for roulette in a casino is several times higher than that of the Swiss lottery. Through the state monopoly with the lottery, the state ensures it receives a considerable financial contribution, whereas casinos are drastically taxed with profit taxes of up to 98%. Due to the strong progression, it can be worthwhile leaving the casino closed for several days, as the fiscal burden increases disproportionately.

Gambling addiction prevention is mandatory for supervised casinos. With the Swiss lottery, it not difficult to hand in special system tickets at CHF 840, which would make it a monthly expenditure of CHF 8'450, yet nobody checks whether the player can afford such expenses. The same is not the same.

With the lottery, the winner is the state, and so it is with casinos. Save the money.

Kind regards

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