H2 Analysis of UK Online Tax Increase Leads to Onshore Channelisation Falling to 84%

27 November 2025

Following announcements made during the UK Budget, UK remote gaming duty (RGD) will almost double to 40% of GGR (from 21%) as of April 2026, and remote sports betting duty will increase from 15% to 25% of GGR from April 2027 (although remote horse race betting duty will remain at 15% of GGR).

A number of operators have released statements regarding the impact of this on profitability, with various estimates of mitigation, but the lion's share of cost cutting will come from lower bonusing (tax is paid on GGR including bonuses / free bets, rather than the GGY reported by the UKGC) and a reduction in marketing spend.

H2 has conducted analysis on the impact of these taxes, making a number of assumptions over the change to bonusing levels, reductions in underlying post-bonus GGY, and the shift of a portion of this to offshore operators. Below, we walk through this analysis on a step by step basis, and compare our conclusions to the official estimates released by the Office of Budget Responsibility (OBR) which is the body that gives "independent and authoritative analysis of the UK's public finances".

The key conclusions are:

- **Direct tax generation from RGD and betting duty will increase by c.£800m, only half of the £1.6bn 'static' benefit of the increased tax rate, due to adverse behavioural change**

- **Onshore channelisation falls to 84% as a portion of reduced onshore spend shifts to illegal operators – with iGaming onshore channelisation falling to 80%, as the illegal market doubles in size**

Impact of Tax Rate Increase on Onshore Market and Tax Take

As a starting point, we take an estimate of the GGY for sports betting and iGaming for the fiscal year 2027/28 (FY28) – the first year when both the increased sports betting and iGaming taxes come into effect. This is based on the reported FY25 data released by the UK Gambling Commission, taking into account H2's proprietary growth forecasts before the tax change.

H2 forecasts that, in the absence of the tax changes, in FY28 the online sports betting (excluding horse race betting) market would generate GGY (GGR after bonuses) of £1,813m. This is 3% decline on the number reported for FY25, however FY25 was boosted by a record high GGY margin. H2 forecasts iGaming GGY (prior to any tax rise) of £5,905m – an increase of 14% on FY25.

To convert this to GGR, H2 assumes online betting bonuses of 8% and iGaming bonuses of 17%. The iGaming bonuses have been estimated using assumptions for large and smaller-scale operators. Using the current reported RGD, this implies bonuses of c12%, which H2 believes underestimates the levels of bonusing in the market. Therefore, H2 assumes 12% of bonusing for larger operators, and 25% bonusing for smaller operators – leading to a merged level of 16.8%.

Fig 1: iGaming Bonusing Rate / GGR vs GGY

FY28 £m	Large Operators	Small Operators	Total Market
Gaming GGY	3,956	1,949	5,905
Gaming GGY	67%	33%	100%
Bonus Rate	12.0%	25.0%	16.8%
Gaming GGR	**4,496**	**2,598**	**7,094**
Gaming GGR	63%	37%	100%

Source: H2 Gambling Capital, 2025

This puts the GGR of the iGaming market at £7,094m, which combined with the £2,044m of sports betting GGR (excluding horse race betting, which is not subject to an increase in tax) equates to a total market GGR of £9,138m.

Fig 2: FY28 Online Sports & iGaming GGR vs GGY (pre-tax increase)

FY28 £m	Sports Betting	iGaming	Sports & iGaming
GGY	1,881	5,905	7,785
Bonus rate	8%	17%	15%
GGR	**2,044**	**7,094**	**9,138**

Source: H2 Gambling Capital, 2025

Based on the current tax rates, this would imply a tax take from sports betting of £307m and iGaming of £1,490m – or total tax take of £1.80bn. All else being equal, by increasing the tax rates to 25% and 40% respectively, this would lead to an increase in sports betting tax of £204m and iGaming tax of £1,348m – or a total tax increase of £1.55bn.

Fig 3: FY28 Current Tax Generation vs Post-Change Tax Generation

FY28 £m	Sports Betting	iGaming	Sports & iGaming
GGR	2,044	7,094	9,138
Current Tax Rate	15%	21%	20%
Current Tax	**307**	**1,490**	**1,796**
New Tax Rate	25%	40%	37%
New Tax	**511**	**2,837**	**3,349**
Tax Increase	**204**	**1,348**	**1,552**

Source: H2 Gambling Capital, 2025

These figures are comparable to those reported by the OBR. Below we show their table of the 'static costing' – i.e. how much the increase in tax will 'cost' the treasury, all else being equal (therefore a negative figure is a net inflow of money), and then what the OBR estimates will be lost from a change in behaviour due to the tax increases. In FY28 (2027-28), the OBR estimates that the static increase in taxes will generate an incremental £1.6bn in tax revenues, with the prior year being £1.3bn (when it is just RGD increased, without sports). This correlates to our table above, showing £1.3bn increase in iGaming taxes and £1.6bn in overall taxes.

Fig 4: OBR Analysis of Gambling Tax Increases

Table 3.8: Costing of gambling duty reform

	£ billion				
	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	-1.3	-1.6	-1.7	-1.8	-1.9
Direct behavioural effect	0.5	0.6	0.6	0.7	0.7
Post-behavioural costing	**-0.8**	**-1.1**	**-1.1**	**-1.1**	**-1.2**

Source: HMRC, OBR

Source: Office for Budget Responsibility – Economic and Fiscal Outlook, November 2025

We note that these taxes in the OBR calculations do include the abolition of land bingo duty (c.£25m) and the freezing of land casino tax bands – which we believe largely cancel each other out, and can therefore be used as a proxy for the increase in RGD and remote sports betting duty.

The ‘direct behavioural effect’ published by the OBR shows the impact that they believe the increase in tax rate will have on the market – that is to say, primarily through a reduction in player demand as operators change pricing, and also through a shift to the illegal market. The exact quote from the OBR is below:

“The behavioural responses to these changes are uncertain but are estimated to reduce the yield by around one-third. We estimate that operators will seek to pass through around 90 per cent of the duty increases by increasing prices or reducing payouts, leading to a reduction in consumer demand which reduces the yield from the measure by £0.5 billion by 2029-30. The elasticities used to estimate the demand effect also capture potential substitution to the illicit market, and substitution between different forms of gambling due to the tax differentials introduced through this policy. We also assume that operators will over time restructure their product offering to minimise tax costs, given the policy creates wide differentials between rates across different forms of gambling, reducing the yield by a further £0.1 billion.”

These changes to behaviour are forecast by the OBR to reduce tax income by £0.6bn, and therefore the net increase in tax take is £1.1bn. Below, we walk through our own analysis of the impact of these tax hikes.

We use the following assumptions for our modelling:

- Online sports betting bonusing falls from 8% of GGR to 5% of GGR
- Online iGaming bonusing falls from 16.8% of GGR to 7.3% of GGR; this is made up of a decline for big operators from 12% to 6%, and smaller operators from 25% to 12%, while larger operators gain share to account for 80% of the total iGaming market (from 67% currently)
- Online sports betting GGY (i.e. after bonusing) falls by 8% - which combined with the lower bonusing leads to an 11% fall in GGR
- iGaming GGY falls by 16%, which combined with the lower bonusing equates to a 25% fall in GGR
- While these declines in GGY are estimates – and impossible to forecast exactly, as it also depends on the behaviour of operators in terms of marketing budgets and other operating decisions – the average percentage point reduction in GGR and GGY is broadly equal to the increase in tax percentage points for each product, which H2 believes is a reasonable starting assumption for its modelling until more data becomes available.

Inputting the above assumptions into our model leads to an overall 22% decline in onshore GGR – or a £2bn reduction in the onshore market.

Fig 5: Change in GGY and GGR Post-Tax Increases

FY28 £m	Sports Betting	iGaming	Sports & iGaming
Old GGY	1,881	5,905	7,785
New GGY	**1,730**	**4,960**	**6,690**
GGY Decline	(150)	(945)	(1,095)
GGY Decline	**-8.0%**	**-16.0%**	**-14%**
Bonus rate	*5.0%*	*7.2%*	*6.7%*
Old GGR	2,044	7,094	9,138
New GGR	**1,821**	**5,347**	**7,168**
GGR Decline	(223)	(1,747)	(1,970)
GGR Decline	**-11%**	**-25%**	**-22%**

Source: H2 Gambling Capital, 2025

This reduction in the onshore market has a knock-on effect to the tax revenues. As we showed in Figure 3, a 'static' market tax increase would generate £1.55bn of incremental tax revenue. However, with the reduction in market size, H2 estimates that the total tax increase is only c.£800m, with over £750m of the 'increased tax' being lost due to behavioural change.

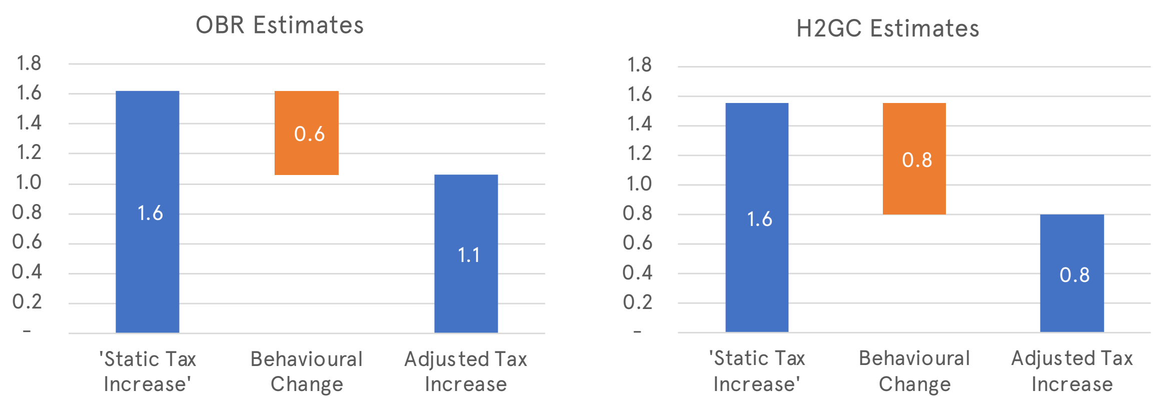
Fig 6: Static vs Adjusted Tax Take Increase

FY28 £m	Sports Betting	iGaming	Sports & iGaming
New GGR	1,821	5,347	7,168
New Tax Rate	25%	40%	36%
New Tax Take	455	2,139	2,594
Tax Increase	**149**	**649**	**798**
'Static' Tax Increase	204	1,348	1,552
Reduction vs Static	**(56)**	**(699)**	**(754)**

Source: H2 Gambling Capital, 2025

We compare this to the OBR estimates below, rounding to the nearest billion pounds to show consistency with the OBR estimates.

Fig 7: Static vs Adjusted Tax Take Increase



Source: H2 Gambling Capital, 2025

Illegal Market Impact / Onshore Channelisation

When looking at onshore channelisation, we add back on the online horse race betting to the online sports betting to give a total onshore online betting GGY / GGR / channelisation figure. H2's current market analysis shows that the onshore market has a 94% GGY channelisation, or a 93% GGR channelisation, given the higher bonuses of the offshore market.

Fig 8: Pre-Tax Rate Rise UK Onshore Channelisation

FY28 £m	Online Betting	iGaming	Betting & iGaming
Onshore GGY	2,970	5,905	8,875
Offshore GGY	89	475	563
Total GGY	3,059	6,379	9,438
% Onshore	***97%***	***93%***	***94%***
Onshore Bonus	8.0%	16.8%	14.0%
Offshore Bonus	12.0%	25.1%	23.3%
Onshore GGR	3,228	7,094	10,322
Offshore GGR	101	634	735
Total GGR	3,329	7,727	11,057
% Onshore	***97%***	***92%***	***93%***

Source: H2 Gambling Capital, 2025

To estimate the impact on channelisation of the tax changes, we need to make an assumption on the amount of revenue that shifts to the illegal market. We believe that the Dutch market gives the cleanest indication of the substitution of onshore and offshore revenue from adverse regulatory change. While the majority of the decline in onshore revenues in the Dutch market (and subsequent growth in the illegal market) came from deposit limits rather than tax increases, we believe this still provides good read-across.

H2 estimates that for the 12 months between September 2024 and August 2025, the onshore market declined by €262m versus the preceding 12 month period. By contrast, the offshore market increased by €150m – implying that 57% of the decline in onshore revenues found its way to illegal offshore operators. Therefore, H2 estimates that 55% of the decline in onshore revenues will shift to the illegal market – although we note that this is conservative, and the amount that shifts offshore could be higher than this. This leads to a decrease in onshore channelisation to 87% in terms of GGY, and 84% in terms of GGR – with iGaming GGR channelisation falling to just 80%.

Fig 9: Post-Tax Rate Rise UK Onshore Channelisation

FY28 £m	Online Betting	iGaming	Betting & iGaming
Onshore GGY	2,782	4,960	7,742
Offshore GGY	192	994	1,186
Total GGY	2,974	5,954	8,928
% Onshore	***94%***	***83%***	***87%***
Onshore Bonus	5.0%	7.2%	6.4%
Offshore Bonus	12.0%	25.1%	23.3%
Onshore GGR	2,929	5,347	8,275
Offshore GGR	218	1,328	1,546
Total GGR	3,147	6,675	9,822
% Onshore	***93%***	***80%***	***84%***

Source: H2 Gambling Capital, 2025

While onshore GGR falls by just over £2.0bn, the illegal market is forecast to grow by over £800m, based on our conservative estimates of the shift from onshore to offshore operators.

We note here that the increase in offshore GGR is just c.40% of the decline in the onshore GGR – the reason for this is that we applied the 55% shift in onshore decline to the offshore market to the GGY estimate, not the GGR estimate. If we had applied this to the GGR estimate, then the increase in illegal market offshore GGR would be a further c.£300m to c.£1.1bn, compared to our £812m forecast increase below.

Fig 10a: Change in Onshore & Offshore GGR & GGY (£m)

FY28 £m	Online Betting	iGaming	Betting & iGaming
Onshore GGY	(188)	(945)	(1,133)
Offshore GGY	103	520	623
Total GGY	**(85)**	**(425)**	**(510)**
% Onshore Channelisation	*-4%*	*-9%*	*-7%*
Onshore GGR	(300)	(1,747)	(2,046)
Offshore GGR	117	694	812
Total GGR	**(182)**	**(1,052)**	**(1,235)**
% Onshore Channelisation	*-4%*	*-12%*	*-9%*

Source: H2 Gambling Capital, 2025

Applying the 55% channelling shift to GGY rather than GGR again shows the relatively conservative nature of our illegal market forecasts. As a counter to this, we note that more aggressive illegal market forecasts could be offset by increased black market clampdowns by the UK Gambling Commission – although we are yet to see any tangible evidence that these are effective in almost any market.

Despite this relatively conservative channel shift to the illegal market, our estimates imply that the illegal offshore market will still more than double in size.

Fig 10b: Change in Onshore & Offshore GGR & GGY (%)

FY28 £m	Online Betting	iGaming	Betting & iGaming
Onshore GGY	-6%	-16%	-13%
Offshore GGY	117%	110%	111%
Total GGY	**-3%**	**-7%**	**-5%**
Onshore GGR	-9%	-25%	-20%
Offshore GGR	117%	110%	110%
Total GGR	**-5%**	**-14%**	**-11%**

Source: H2 Gambling Capital, 2025

We have little doubt that, if the direction of these forecasts materialise, then a reduction in the onshore market will be viewed by politicians as a major victory. Not only have they been able to curb the size of the (onshore) online gambling industry, but they have increased tax revenue at the same time. However, what will be completely ignored will be the (at least) doubling in size of the illegal market, and all the negative implications this has, not least on player welfare.

H2 United Kingdom Model Impact

The above analysis is based on the change to FY28 figures, looking at the impact of the tax increase on our prior forecasts, on a fiscal year basis, assuming a full run-rate of the impact. However, in the H2 United Kingdom dataset model, all of our data is in calendar years, and the introduction of the RGD increase a year before the increase in betting duty also complicates the forecasting, as does a slight time lag in player behaviour. Therefore, the calendarised figures in the United Kingdom dataset will not align with the analysis above, which has been done as an illustration, and as a comparable analysis to the OBR figures.

In terms of the changes to H2's actual United Kingdom dataset, H2's calendar year 2030 onshore online betting and gaming GGY estimates have fallen by 22% due to the increase in tax rate.

Fig 11: Change in Onshore GGY – CY 30 Estimates (£m)

GGY (CY 30 £m)	New	Previous	Change	Change (%)
Online Betting GGY	2,668	3,202	(534)	-17%
iGaming GGY	4,946	6,590	(1,644)	-25%
Total Onshore GGY	**7,614**	**9,793**	**(2,179)**	**-22%**

Source: H2 Gambling Capital, 2025

When comparing this to our estimate for calendar year 2025, online betting is actually slightly ahead and iGaming is 8% lower than we forecast it to be this year. While this may not seem like a material impact from the increased tax rate, one must recognise the impact of compounding growth in a market. To put this into context, onshore online GGY has grown by 24% over the past 5 years – so a 4% decline over the next 5 years is a very significant impact.

Fig 12: Change in Onshore GGY - CY 30 vs CY 25 (£m)

GGY (£m)	CY 30	CY 25	Change	Change (%)
Online Betting GGY	2,668	2,557	112	4%
iGaming GGY	4,946	5,386	(440)	-8%
Total Onshore GGY	**7,614**	**7,943**	**(329)**	**-4%**

Source: H2 Gambling Capital, 2025

We also show this adjusting the calendar 2025 figure for inflation over the next 5 years, and therefore in real terms, total onshore online GGY is declining by 14% on our new estimates.

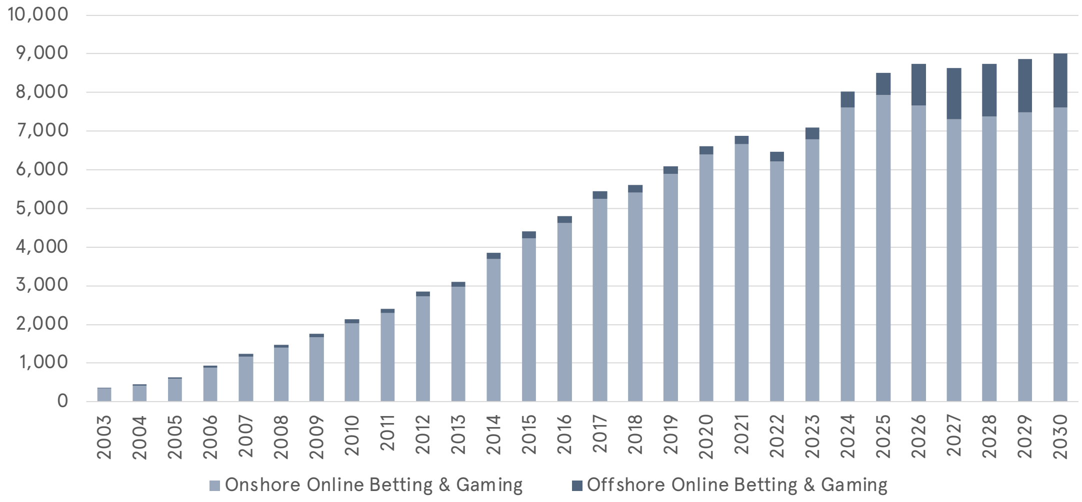
Fig 13: Change in Onshore GGY - CY 30 vs CY 25 Adjusted for Inflation (£m)

GGY (£m)	CY 30	CY 25 Real Terms	Change	Change (%)
Online Betting GGY	2,668	2,838	(170)	-6%
iGaming GGY	4,946	5,979	(1,033)	-17%
Total Onshore GGY	**7,614**	**8,817**	**(1,202)**	**-14%**

Source: H2 Gambling Capital, 2025

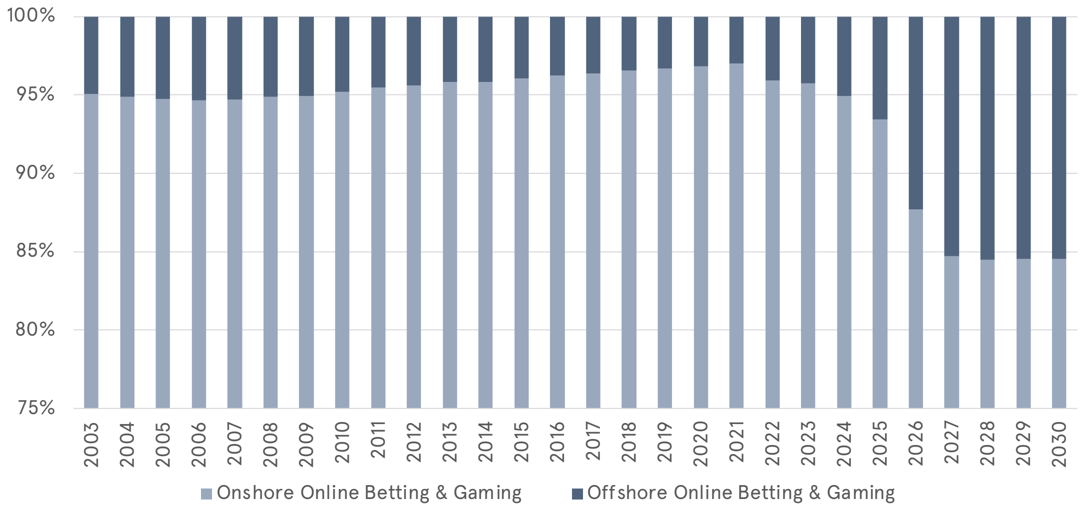
UK Online Market Estimates

Fig 14: UK Online Betting & Gaming GGY – Onshore vs Offshore (£m)



Source: H2 Gambling Capital, 2025

Fig 15: UK Online Betting & Gaming Onshore vs Offshore GGY Channelisation (%)



Source: H2 Gambling Capital, 2025

Gambling Capital