Africa Optimum Market Structure

Report 3
Optimum Tax Structure

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Data driven solutions

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Executive Summary

This is the third report in the series being prepared by **H2 Gambling Capital (H2)** on an optimum market structure for the **Africa online gambling industry.** This report focuses on an **Optimum Tax Structure**, specifically the importance of taxing operators – not players – with a Gross Gaming Revenue (GGR) or Net Gaming Revenue (NGR) based tax, at a reasonable tax rate level, and the reasons why other taxes including Withholding Taxes distort the market.

As in our other reports in this series, only some, not all, of the recommendations provided herein are also applicable to the Africa **landbased** gambling industry, which by definition should be treated differently to the online sector by governments and regulatory bodies.

Taxation plays a key role in online gambling regulation, offering governments a means to generate revenue while also enabling oversight and accountability. As the online gambling sector expands globally, taxation can ensure that a portion of its profits contribute to public services such as healthcare, education, and addiction treatment programmes.

However, while taxation is essential for legitimacy and control, it can also introduce **complications**. When taxes are too high or poorly structured, they can inadvertently push operators and players away from regulated platforms and into offshore or black market alternatives. Unlicensed operators can offer better odds, with fewer restrictions, due to lower operating costs, making them attractive to consumers. This undermines the very purpose of onshore regulation — consumer protection, responsible gambling, and fair play — and can erode the tax base governments rely on.

In our first report, H2 estimated that unregulated sports betting and iGaming markets across Africa will result in **over $11bn** of lost tax revenues leaking offshore over the next 5 years, based on a 20% GGR tax rate (the maximum that would lead to customers moving back onshore).

Despite these drawbacks, when implemented thoughtfully, taxation can still support a well-regulated and competitive gambling environment. Optimum, well-calibrated tax rates encourage operator compliance, attract legitimate investment, and help maintain a level playing field. Combined with strong consumer protections, data transparency, and active enforcement against illegal operators, an **intelligent tax policy** can strike the right balance between economic benefit and social responsibility.

Any tax regime should start with the question "How does this impact the player?" and "What does this do to onshore channelisation?" rather than "Does this increase tax revenues?"

The Role of Taxation in Online Gambling

When taxes are too high or poorly structured, they can inadvertently push operators and players away from regulated platforms and into offshore or black market alternatives. This undermines the very purpose of onshore regulation — consumer protection, responsible gambling, and fair play — and can erode the tax base governments rely on.

There are five main types of online gambling taxation that have been both well-used, but also misused, in the African sector today: Stake Tax; Gross Gaming Revenue (GGR) Tax; Net Gaming Revenue (NGR) Tax; Gaming Levies; and Withholding Tax (WHT) on Player Winnings. In addition, Payment Processing and Payment Monitoring Fees paid to private operators on all deposits and withdrawals represent a further financial burden.

While there is no 'one size fits all' calculation, in general terms the level of tax that is optimal for the market – in terms of onshore channelling, player protection and tax generation – is a GGR / NGR tax rate at 15-25%.

The Current Situation

A wide variety of approaches to taxation exist, however the widespread emergence of player withholding taxes is having the largest impact on the African market currently. A withholding tax (or any other tax that targets customers / players such as tax on stakes) has a significantly distortive effect on the market, and tends to push players offshore.

There are some notable examples, such as Kenya, of how an imbalanced tax structure can negatively influence a market, as well as other markets like South Africa that have had stable regulation, sensible tax rates, and see continued growth. If left unchanged, H2 estimates that over US $11bn of tax revenues will be lost to unregulated operators outside Africa over the next 5 years.

Achieving Optimum Taxation in Africa

There are 5 key takeaways that should define an optimum taxation structure in Africa:

1. ***Tax Burden on Operators, Not Players***
2. ***Tax on Operator Revenues, Not Stakes***
3. ***Tax Rate that Considers Onshore Channelisation as well as Tax Generation***
4. ***Additional Taxes Taken Into Consideration***
5. ***Consider All Unintended Consequences.***

Section 1
The Role of Taxation in Online Gambling

Headline Findings

When taxes are too high or poorly structured, they can inadvertently push operators and players away from regulated platforms and into offshore or black market alternatives. This undermines the very purpose of onshore regulation — consumer protection, responsible gambling, and fair play — and can erode the tax base governments rely on.

There are five main types of online gambling taxation that have been both well-used, but also misused, in the African sector today: Stake Tax; Gross Gaming Revenue (GGR) Tax; Net Gaming Revenue (NGR) Tax; Gaming Levies; and Withholding Tax (WHT) on Player Winnings.

Stake taxes can be paid by the operator or the consumer – but in both cases, the consumer ends up being adversely affected by either a worse pricing or a lower effective stake. The impact of this is that the player has to either stake more, or choose more risky bet types, in order to attain the same net winnings that would be achieved under a GGR or NGR based wager.

A withholding tax on player winnings directly impacts the player's net winnings, which again leads to more risky gambling behaviour – evidenced by a higher average number of legs per bet in markets with a withholding tax compared to those without one.

It is clear that any form of taxation that encourages players to exhibit more risky gambling behaviour (or alternatively move to unlicensed operators who are not subject to the tax) Therefore any taxation should be paid by the operator, and based on a GGR or NGR basis.

In addition, a number of regulators have explored the option of using payment tracking as a form of gaming monitoring system. While monitoring systems are widely viewed as best practice in a regulated market, to improve transparency and tax compliance, a system based on payment monitoring has significant limitations, as payment flows are not necessarily representative of player activity or player winnings / losses. Therefore, payment monitoring systems add a significant layer of cost, without being capable of achieving their intended aim.

While there is no 'one size fits all' calculation, in general terms the level of tax that is optimal for the market – in terms of onshore channelling, player protection and tax generation – is a GGR / NGR tax rate at 15-25%.

Types of Online Gambling Taxation

1. Stake Tax

A Stake tax is applied to the **total value of bets placed by players**, regardless of the outcome. This may seem like a simple way to implement a tax system, but there are two fundamental issues. Firstly, turnover is a largely irrelevant metric for gambling operators. Gambling operators' revenues are the equivalent to customer losses – the transactional volume of bets is largely irrelevant. This also means that operators do not report stakes, as it is not an accounting figure – so access to this data becomes more problematic for regulators. The second issue is that different products have different payout rates, and therefore the effective tax rate on operators' revenues would be different for each product – meaning that the stakes tax would have to be altered for different products.

Below we show the impact of a 10% stakes tax on different betting products, and the effective operator revenue tax rate, assuming that the stakes tax is paid by the operator. The below illustration is based on an African country with a GGR based tax. If this changed to a 10% tax on stakes (turnover), this would lead to an implied 45% tax rate on multiples bets, or a tax rate of over 100% of revenues for a singles bet. Therefore regulated operators would have to adjust the payout rate of their offering to make it profitable, which in turn would make the offering less attractive to customers, and push them to offshore operators who have better pricing.

Stake Based Tax Rate Illustration – Paid by Operator

	Multiples Bet	Singles Bet	Offshore Singles
Stake	100.0	100.0	100.0
Payout	(78.0)	(91.0)	(94.0)
GGR	**22.0**	**9.0**	**6.0**
GGR Margin	22.0%	9.0%	6.0%
Stake Tax Rate (%)	10.0%	10.0%	10.0%
Stake Tax	**(10.0)**	**(10.0)**	**(10.0)**
GGR	22.0	9.0	6.0
Effective GGR Tax Rate (%)	**45%**	**111%**	**167%**

Source: H2 Premium, April 2025

In other scenarios, the stakes tax is deducted from the player's stake by the operator, making the 'effective' player net stake lower. In this scenario, the 'effective' player net stake gets reduced to 90.9 instead of the 'gross' stake of 100 that the player is actually parting with.

Under the same GGR margins, this means that the 'GGR' that the player receives is lower than would otherwise be the case, and therefore the 'effective net' GGR margin is lower when compared to the 100 'gross stake'. This makes the onshore operators less competitive, and for a customer, the only way to generate the same returns as under a

GGR based tax, or using unlicensed operators, would be by increasing the wager, potentially leading to riskier gambling behaviour.

To illustrate this, we show the same wager under a scenario where there is no stake tax, where a 10% stake tax is introduced, and what a customer would have to do to generate the same returns.

With odds of 5:1, with no stake tax, a customer would win 4,000 net of stake for a 1,000 wager under a GGR tax based system. With the implementation of a 10% stakes tax, the effective stake would be reduced to 900, and therefore the net winnings would fall to 3,500 – a 500 or 12.5% decline on the GGR based system.

For the customer to generate the same net winnings under the stake tax system as they would under the GGR based system, the initial gross wager would need to increase from 1,000 to 1,150 – and in this way, the winning bet would return the same c4,000 net win. However, this has led to a 15% increase in the customer's initial wager compared to a GGR based system.

Stake Based Tax Rate Illustration – Paid by Customer

Scenario	No Stake Tax	10% Stake Tax (no change to wager)	10% Stake Tax (to match initial winnings)
Initial Stake	1,000	1,000	1,150
Stake Tax (10%)	-	(100)	(115)
Effective Stake (After Tax)	**1,000**	**900**	**1,035**
Odds	5:1	5:1	5:1
Gross Winnings	5,000	4,500	5,175
Net Winnings	**4,000**	**3,500**	**4,025**
Return on stake (%)	400%	350%	350%
Difference in Net Winnings	N/A	(500)	25
Percentage increase in stake needed	**N/A**	**N/A**	**15%**

Source: H2 Premium, April 2025

- **Pros:** Simple structure
- **Cons:** If the stakes tax is paid by the operator, the low margin nature of the business means that there is a disproportionate tax burden on the operators, forcing operators to increase pricing and making the onshore licensed operations uncompetitive compared to the offshore operators. If the tax is deducted from the player's gross stakes, then the players have a lower effective net stake, making the returns lower, which may lead them to bet more to maintain expected returns. This potentially increases risky gambling behaviour and may drive players toward untaxed, unlicensed foreign operators.

2. Gross Gaming Revenue (GGR) Tax

This tax is levied on the operator's **gross gaming revenue**, which is calculated as the total amount wagered by players minus the winnings paid out. It's one of the most common taxation methods worldwide and is generally considered a fair reflection of operator income.

The main benefit of this is that it is based on operator revenue, which reflects the different payouts / GGR margin of different products. This also allows operators to increase their payout to players / reduce their GGR margin to remain competitive with unlicensed operators, channelling more players onshore, and therefore increasing both the tax base for the Government and increasing player protection by having more players use legal offerings.

However, the GGR figure includes free bets / promotions, and therefore operators are being taxed on an element of their 'income' that is not actually income. This does put them at a disadvantage to offshore operators – and this must be taken into account when setting the GGR tax rate.

GGR Based Tax Rate Illustration

	Multiples Bet	Singles Bet	Offshore Singles
Stake	100	100	100
Payout	(78)	(91)	(94)
GGR	**22**	**9**	**6**
GGR Margin	22.0%	9.0%	6.0%
Bonuses	(3)	(3)	(3)
NGR	**19**	**6**	**3**
GGR	22	9	6
GGR Tax Rate (%)	25.0%	25.0%	25.0%
GGR Tax	**5.5**	**2.3**	**1.5**
NGR	19	6	3
Effective NGR Tax Rate (%)	**29%**	**38%**	**50%**

Source: H2 Premium, April 2025

As an example, if operators were paying out bonuses of the equivalent 3% of stakes, then a 25% GGR tax would be an effective NGR (operator revenue) tax rate of 29% for multiples bets, 38% for a singles bet, or 50% if they tried to compete with offshore operators. However, this illustration clearly shows how a GGR based tax is superior to a turnover based tax.

- **Pros:** Closer reflection of operator's revenues
- **Cons:** Taxes promotional activity, making operators less competitive with illegal competition.

3. Net Gaming Revenue (NGR) Tax

This tax is levied on the operator's **net gaming revenue**, which is calculated as the total amount wagered by players minus the winnings paid out, minus free bets. Arguably, it could also incorporate the gaming levy paid to the regulator, plus any payment fees paid to mandated government platforms. It is the true revenue of the operator, which is the equivalent of gross revenue for most other industries, and is therefore the accounting measure used for an operator's revenue.

This is the only tax structure that taxes an operator's true revenues, and is therefore the fairest taxation regime – and one that allows a licensed operator to more fairly compete with illegal operators.

- **Pros:** Reflects actual revenues, and taxes the main operator accounting metric
- **Cons:** None

4. Gaming Levies

Governments and regulatory bodies often charge fixed **gaming levies** to online gambling operators. In several markets, particularly where betting and gambling are operated under a state monopoly, operators are required to pay a monthly levy on GGR to the regulator. This is common in Francophone countries such as Benin, Côte d'Ivoire and Senegal, where the national lottery typically holds exclusive rights.

In other jurisdictions without a monopoly such as Ethiopia and Malawi, the regulator may still impose a levy on licensed operators to finance its operational expenses. Although these levies are not legally classified as taxes, they represent a significant cost and have a direct impact on operator profitability.

- **Pros:**
  - Regulatory Independence: A dedicated levy gives regulators financial autonomy, reducing dependence on state budgets and enabling quicker, more responsive decision-making.
  - Operational Efficiency: Well-funded regulators are typically better equipped to handle licensing, enforcement, and stakeholder engagement, improving overall market supervision.
  - Legitimacy and Transparency: A clearly structured levy mechanism reduces the risk of informal or under-the-table arrangements between operators and authorities, fostering a level playing field.
  - Predictability: When transparently defined as a percentage of GGR, the levy offers predictability in budgeting and forecasting for both operators and regulators.
- **Cons:**
  - Increased Financial Burden: Levies are often imposed in addition to other gaming taxes, significantly increasing the overall fiscal load on operators — especially in low-margin markets.

- Double Dipping: Regulators may not factor in taxes already paid (e.g. GGR tax or NGR tax), effectively demanding an additional slice of the same revenue base, which can make the market commercially unattractive.
- Barrier to Entry: In emerging markets, high levies — combined with other licensing and compliance costs — may discourage new entrants and limit healthy competition.
- Risk of Inefficiency: Without clear accountability and transparency mechanisms, there is a risk that levies may fund underperforming regulatory bodies without delivering real benefits to the sector.

5. Withholding Tax (WHT) on Player Winnings

This tax is deducted from **player winnings** at the point of payout or reported separately by players. It's often used as a tool for collecting revenue directly from gambling participants.

A withholding tax (or any tax that targets customers / players) can have a significantly distortive effect on the market, and tends to push players to offshore operators – although the framework of the withholding tax can have make a significant difference to the impact that it has on player behaviour and onshore channelisation.

As explained previously, a GGR or NGR based tax is preferable as it allows onshore operators to better compete with illegal operators in terms of offering a similarly priced product to players. The addition of a withholding tax – which reduces the payout to players – adds another layer of distortion to the value of the onshore product, and this lower return to the player is what makes the offshore sites more attractive. Therefore, the implementation of a withholding tax is likely to both reduce player protection, and lead to lower overall tax revenues, as more players use unregulated sites. That said, a withholding tax based on aggregated transactions, on a net payout basis, that effectively taxes net player winnings over a period of time, will have a significantly lower negative impact on the market compared to a gross payout withholding tax, or one that is implemented on a per transaction basis. Below we examine the 4 main structures of a withholding tax used for online gambling in Africa, and the effective tax rate that each of these has on the customer, so that we can compare the distortive impact that they have on the market / player returns.

Per-Transaction Basis – Gross Payout

This structure is based on the player being taxed on every transaction independently, with the tax being applied to the gross payout – i.e. the total amount returned to the player, including their stake.

This is highly distortive, as it does not allow a player to offset any losses from other bets – significantly increasing the effective tax rate over a period of time. Furthermore, it does not tax the player profits on a bet-by-bet basis, but rather taxes their initial stake as well as the winnings. Under this scenario, the illustrative bets below show that a 20% withholding tax would lead to a player paying US $2,200 in tax on winnings of just $1,000.

Withholding Tax Illustration – Per-Transaction Basis, Gross Payout

Per-Transaction Basis - Gross Payout	Stake	Payout	Player Win	Withholding Tax
Bet 1	1,000	2,400	1,400	480
Bet 2	1,000	1,200	200	240
Bet 3	2,000	4,000	2,000	800
Bet 4	4,000	-	(4,000)	-
Bet 5	2,000	3,400	1,400	680
Total Transactions	**10,000**	**11,000**	**1,000**	**2,200**

Source: H2 Premium, April 2025

As shown on 'Bet 2', it is possible that even on an individual winning bet, a player pays more in tax than they generate in winnings, as they are being taxed on the stake as well as the winnings.

This approach is very rare, given how distortive it is to the market, and how unattractive this makes onshore operators.

Per-Transaction Basis – Net Payout

This structure is based on the player being taxed on every transaction independently, but with the tax applied to player winnings, and not the original stake. This is still highly distortive, as it does not allow a player to offset any losses from other bets – which significantly increases the effective tax rate over a period of time – but it is a lot less distortive than a player being taxed on a gross basis.

Under this scenario, the same illustrative bets with a 20% withholding tax would lead to a player paying US $1,000 in tax on winnings of $1,000 – increasing the effective tax rate to 100% rather than the headline 20% figure.

Withholding Tax Illustration – Per-Transaction Basis, Net Payout

Per-Transaction Basis - Net Payout	Stake	Payout	Player Win	Withholding Tax
Bet 1	1,000	2,400	1,400	280
Bet 2	1,000	1,200	200	40
Bet 3	2,000	4,000	2,000	400
Bet 4	4,000	-	(4,000)	-
Bet 5	2,000	3,400	1,400	280
Total Transactions	**10,000**	**11,000**	**1,000**	**1,000**

Source: H2 Premium, April 2025

This approach is widely used, notably in markets such as Kenya, Tanzania and Zambia, which makes the onshore offering uncompetitive compared to the offshore offering – and to compensate for this, encourages players to wager on riskier bet types / higher margin products, which inevitably ends up with higher player losses.

Aggregated Basis – Net Payout

This structure is based on the player being taxed on true net winnings over a period of time – typically a month, for example, with the tax being applied to the true player winnings, offsetting losses over that period. While players are still being taxed through onshore operations compared to play with offshore operators, this is significantly less distortive to the market and perceived as being a much fairer tax structure.

Under this scenario, the same illustrative bets with a 20% withholding tax would lead to a player paying US $200 in tax on winnings of $1,000 – and therefore the effective tax rate is the same level as the headline 20% figure.

Withholding Tax Illustration – Aggregated Basis, Net Payout

Aggregated Basis - Net Payout	Stake	Payout	Player Win	Withholding Tax
Bet 1	1,000	2,400	1,400	
Bet 2	1,000	1,200	200	
Bet 3	2,000	4,000	2,000	
Bet 4	4,000	-	(4,000)	
Bet 5	2,000	3,400	1,400	
Total Transactions	**10,000**	**11,000**	**1,000**	**200**

Source: H2 Premium, April 2025

This is the structure that taxes the true net winnings of the player, and has been adopted in a handful of markets such as Uganda and Rwanda.

Aggregated Basis – Net Payout and Net Withdrawals Approach

This final structure is the same as the aggregated net payout, but charges the withholding tax on the lower of the aggregated net payout or the aggregated net player withdrawals over a period of time. While in the long run, net withdrawals and net payouts will align to a very close degree – and therefore the tax paid will be almost identical – it addresses the issue of unrealised gains. By taxing the lower of net payout and net withdrawals, this effectively taxes the player when they realise their gains and withdraw funds, rather than when their account is credited with their winnings. This makes sure that players are not taxed prematurely on amounts that remain within the gaming platform and may be subsequently lost on future transactions.

This is regarded as best practice for a withholding tax, as being evidenced in some markets such as the DRC, Tanzania and Uganda, but is yet to be widely adopted.

Comparison

As can be seen below, the only way that a withholding tax can result in players paying the headline level of tax is via tax on an aggregated basis, taxing net payout. Any per-transaction structure will lead to a significantly inflated effective tax rate, distorting the market, and any gross payout structure will likely lead to higher tax payments than player winnings, making the onshore market largely unworkable.

Comparison of Effective Tax Rates with Different Withholding Tax Structures

Methodology - 20% Withholding Tax Rate	Player Win	Withholding Tax	Effective Tax Rate
Per-Transaction Basis - Gross Payout	1,000	2,200	220%
Per-Transaction Basis - Net Payout	1,000	1,000	100%
Aggregated Basis - Net Payout	1,000	200	20%

Source: H2 Premium, April 2025

Regardless of the structure, a further unplanned negative of a withholding tax is the impact that this has on player behaviour. Given the lower potential return to the player of each bet, there is an incentive for a player to increase the level of risk of a bet in order to increase the potential payout – to compensate for the amount lost due to the withholding tax. Given that a key component of a regulated market is to enhance player protection, then any tax structure that encourages players to increase their level of risk can only be viewed as a policy failure.

Analysis of internal data from a large, pan-African operator has shown this to be a reality. In markets where there is a withholding tax, customers have on average 2.5 (25%) more legs in their multiples bets (making it a higher risk bet for the customer), and the average GGR margin for the operator is 308 basis points higher (and therefore proving higher customer losses).

Comparison of Markets with / without Withholding Tax

Withholding Tax	Average Margin	Average Legs per bet
Yes	21.1%	12.4
No	18.1%	9.9
Difference	3.08%	2.5

Source: Operator Data, H2 Premium analysis, April 2025

- **Pros:** Generates revenue from high-value players (if done on a net winnings basis).
- **Cons:** Reduces the appeal of regulated offerings, forces players offshore, leads to riskier bet types and higher customer losses. However, the distortive impact of the tax is highly dependent upon the framework of the withholding tax, and this can be minimised with the right structure of an aggregated, net payout tax.

Payment Processing and Payment Monitoring Fees

As well as the above taxes, it is important to acknowledge the additional burden African operators can face through payment fees. We split these into two different fees – payment processing fees, which are unavoidable, and payment monitoring fees, which is a well-meaning but ultimately flawed model of gaming oversight.

The online gaming market across Africa relies heavily on mobile money (MoMo) services for customer deposits and withdrawals, and fees for each transaction are charged by third-party mobile payment providers. These typically range from 1% to 3.5% of payment transactions, and operator data suggests that these average c.15% of operator GGR. While this is an unavoidable cost of doing business in a regulated market, there is an argument that this should be built into the base upon which a GGR tax is calculated. For example, in a market with a 20% GGR tax rate, the additional payment processing fees of equivalent to 15% of GGR leads to an effective 'tax rate' of 35% - with 15% paid not to the government, but directly to private entities. This leaves licensed operators with just 65% of GGR to cover all other expenses and generate profit.

The rationale behind a GGR based tax is to tax an operator's revenues – i.e. the amount retained by the operator at the end of a customer's transaction. It could be reasonably argued that the costs associated with a player depositing and withdrawing funds to make a wager should be removed from the tax base of the operator, to avoid the operator being charged tax on a payment that effectively goes to the third-party payment processor, rather than being retained revenue for the operator themselves. On this basis, when mobile money (MoMo) payment processing fees are such a substantial cost, a tax on revenues after MoMo fees have been deducted could be reasonably viewed as a more sustainable taxation model for licensed operators.

Separate to payment processing fees, a number of regulators have explored the option of using payment tracking as a form of gaming monitoring system. While monitoring systems are widely viewed as best practice in a regulated market, to improve transparency and tax compliance, a system based on payment monitoring has significant limitations, as payment flows are not necessarily representative of player activity or player winnings / losses.

A payment monitoring system effectively tracks player deposits and withdrawals. However, with a GGR based tax system (or even a stakes based tax system), the tax can only effectively be monitored by integrating into an operator's betting platform, not by tracking payment transactions. Therefore, payment monitoring systems add a significant layer of cost, without being capable of achieving their intended aim.

Many regulators who adopt this model choose to use a single payment aggregator to manage the system, creating a monopoly with the power to charge fees of c3-4% of all transactions. This increased cost has a distortive effect on the market, which we illustrate below, with this incremental 'tax' going to private entities rather than the government.

The key assumptions below are:

- GGR-based gaming tax of 20%
- MoMo payment processing fees equivalent to 15% of GGR
- Stakes of 1,000,000
- Payout of 900,000 (10% GGR margin / 90% payout rate)
- Payment Monitoring Fees of 3% of transactions (deposits and withdrawals)
- Deposits – 25% of total stakes
- Withdrawals – 20% of total payouts

Effective Tax Rate of Payment Monitoring System / Payment Processing Fees

	Tax Base / Rate	Amount
Stakes		1,000,000
Payout		900,000
GGR		**100,000**
Deposits (25% stakes)		250,000
Withdrawals (20% payout)		180,000
Total Deposits / Withdrawals Payments		**430,000**
Gaming Tax	20% GGR	20,000
MoMo Fees	15% GGR Equivalent	15,000
Payment Monitoring Fee	3% Payment Transactions	12,900
Total Taxes / Fees		**47,900**
Effective GGR 'Tax' Rate		**47.9%**

Source: Operator Data, H2 Premium analysis, April 2025

This results in an effective tax rate of 47.9% of GGR for operators – almost 2.5x the 20% GGR tax mandated by the regulators, with over half of this going to private entities instead of the government.

In many markets, these entities operate under monopolistic arrangements, meaning there is no competition and, consequently, little incentive to improve service quality. This often results in poor reliability, including delays and system outages, which directly affect both player experience and operator performance.

Rather than focusing solely on payment monitoring, many suggest implementing a complete transaction monitoring system that captures the full flow of funds across the gaming lifecycle may be a more effective method. This would provide better oversight for regulators while giving operators the flexibility to work with multiple payment aggregators, fostering both competition and service improvement.

Optimal Tax Rate – Channelling vs Revenue Generation

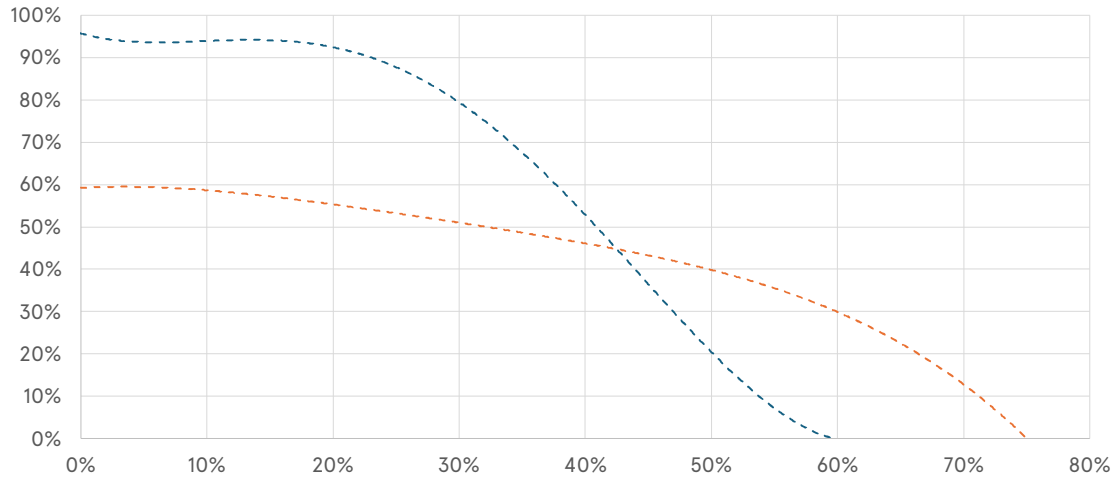
Having examined the different tax and fee structures, we now look at the level of tax that is **optimal** for the market – in terms of onshore channelling, player protection and tax take.

When analysing tax rates in other markets, there are many variables, including product restrictions, freedom of marketing and the ability of regulators to block offshore operators from targeting the market. There is no 'one size fits all' calculation, and there are markets that have a higher tax rate and a higher rate of onshore channelling than other markets, due to these variables. However, in general the higher the tax rate, the lower the share of online GGR which gets channelled onshore.

We also note that the optimal tax rate in terms of channelling is not necessarily the optimum tax rate in terms of maximising the tax revenue, and different regulators / governments have different motivations when setting online gambling tax rates. While the reality is that most markets have a balance between the two, H2 believes that tax rates should be set with a focus on channelling, given the benefits of increased gambling volumes, leading to a higher taxable basis for governments, as well as better consumer protection from the onshore market.

Another factor in the channelling of a market at different levels of taxation is the profitability of the market participants. In a competitive market with high levels of marketing spend and a fragmented market share, operators will make lower levels of profit compared to a market with a monopolistic / oligopolistic structure where operators have the advantage of lower marketing costs and economies of scale in operating costs. Therefore, under a monopolistic model, the operator will be able to remain profitable at a higher level of taxation than under a competitive market; however, given the lower marketing spend and lower product choice for customers, at any reasonable tax rate the onshore channelling will be lower than in a competitive market, all else being equal.
In the chart below, we illustrate the onshore channelling on the y-axis of a competitive market (blue line) compared to a monopoly (red line) at any given tax rate (x-axis). For a competitive market, this puts the **optimal GGR / NGR tax rate at 15-25%**.

Competitive Market vs Monopoly Onshore Channelling



Source: H2 Premium, April 2025

Section 2
The Current Situation

Headline Findings

A wide variety of approaches to taxation exist, however the widespread emergence of player withholding taxes is having the largest impact on the African market currently. A withholding tax (or any other tax that targets customers / players such as tax on stakes) has a significantly distortive effect on the market, and tends to push players to offshore operators.

There are some notable examples, such as Kenya, of how an imbalanced tax structure can negatively influence a market, as well as other markets like South Africa that have had stable regulation, sensible tax rates, and see continued growth.

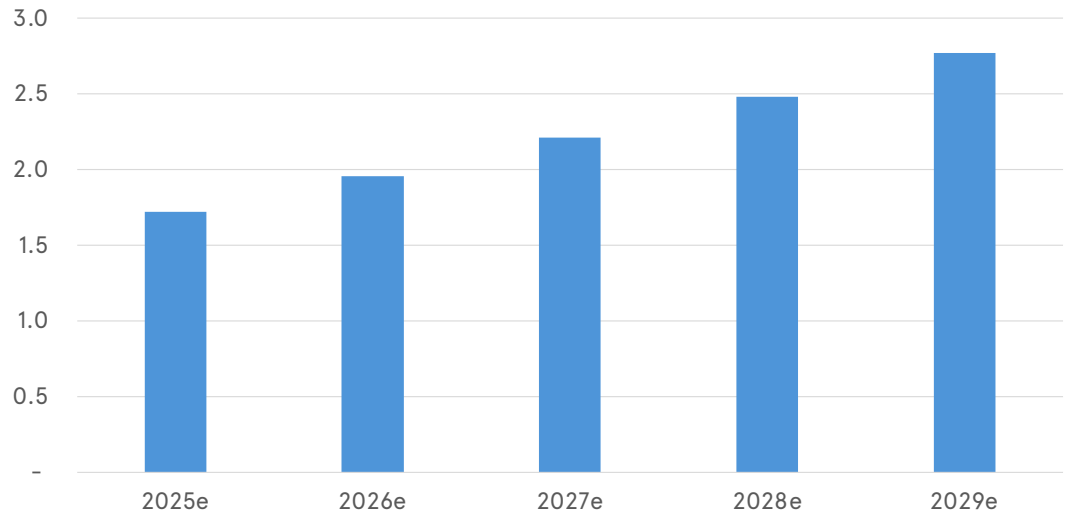
If left unchanged, H2 estimates that over US $11bn of tax revenues will be lost to unregulated operators outside Africa over the next 5 years.

Tax Lost to Illegal Operators

Based on the size of the betting industry in those markets where there has been relatively stable regulations and no withholding tax, adjusting for the GDP of different African markets, H2 has made high level estimates of the illegal market across Africa.

In order to bring this revenue back onshore, H2 takes the mid-point of the optimal tax rate of 20% of GGR. If this were applied universally across Africa, with no other distortive taxes (such as withholding taxes), this would imply that **US $11bn** in potential tax revenue is being lost to illegal betting operators over the period 2025-29e.

Betting Tax Lost to Illegal Operators (USD bn)



Source: H2 Premium, April 2025

Different Approaches to Taxation in Africa Currently

Across Africa, there is a wide variety of approaches to taxation of the online gambling industry. While the majority of markets generally tax GGR, there are some that still tax stakes, which leads to lower payouts to players and places the onshore operators at a competitive disadvantage to illegal operators.

A particular issue in Africa is the recurring tendency for governments to equate higher taxation with effective regulation and harm prevention in the gaming sector. This has led to a growing reliance on customer-facing taxes, particularly WHT (Withholding Tax) on winnings and stake taxes.

A common assumption is that by hurting players in the pocket, gambling activity will decline. However, the reverse is often true, instead pushing players toward illegal unlicensed sites and / or engage in riskier gambling behaviour in an attempt to recover their losses, ultimately undermining the very objectives of regulation.

That said, it is the widespread emergence of **player withholding taxes** that is having the largest impact on the market.

Below we show a selection of markets and their withholding tax rates. As explained in the previous section, all of these are distortive to the market, and these markets with withholding taxes generally all have lower player payouts as players choose to increase the number of legs per bet, leading to more risky bets and higher player losses.

Market	Withholding Tax
Benin	No WHT
Cameroon	No WHT
DRC	10%
Ghana	10%
Kenya	20% + 15% Excise Tax
Lesotho	No WHT
Malawi	5%
Mozambique	15%
Nigeria	No WHT *
Rwanda	15%
Sierra Leone	10-20%
Tanzania	10%
Uganda	15%
Zambia	15%

Source: H2 Premium, April 2025

* As of today, while the law mandates a 5% WHT, it has not yet been implemented.

How An Imbalanced Tax Policy Can Ruin a Regulated Market

One particular example many commentators point towards of how an imbalanced tax structure can negatively influence a market has been **Kenya**, which notably has suffered a recent exodus of operators, a reduction in tax revenue, and a shift in players to the illegal market.

In 2019, the Kenyan government increased its stakes tax from 5% to 20%, while also launching proceedings against a number of operators over claims of underpaid tax. The first reaction of operators was to cease investment in the country, specifically around sponsorship of sports teams, which had a significant impact on the funding of sports in the country.

The market leader, SportPesa (estimated to have c.65% market share) generated a reported KES 20bn of GGR in 2018 – but left the market in 2019 (along with the number two operator in the market, Betin). While other operators gained some of these players, a large number went to offshore sites instead, as betting revenues (and tax collection) fell dramatically.

In 2020, the Parliamentary Finance Committee noted the lower tax revenues as a result of the tax increase, and proposed to scrap the tax entirely, which was accepted. However, it was re-introduced in 2021, at 7.5%, before being increased again to 12.5%-15% in 2023. Another 10 companies left the market in 2024 as a result of this tax increase.

The above was also on top of a separate GGR tax and corporation tax. While the headline GGR tax of 15%, along with a 30% corporate tax on profits, in isolation seems reasonable, the addition of an excise tax and withholding tax makes the market unworkable. Players pay a 15% excise tax on all stakes (to put this into context, Ireland also taxes sports betting on stakes, but at a tax rate of 2%). On top of this, players are hit by a 20% withholding tax on winnings. This level of tax, where players are taxed to place a bet, operators are taxed for any revenues they generate, and players are taxed again on any winnings, led to such a high tax burden that the onshore market has declined significantly, to the benefit of the illegal market.

It should also be noted that, in practice, most player winnings are not withdrawn but reinvested as new bets. As a result, when both stakes and winnings are taxed separately, the same pool of money is effectively taxed multiple times at different stages of the player cycle — first when it's used to place a new bet (stake tax), and again when it generates a win (WHT on winnings). This creates a cascading tax effect, significantly eroding player value and potentially distorting gaming behaviour.

In summary, while there is no evidence to suggest that Kenyans are betting less, the country's tax revenue from gambling has declined significantly, showing a reduction in the onshore market, and fewer players using legal operators where there are levels of player protection.

Tax policy for gambling should have the dual (and sometimes conflicting) aims of keeping players **with onshore sites and tax generation**. The Kenyan market has shown how, with an imbalanced policy, you can end up achieving neither of those aims.

Stable Regulation and Sensible Tax Rates

South Africa is an example of a market that has had stable regulation, sensible tax rates, and this has led to continued growth in the regulated, legal market, with players using operators that have to adhere to regulations around player protection, and tax revenues increase each year. The tax on betting is equivalent to 6.5%-7% of GGR, and this has led to a flourishing onshore industry.

There is no withholding tax in South Africa, but professional / high value gamblers are subject to taxation on their income tax return. This means that recreational gamblers are free from withholding taxes, and professional gamblers are only taxed on their annual profits, being able to offset losses throughout the course of the year.

Section 3
Achieving Optimum Taxation in Africa

Headline Findings

There are 5 key takeaways that should define an optimum taxation structure in Africa:

1. ***Tax Burden on Operators, Not Players***
2. ***Tax on Operator Revenues, Not Stakes***
3. ***Tax Rate that Considers Onshore Channelisation as well as Tax Generation***
4. ***Additional Taxes Taken Into Consideration***
5. ***Consider All Unintended Consequences.***

Any tax regime should start with the question "How does this impact the player?" and "What does this do to onshore channelisation?" rather than "Does this increase tax revenues?"

Industry Best Practice Today

Globally those markets that are generally viewed as having a 'best practice' or most successful tax regime are those that have a GGR or NGR based tax rate, at a level of 15-25%, with all taxes levied on the operators rather than the players.

There are markets (for example, the United States) that tax players on their gambling winnings, but this is done via their income tax, where individuals are taxed on their net winnings over the course of the year (i.e. gambling losses are offset). This is based on all gambling winnings, whether with a legal operator or an illegal operator – therefore there is no disadvantage to licensed operators / no incentive for a customer to use illegal operators.

Aggregated methodology tends to be a much fairer and more balanced approach to taxing player winnings. Under this method, Withholding Tax (WHT) is calculated on a monthly net basis, using the difference between total monthly payouts and total monthly stakes — rather than taxing each winning transaction in isolation.

In those markets where gaming levies are also charged, this is reflected in the underlying gambling tax rate, so that the overall combined effective tax rate is still at a level where legal operators can compete with the illegal offering.

These markets (all else being equal, i.e. few product / advertising restrictions etc.) have higher levels of onshore channelling, leading to higher levels of player protection, as more players are using regulated, onshore operators. While for most of these markets, the government could raise more tax revenue with an increase in the tax rate, there is an understanding that there should be a compromise between maximising tax revenue and maximising onshore channelling.

Defining An Optimum Taxation Structure in Africa – 5 Key Takeaways

1. Tax Burden on Operators, Not Players

The tax burden for gambling should be placed on the operators, rather than the players. While taxation is a very important part of gambling regulation, successful regulation should encourage as many people to play in a regulated environment, and player-based taxation (such as a withholding tax and stake tax) is counter to this.

2. Tax on Operator Revenues, Not Stakes

Operator taxation should be based on operator revenues, and therefore a GGR or NGR based tax. A NGR based tax is the true tax of operator revenues, and removes the distortive effect of taxing promotions / free bets.

Tax on stakes has a distortive impact depending on the individual product, due to different payout rates. This can also have indirect consequences. To offset their tax liabilities, operators will have to lower their payout percentages and limit promotions / bonuses, which makes the experience less appealing for users. This pushes players towards offshore sites that are not bound by national tax and regulatory frameworks, due to the superior value proposition of the illegal operators. This puts players at greater risk of fraud, lack of dispute resolution, and exposure to addictive design features with no oversight.

3. Tax Rate that Considers Onshore Channelisation as well as Tax Generation

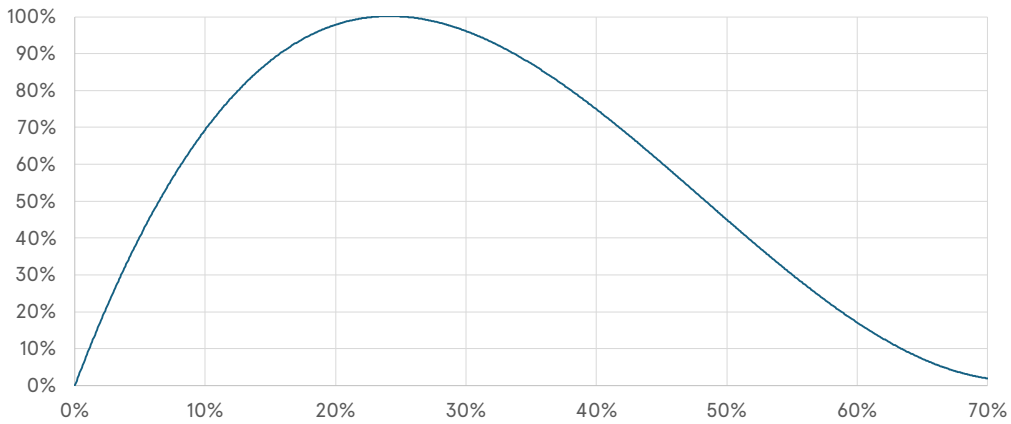
For operators, high tax burdens can significantly reduce profit margins, especially when combined with the cost of regulatory compliance, licensing fees, and responsible gambling initiatives. This may deter new entrants to the market or encourage existing businesses to scale down their offerings or relocate. Smaller local operators, in particular, may struggle to remain profitable, leading to reduced market diversity and competition. The result can be a more consolidated industry dominated by a few large players, potentially to the detriment of innovation and consumer choice.

The only way to offset the higher tax burden for operators is to make the product more expensive for players, which makes the onshore market less appealing. Therefore, while the players are not being directly taxed, they are impacted by the taxation of operators. For online gambling, making the product less appealing to players does not reduce gambling activity, but rather pushes it to illegal operators - as well as potentially leading players towards riskier gambling behaviour - as no regulator in the world has been able to effectively prevent illegal operators targeting a market. Unlike land-based gambling activity, online gambling has unlimited competition, and a more appealing offering 'is only a click away'.

Economic theory shows that at extreme levels of tax rate, tax revenue will equal zero – that is to say, at a 0% tax rate, there will be no tax generation, and at 100% tax rate, there is no incentive to produce any goods or services, and tax generation will also be zero. This is known as the Laffer Curve, and the tax rate for maximum tax generation will be somewhere between 0% and 100%.

For the online gambling industry, H2 estimates that a market will see tax generation return to zero at a c.70% tax rate, as it becomes impossible for an operator to be profitable (even if it's a monopoly operator at that point). In terms of pure revenue maximisation, H2 estimates that this peaks between 25% and 30% of GGR (depending on the market – with exceptions where very attractive markets can get away with a higher tax rate).

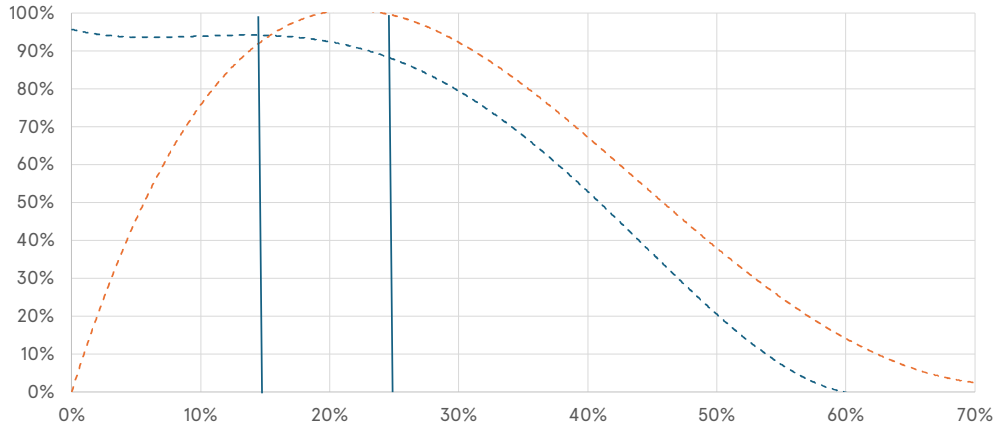
GGR / NGR Tax Rate (x-axis) vs Total Tax Generation (y-axis)



Source: H2 Premium, April 2025

However, a lower tax rate leads to higher onshore channelisation, which is a primary policy aim of a well-regulated market. Therefore, H2 estimates that a GGR / NGR tax rate of 15-25% is the optimum compromise of onshore channelisation versus tax generation.

Tax Generation (Red Line) vs Onshore Channelling (Blue Line)



Source: H2 Premium, April 2025

There are some regulators who believe that online gambling should be treated as other physical products, where an increase in tax – and therefore an increase in 'price' – will lead to a decrease in demand. Crucially, it is important to recognise that making gambling more expensive for customers by increasing the level of taxation in a regulated online market (even if done through taxation of operators, and not direct player tax) will not necessarily reduce the demand for online gambling, nor the risk of gambling addiction. On the contrary, such an approach more often than not drives players to unlicensed or illegal platforms offshore at the expense of promoting safer play.

4. Additional Taxes Taken Into Consideration

There are a number of markets that impose additional taxes / product fees on gambling operators. These could be a horse racing levy to support the industry (e.g. the UK), integrity fees for sports bodies (e.g. Australia), additional taxes to support public interest (e.g. France).

In Africa, in several markets under a state monopoly, operators are required to pay a monthly levy on GGR - common in Francophone countries such as Benin, Côte d'Ivoire, and Senegal. In others without a monopoly such as Ethiopia and Malawi, the regulator may still impose a levy on licensed operators to finance its operational expenses.

In themselves, these additional fiscal burdens do not have to be distortive to the industry, but regulators should take these into account when setting the underlying tax rate.

For example, having a 20% GGR tax rate, then imposing a 10% sporting integrity fee and a 5% social charge leads to a 35% effective tax rate – and it is this rate which must be looked at as the true tax rate, not the underlying 20% GGR tax.

5. Consider All Unintended Consequences

Finally, regulators should take into account any unintended consequences of tax policy. This has already been shown earlier in the report with the impact of a withholding tax, leading to riskier player behaviour and higher player losses.

Any tax regime should start with the question *"How does this impact the player?"* and *"What does this do to onshore channelisation?"* rather than *"Does this increase tax revenues?"*, as the optimal gambling regulation has a primary aim of maximising player protection rather than maximising tax revenues.

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Data driven solutions

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H2 Credentials

H2 – a sector-specialist analyst company headquartered in the UK - is widely recognised as the leading authority regarding market data and intelligence on the gambling industry. Together, our analysts have been tracking and forecasting the value of the sector since the mid-2000s. We have strong professional credibility and impartiality, and positive track record of delivering reports which stand up to scrutiny from a variety of stakeholders. Our services are regularly used as part of operator / supplier market analysis and also for policy formulation in the sector. Our independent analyses have helped many regulators and also governments in several countries develop both improved regulation and optimum market trading conditions within their jurisdictions.

The intelligence generated by H2's proprietary tracking and forecasting model is easily the most quoted source regarding the sector in published company reports, transaction documentation and buy- and sell-side analysts' notes, as well as in the trade / business media. The H2 core model now covers 175+ jurisdictions in over 100 countries and collates and compiles data via key **primary sources** that include:

- ✓ *Actual published primary / secondary market and organisation data*
- ✓ *Knowledge / assessment of the supply side by product vertical*
- ✓ *H2's own in-house tracking of activity*
- ✓ *Ongoing contact with private organisations / investors, including subscriber feedback*
- ✓ *Knowledge / opinion of third parties - including providers and other industry analysts.*

Market forecasts are based on a number of key **secondary drivers** including:

- ✓ *Maturity of product*
- ✓ *Expected product development*
- ✓ *GDP / broadband / mobile growth*
- ✓ *Benchmarked markets*
- ✓ *Incorporating the impact of past and expected legislation.*

H2 is partnered with Clarion Gaming and *iGaming Business* in the trade media and the International Betting Integrity Association within sports betting integrity. H2's data is also regularly quoted in much of the leading media outlets worldwide including *Bloomberg, The Economist, Forbes, BBC, Thomson Reuters, The FT, The New York Times* and *ESPN*.

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H2 Terminology

Products

Terminology does vary throughout the industry. We breakdown the gambling market as follows:

Betting	Betting / wagering on the outcome of a sports competition or other event or process; the likelihood of anything occurring or not occurring; or whether anything is or is not true.
Gaming	Covers all real money gaming activity that takes place with a licensed landbased or online casino – including table games (roulette, blackjack etc.), gaming (slot) machines and bingo.
Lotteries	Random number draw games or instant ticket / scratch cards offered by national or society / charity lotteries.
Landbased	Physical gambling activity at licensed premises, including bets over telephone.
Online	Activity that takes place via the internet (i.e. computer, mobile, iTV). May also be termed: interactive, digital, remote, iGambling or iGaming.
Mobile	Any activity using a device with a mobile operating system i.e. smartphone handset or tablet.
Channelling	Percentage of the online market that is via its onshore licensed operators.
CAGR	Compound Annual Growth Rate - the mean annual growth rate over a specified period of time longer than one year.

Illegal, Unlicensed or Offshore

Definitions of illegal, unlicensed or offshore market gambling do vary from jurisdiction to jurisdiction. H2's standard analysis normally categorises gambling spend into three main markets - activity where the operator is licensed onshore in the same jurisdiction as the player is located (aka **'white market'**); activity where the operator is licensed offshore in a different market (aka **'grey market'**), or activity where the operator is completely unlicensed or illegal (aka **'black market'**).

Gross Win / GGR

H2 utilises the **'gross win'** or **'gross gaming revenue' (GGR)** metric (i.e. stakes less prizes, but including any bonuses played) to value the gambling sector. This is due to the fact that across different product verticals, geographies and market channels pay-out rates are all different. Gross win or GGR also provides a much better reflection of operators' top line revenue as opposed to stakes, which can include the same money that has been recycled a number of times in many of the product verticals.