

WHAT EXACTLY ARE SIN TAXES? By Jonathan Hore

Welcome folks to today's instalment of tax articles where I want to walk you through what are commonly known as sin taxes. Hold on; I am not going to take you through a religious sermon. No, not at all, but I do that sometimes though. I want you to be enlightened on the concept of sin taxes and how they work. So, keep reading and enjoy the ride.

WHY SIN TAX?

Most religions accept that certain acts hurt the doer's social and spiritual well-being. I must hasten to state that there is nowhere in Botswana's tax acts where the term sin tax is used. But one can tell easily from the type of tax and the goods/services on which the taxes are levied that it is a sin tax. Technically, any tax that is levied in order to reduce the consumption of goods or services which are viewed as destructive to the consumer is likely to be a sin tax. The concept is basically that the more the public consumes the goods or services, their well-being or welfare is worsened. Without invoking any religious connotations, anything that causes loss of health, increases the risk of accidents, is likely to cause obesity etc, is viewed by the tax authorities as a 'sin.' So, it appears I am beating about the bush here and I just want to get specific now. Watch me!

ALCOHOL LEVY

The most common example of a sin tax in Botswana is the alcohol levy which is currently charged at 55% on the manufacture or importation of alcohol into Botswana. The 55% is imbedded into the price of the alcohol such that the retail price goes up. The more expensive the alcohol becomes, it is expected that its consumption decreases. However, those who study economics have what they call inelastic demand, which they also argue applies to alcohol. The concept of inelastic demand is that no matter the increase in the price, the demand remains constant mainly because alcohol consumers are addicted to it. They would rather cut on other basics such as food so as to maintain their alcohol consumption. But as the levy continues to go up, the consumer feels the pinch and is somehow forced to reduce the consumption.

To get a bit technical, the alcohol levy is added in the tax base that is used to levy VAT, so the VAT becomes a tax on a tax, i.e. VAT is charged on the alcohol levy, another tax. That is all meant to make the price of alcohol as high as it possibly can be to discourage its consumption. The experts tell us that alcohol consumption contributes to the following negatives: increased accidents; sexual immorality; the spread of diseases; quarrels and fights; increased chances of health deterioration and many more. So, now you understand why a sin tax is necessary?

Tobacco levy

The second type of sin tax is the tobacco levy, which is currently levied at the rate of 30%. The levy is charged on the importation or manufacture of tobacco in Botswana and just like the alcohol levy, it is embedded in the retail price of tobacco. Like the alcohol levy, VAT is levied on the cost after the tobacco levy.

Well, so why the tobacco levy? I don't smoke so I am clueless my friend. Wait, I think I know why. Experts attribute the following negatives to the consumption of tobacco products: increased risk of lung cancer; irritation of non-smokers and undesirable effects of passive smoking. It is said that passive smoking is a scenario where non-smokers who are in close proximity with a smoker are also affected because they inhale the smoke arising from the smoker. And they say passive smoking is more dangerous than actual smoking. So, that means that if a father smokes, his wife and kids are likely to catch lung cancer more than the father. I can't imagine causing lung cancer to my wife or children. Not in my lifetime.

SUGAR TAX

Well, some of you may have heard of the protracted debate in South Africa about the proposed sugar tax that tax authorities, in conjunction with health officials intend to introduce on SSBs, being Sugar Saturated Beverages, specifically fizzy drinks. The authorities say that South Africa has the most obese people in Africa and this mainly attributed to the consumption of fizzy drinks, which contain high sugar levels. I am yet to understand why they have not added cakes on the list. Man, I don't like that icing on cakes at all. Oh, sorry if I am getting too personal but honestly, why not on cakes?

ARE SIN TAXES GOOD?

Well, that's a very debatable matter but certainly, the effects of the sin taxes is to reduce the consumption of the destructive goods or services. The down side of sin taxes is that they increase inflation and may also result in the loss of jobs. But overall, sin taxes are embraced as good in many circles of society as they tend to protect the public from harmful substances and services.

Well folks, I hope that was insightful. As yours truly says goodbye, remember to stop 'sinning' so you don't pay sin taxes! Cheers.

Disclaimer: Jonathan Hore is a practicing Tax Consultant with over 17 years in Tax and Customs matters and writes on behalf of Aupracon Tax Specialists. The information contained in this article is of a general nature and is not meant to address particular circumstances of any person