



Florida Lawmakers Propose Sin Tax on Nightclubs

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In early February, the Florida House of Representatives' Finance & Tax Committee approved proposed bill language, intended to regulate and tax nightclubs in the popular tourist state.

Several states, such as Maryland and Tax, charge similar excise taxes on nightclub admission.

Taxing the Cover Charges

The proposed language, if entered as a bill and passed into law, would add a \$10 excise tax on admission to certain kinds of nightclubs, and require clubs to collect and maintain registries of customers' personal information, for later inspection by the state's Department of Taxation.

Despite the approval, the proposal has not yet been formally introduced as a bill.

The nightclub excise tax, intended to be used to fund increasing government anti-human trafficking efforts, may exacerbate the problem, according to Cato Institute Senior Fellow Dan Mitchell.

"You get a bigger underground economy with high tax rates, which means less revenue than anticipated, and also openings for organized crime and other bad guys," he said.

Responding to Incentives

"Regarding the proposal, I have to imagine that a \$25 cover charge, combined with record keeping, will kill off most strip clubs, so I don't think they'll get much money," Mitchell said. "Customers, presumably, will gravitate to substitute forms of entertainment."

Instead of increasing taxes on nightclub customers, Mitchell says the government should increase criminal penalties against convicted human traffickers.

“In general, crooks respond to incentives. If you increase the likelihood of getting caught or increase the expected severity of punishment, there will be a deterrent effect,” he said. “Protecting life, liberty, and property is one of the few legitimate functions of government.”

Jack Chambless, an economics professor at Valencia College, in Orlando, says Florida legislators’ sin tax is primarily an attempt to increase revenue, instead of helping crime victims.

Inelastic Demand Curves

“The major problem with a sin tax on strip clubs is the fact that demand for this form of entertainment is very inelastic. People who frequent these clubs are highly unlikely to be price-sensitive in response to a sin tax,” he said. “Just as we have seen with alcohol and tobacco, when prices rise, consumption falls very little.

“This is great for government in that revenues from the sin taxes increase, but the negative social aspects politicians tell us they are trying to reduce are rarely impacted,” he said.

‘Not a Cure for that Suffering’

Chambless says using tax policy to help curb human trafficking targets law-abiding customers, instead of criminals.

“Taxing strip clubs is only a monetary relief of suffering, but not a cure for that suffering,” he said.

“The clients at a strip club are most likely very different than the predators who violate the rights of other human beings. Redirecting tax dollars to aid victims of human trafficking is a laudable goal, but one that will not impact the market for slavery,” Chambless said.

Instead, he echoes Mitchell’s suggestion for stiffer penalties on convicted human traffickers.

“In order to impact the overall demand, the perpetrators have to believe that the probability of capture and conviction is high and the penalties severe. People who participate in human trafficking are self-interested, and will only alter their behavior if the benefits of trafficking are lower than the costs,” Chambless said. “The costs must be increased dramatically, or human trafficking will continue to grow. dramatically, or human trafficking will continue to grow.