

Tax on nightclub entrance fees



It is evident that a strong correlation exists between clubbing and crime rates. According to research by the University of Michigan in 2006, clubbing acts as a catalyst for crimes such as murder, arson, rape and drink-driving; in areas with a large number of nightclubs, the occurrence of these crimes was as much as 30% higher than areas with fewer nightclubs.

Not only does it increase the occurrence of these crimes, but it also often acts as a hub for drug-dealing, which in itself is linked to many other crimes. This link between crime and clubbing usually occurs because men tend to become more confrontational and physically and sexually aggressive as a result of excessive alcohol consumption. Another reason why clubbing has socially undesirable side-effects is its vulnerability to accidents, such as fire; for example, on 5th December 2009, 112 people were killed by a fire at a nightclub in Perm, Russia .

The clubbing culture pervades the UK from large cities to small towns. The 'over-consumption' of clubbing is a form of market failure because it produces negative externalities, meaning that some costs are borne by third parties; in other words, the marginal social cost is greater than the marginal private cost. To offset the welfare loss to society and control the increasing demand for public services in these situations, we would like to introduce an ad valorem tax on entrance fees to nightclubs. The tax would meet Adam Smith's four canons of taxation: equity, certainty, convenience and low administration costs. It would be horizontally equal - everybody would pay at the same tax rate. Besides, if the taxation is simple, people would have a clear idea of how the tax would be collected. Moreover, the tax would be easy to collect, so the collection cost would be significantly lower than the tax revenue.

Only adults can go to nightclubs so this tax would be aimed at people aged eighteen or above. From Monday to Thursday and on Sundays, the tax rate for any customer entering a nightclub before 9 pm would be 15% while the rate after 9 pm would increase to 30%

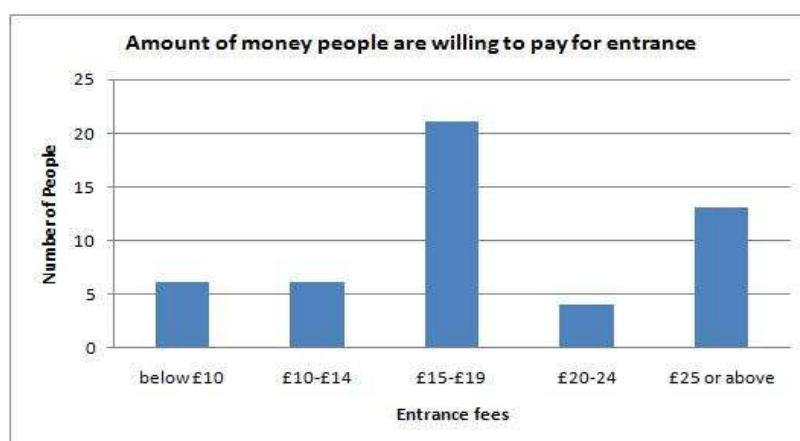
because more problems are likely to occur later at night. On Fridays, Saturdays and public holidays, the tax rate would always be 30% because more people would go to nightclubs on these days. The problem of ‘congestion’ of early clubbers would not occur because clubs have queuing systems which would restrict the number of customers. The tax would be a form of price discrimination: charging customers different prices.

We believe that fixing the tax fee would be unfair because the same amount of money has a higher value in the North of England compared to London, for example. Therefore, the solution should be a percentage tax on clubs' entrance fees. Also, we have considered the issue of age discrimination because younger people are, theoretically, likely to cause more negative externalities and should be taxed at a higher rate. However, there would be inevitable practical problems such as the use of counterfeit identity cards.

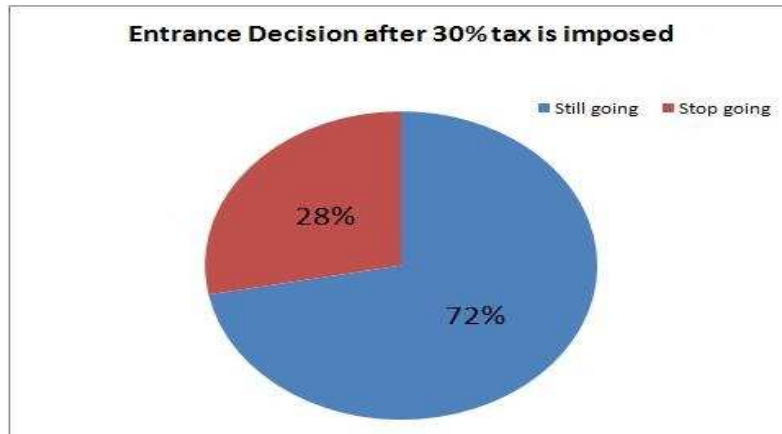
Tax rates		
	Days	
	Monday to Thursday, and Saturday	Friday, Saturday and Public Holidays
Before 21.00	15%	30%
After 21.00	30%	30%

We conducted a pilot survey of fifty clubbers in Oxfordshire. We are conscious that a full representative survey should be conducted on a sample of people from different age groups, income groups and regions; therefore our survey is only for reference. The survey was conducted to get responses from real individuals and get some sense of the impact that would result from the imposition of this tax. Three questions were asked:

1. How much are people willing to pay to go clubbing?
2. Will people still go if there is a 30% tax on clubbing?
3. Will people change their entrance time because of different tax rates?



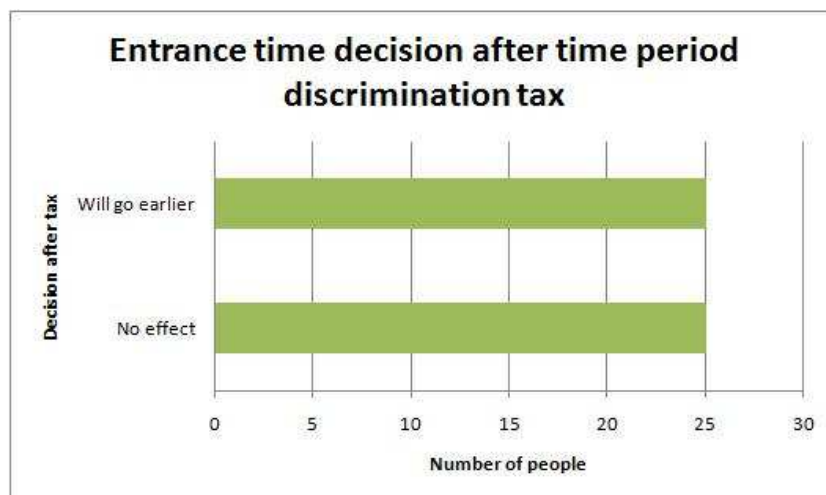
The different price ranges that clubbers would be willing to pay are shown above. It may be that lower income groups are likely to be more price elastic, and vice versa.



After the new tax is imposed, it would be inevitable for the industry to lose some customers. However, the data suggests it would keep the industry in business. This data suggests that the tax would probably shift the entrance time of customers earlier, which would reduce the external cost created.

Taxing price-sensitive customers would reduce the number of clubbers, therefore negative externalities may diminish. Taxing price inelastic clubbers would have the same effect, only with a much smaller magnitude. A change in price would lead to a less than proportionate change in the quantity demanded, so the number of price inelastic clubbers would not decrease greatly. However, it would generate significant tax revenue because the fall in the quantity of clubbers would be much smaller than the percentage change in price.

The tax revenue could either be used to compensate for the external cost or used in other areas if needed. It could be allocated to employ more police to reinforce public security or more medical forces to improve medical provision.



We believe that the new tax would be simple to calculate, easy and cheap to collect and the nightclub business would not be severely affected. It would successfully minimize the negative externalities created by clubbing and also raise tax revenue. The tax revenue collected could be used to compensate for the remaining external costs of clubbing as well as being beneficial to society.

References:

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