

The background is a vibrant green with various shades and textures. It features abstract geometric shapes, including a large wireframe structure that resembles a dome or a complex network of lines. There are also curved lines and circular patterns at the bottom right. The overall aesthetic is modern and artistic.

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THE ROLE OF SIN TAXES IN THE UNITED STATES

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Abstract

Sin taxes are excise taxes placed by the government upon items or activities they have determined are unhealthy for society and the individual in order to discourage and/or limit the consumption of said products. This literary analysis summarizes the findings of five different peer-reviewed articles on the topic of sin taxes. These functions as a regressive tax that can punish minority groups and play to the greed of government and politicians; further, little is suggested to rectify the situation barring removal of sin tax altogether, replaced by taxes that affect the majority.

Keywords: excise taxes, sin taxes, regressive tax, punishment taxation, minority taxation, limit consumption, curb desire, unhealthy, literary analysis

Sin taxes are excise taxes placed by the government upon items or activities they have determined are unhealthy for society and the individual to discourage and/or limit the consumption of said products (IRS, 2024). This literary analysis summarizes the findings of five different peer-reviewed articles on the topic of sin taxes. These articles each offer a different perspective on the topic, whether that be scientific, legal, fiscal, or scholarly opinion. The main consensus of the articles collected is that sin taxes, or excise taxes on products deemed undesirable, are caused by a need for more government revenue and a desire to curb the use of specific products which, as it stands, functions as a regressive tax that can punish minority groups and play to the

greed of government and politicians; further, little is suggested to rectify the situation barring removal of sin tax altogether, replaced by taxes that affect the majority.

Issue

Regardless of the perspective, the understanding of what sin taxes are is uniform; the main difference is tone. According to "The Semantics of Sin Tax: Policy, Morality, and Fiscal Imposition," the basic principle applied to sin tax is that "Morally problematic...activities can be discouraged..." (Carruthers, 2016, p.2565). This idea of morally problematic activities also extends to goods; "Sin Taxes and Sindustry: Revenue, Paternalism, and Political Interest" stated that goods labeled as sinful because they pose a threat to the health of the individual or are disliked by the general public are prime candidates to enhance revenue through sin taxation (Hoffer et al, 2014, p.47). As previously stated, these definitions are hardly unique, as each article had some version of this within the first few paragraphs. One article by Koomin Kim (2022), gave a new perspective in addition to the basic definition, providing that the ideology behind sin taxation is, "...grounded in the rational choice view...based on the assumption that individuals' behavior is motivated by self-interest and utility maximization" (p.259). This perspective is supported in the plebeian definition of sin tax, in that the effectiveness of sin tax is dependent on the spending habits of the individual.

Causes

Almost all the articles took the time to address why sin taxes exist. In the simplest of terms, sin taxes "...serve the dual purpose of raising revenue and discouraging consumption" (Carruthers, 2016, p.2567). According to Lucy Dadayan's (2019) article, "States' Addiction to Sins: Sin Tax Fallacy," "The first sin tax in the United States... on whiskey...to curtail drinking...largely created for the purpose

of paying off national debt incurred during the revolutionary war” (p.724). These articles display that the purpose of sin taxes have not changed since they first came into effect in the United States. Hoffer et. al.’s (2014) article takes a different approach to the cause, using the theoretical model that the problem is built on to show why it is a problem: “An implication of the public-choice model is that popular and seemingly well-intentioned policy interventions mask the underlying private motives of interest groups that stand to benefit from specific governmental policy actions” (p.55). Essentially, the article suggests that sin taxes may appear to be implemented in good faith, despite government officials having motives that differ from what is advertised to the public.

Consequences

There were a plethora of suggestions from the articles about the consequences of the continued use of sin taxation. Carruthers (2016) explained that the use of sin taxation can encourage tax evasion as well as illegal or black-market consumption (p.2568). Further, “Syntax on Sin Tax: The Supreme Court of North Carolina Invigorates the Just and Equitable Tax Clause” found that “notions of just and equitable taxation are inextricable from political morality...raises philosophical questions about the rights and responsibilities that exist in both the relationships between the government and its citizens and between the individual and the collective” (Milam, 2015, p.920). This suggests that the intentions behind sin taxation can be morally questionable, an idea that was also mentioned by Carruthers (2016), who stated that “...governments acquire a financial interest in activity that they otherwise condemn” (p.2568). Another article suggested that the main consequence was that the two supposed benefits of sin taxes null each other out in the long run. Specifically, it was stated that “the longer-term growth patterns for sin tax revenue have often been weak and limited...higher tax rates can decrease consumption, which lowers tax

revenue" (Dadayan, 2019, p.752). This mostly suggests that all the other consequences of sin taxes are met with no benefits.

Although these are important observations, the consequences that were most regularly discussed were the regressive nature of sin taxes and how the labeling of "sins" as "luxuries" can be misleading. In "The Semantics of Sin Tax: Policy, Morality, and Fiscal Imposition," Carruthers (2016) writes that the "Imposition of taxes on "luxuries" rather than "necessities" has implications for the perception of tax incidence" (p.2570). Tax incidence refers to who takes the primary burden of the tax. Since statistically luxuries are more often consumed by high-income individuals, one might assume that a sin tax is progressive even though it is regressive. This issue is further corroborated by Hoffer et. al. (2014), who stated that "Consumption taxes are regressive, low-income consumers, who have the fewest alternatives available to them, will shoulder the heaviest tax burdens..." (p.61). This burden could be considered a detrimental consequence all on its own, however, there is an even deeper issue that comes out of this misconception.

The consequences of this misinterpretation are detailed by Kim (2022), who stated that "...consumers may thus underestimate the costs of such goods, leading people to rationally consume sin goods at higher rates...because these products' full costs are not reflected in market prices. Most sin goods are addictive...higher prices...a means of discouraging harmful behavior" (p.259). One key element of something being a luxury, is the option to not consume or to consume for less. The addictive nature of many taxed sins combats this definition, if not literally, then at least morally, as it is much more difficult to choose not to consume something you have an addiction to.

Solutions

Despite the multitude of consequences listed, very little was suggested from the authors on what should be done about sin taxes.

Only Hoffer et. al. (2014) provided a solution. They stated that "... benefits to the public must be larger than the destruction of value to the individual...public finance argues in favor of raising revenue...by levying broader based but in some sense 'fairer' taxes on all" (p.61). This essentially indicates that the government should forgo sin taxation for a tax that affects all citizens, regardless of socioeconomic status. The other reviewed articles, although not explicitly stating a stance on what to do, suggested that the use of sin taxes are not beneficial, leading the reader to infer that sin taxes should not be used. All the sources suggested that politicians, scholars, and those working in finance should be thinking critically about the true reason that sin taxes are used. For example, both Dadayan (2019) and Kim (2022) point out the faults in the effectiveness of sin taxes, stating that the revenue benefits are insignificant (Dadayan, 2019, p.753) and the addictive nature of the "sins" prevents the taxes from truly curbing the behavior (Kim, 2022, p.276). Milam (2015) found that the issue of definition contributes to the inability to come to a solution. He stated that to find if sin taxes are useful, "The challenge...will be to define the parameters of the clause & determine which tax practices are so unfair as to be unconstitutional" (Milam, 2015, p.933). In summation, sources suggested further investigation on the framework of why and how America taxes sins and asked that readers and scholars consider whether sins should be taxed at all.

Conclusion

Although there were many different approaches to the subject of sin taxes, all the sources expressed a negative tone towards the use of sin taxes. There were two main objections to sin tax: first, for moral reasons and second, for the simple fact that sin taxes are not as effective as they might seem. The effectiveness was questioned in the more analytical sources because they were determining whether sin taxes succeeded at their dual purpose of increasing government

revenue and curbing bad habits. The consensus was that, in most cases, sin taxes are not effective at these tasks. It is perhaps the ineffectiveness, then, that makes way for the second issue of morality.

The opinion pieces questioned the moral consequences of sin taxing. To these sources, the issue with sin taxes was their regressive nature and their contribution to government greed. All these negative assertions about sin taxes seem as if they would lead to some call to action from the sources' writers, but only a few suggested anything, and the suggestions were simply to replace sin taxes with a more equitable and effective tax. ■

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