

Sin taxes do what it says on the tin

The government is quite keen to use small tax rises on particular products to change consumer behaviour. These seem to be very successful in their own terms.

Let's take the 5p bag tax. 5p is not a large sum of money on the average supermarket shop, though the average supermarket shop would often need more than one bag. Since the introduction of the 5p charge so called single use or thin plastic bags issued by the main super markets has plunged by 83%. Most of us now take longer life bags to the shop so we do not need to pay for more of these thin plastic holdalls. I have no problem with doing this myself.

We need to remember that some of these so called single use bags were used again for other purposes. I used them again for carrying, storing, or dumping waste through the refuse system. Now they have been largely phased out we need to make and use alternatives for dumping waste and for carrying things. There will be some loss of overall bag output, with more opportunities for bag producers to sell tougher longer lasting bags.

There is then the Sugar Tax. The government claims early victories for this recent introduction, as many makers of soft drinks changed their formula prior to the arrival of the tax to get the sugar content below the permitted maximum. As a result the government has now halved its estimate of the likely revenue from the tax. Levied at 24p a litre on high sugar drinks it is quite a price hike on these relatively low value items, but not a huge increase in the cost of a total food shop for those who want carry on drinking high sugar colas and similar.

These two examples show that quite small tax increases on everyday items will change behaviour markedly where the public buys into the need to make changes, or where the sum of money is annoying or difficult on a low budget. We now see a pattern to what happens with tax rises or new taxes. It should make the government extremely nervous about putting additional taxes on things like work and savings, where it generally says it approves, as these too can be adversely affected by increases in rates or by new impositions. We also see a pattern that revenue often falls short, and there are consequential reductions in related revenues.