

AMUSEMENT TAX: THE CASE OF TURKEY AND SWITZERLAND

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Abstract

Selective taxes on goods and services are widespread among developed and less developed countries. In Europe, small excise taxes – small with respect to their yields – have been abandoned during the twentieth century or absorbed into general taxes, but the large taxes on, e.g., tobacco or petroleum products remained. The objective of the full paper is to provide a general survey of the origins, the nature, the techniques, and the likely economic impact of the amusement tax, which so far has received little attention in the professional literature. The paper will concentrate on the amusement tax levied in OECD countries, and includes two case studies on Turkey and Switzerland.

Key Words: *amusement tax, excise taxes, public revenues*

JEL Classification: H27, H71

1. INTRODUCTION

Following Cnossen (2005), in contrast to general consumption taxes, excise taxes, among which the amusement tax is an example of a tax on a specific service, are selective in their coverage, and discriminating in their intent. Moreover, excise taxes need some form of quantitative measurement in determining the tax liability. Unlike a general tax on sales or turnover, which is justified by its ability to raise large revenues, the excise is justified on different grounds and seen as serving a special purpose.

The history of the amusement tax suggests that its origin, besides maybe raising some revenue at the local level, was to tax a “luxury” consumption, which was not available for the large public, as a complement or substitute of the taxation of income. Earmarking of the amusement tax has been widespread. The first amusement or entertainment tax seems to date from the 17th century when France introduced the so-called “droit des pauvres” (“right of the poor”), which was a transitory tax on the receipts of entertainment. As the name suggests, the revenue was earmarked to public assistance. The tax was later abolished by the regime of Vichy which replaced it by a permanent tax on games and entertainment to the direct benefit of the municipalities.

Other European countries followed the example of France by introducing a so-called amusement tax (Açikgöz Ersoy, 2010, and Diggelmann, 1944). In Germany, ever since the days of the Prussian Land Law (1794), the taxation of amusements is known. In general, the German States left this tax resource to the municipalities. As the tax rates varied from one municipality to the other, the revenues were highly unequal. In Denmark, the municipalities had been levying charges in favor of the poor already for decades at the expense of theaters, music-halls, etc., before introducing a real ticket tax in 1911. The breakthrough of the amusement tax came during and after World War I due to the extraordinary increase in financial needs which called for the development of new tax revenue sources. In many cases, the amusement tax was recognized as a convenient and profitable way of taxing. The initial character of the amusement tax as a charge in favor of people in need remained mostly unnoticed. In 1916, England introduced the amusement tax as a state tax as part of a comprehensive war finance program; Australia and New Zealand followed shortly after. Italy knows the general amusement tax as a state tax since 1919; by 1915, a stamp duty was introduced on cinema tickets. Belgium introduced in 1913 a cinematographic tax, before generalizing it in 1920 to other events as a state amusement tax. In 1918, Germany picked up the idea of a single universal amusement tax for the whole

territory of the Reich; but the project was only realized in 1923. In many other countries, the amusement tax was also introduced but as a municipality tax, as in the case of the Principality of Liechtenstein, Sweden, Holland, Soviet Russia, and Czechoslovakia. Since 1917, the United States of America also levy amusement taxes. Turkey introduced the amusement tax in 1926 as a state tax. Finland also introduced a stamp tax on cinema tickets. In Switzerland, in 1845, the canton of Geneva was the first to introduce the amusement tax based on the French model, and thus set the starting point for the consideration of the historical development of Swiss amusement taxes (Diggelmann, 1944).

The “amusement” tax may cover a variety of services. The tax is usually levied on the sale of entry tickets, admission charges or on gross receipts of defined types of cultural events (movie shows, theatre performances, concerts, expositions, conferences, circuses, zoo and museum visits, etc.), sports and other recreational events, including night clubs, cabarets, game businesses or fairground attractions. Sometimes an “amusement” tax can also be levied on sales of particular goods, such as musical machines or slot machines, or as a complement to the admission charges on certain items consumed during the performances. Moreover, in many countries, gambling, races, casinos, lotteries, bookmaking and games, and similar activities, are separately taxed. However, the service tax on amusements should be distinguished from taxes, fees or licenses levied for regulating the exercise of amusement businesses including particularly pinball and video games, and slot machines, but also, e.g., theatre or concert premises, etc. Those license taxes may be levied, usually independently of the value or number of entries, at a flat rate or on the basis of seating capacities or the value of the premises.

The tax rates are often unique (e.g., 14 per cent on ticket prices as in the city and municipality of Lausanne / Switzerland), but may differ for cultural policy reasons (e.g., foreign and domestic movies as in Turkey). Multiple tax rates usually come along with problems to implement the tax in face of border cases depending on the definition of the events and the additional administrative costs.

2. AMUSEMENT TAXES IN THE OECD

Out of the 34 member countries of the OECD, the amusement tax shows up in the OECD revenue statistics only for about nine countries, under the heading of “taxes on specific services” of the OECD classification of taxes. Germany’s amusement tax (“Vergnügungssteuer”) is basically a tax on slot machines on the level of municipalities and cities (besides Bavaria). However, depending on local regulations, admissions to dance halls, cinemas, and nightclubs, are also taxed. France applies a special tax on the price of the seats of cinemas. The revenues are

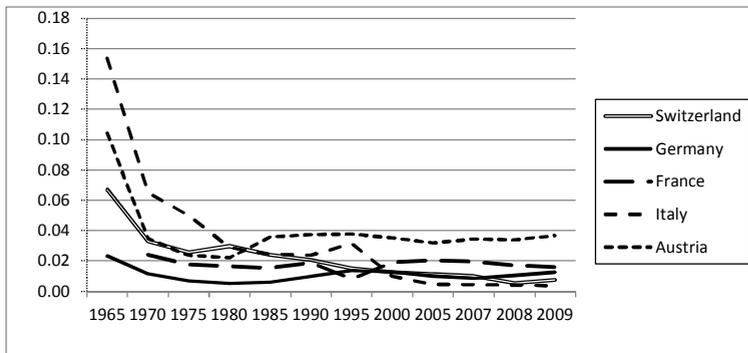
paid into the national cinematographic fund which promotes the creation and production of films. In Italy, until the reform of 1999, the central state tax (“imposta sugli intrattenimenti”) was levied on entertainment involving a performance (cinema, sporting events), and on simple amusement (games, billiards, etc.), as well as on betting paid by the participants and on the gross revenues of casinos. The reform has abolished the tax for some events (e.g. admission to nightclubs, discos) and reduced it for shows, e.g. cinemas, circuses or theatres. Since then, revenues fell by two thirds. In Austria, the municipalities in all federal states can levy a non-earmarked tax on different forms of amusement events and shows (“Lustbarkeitsabgabe” or “Vergnügungssteuer”). In addition, the majority of the federal states taxes the licencing of radio and TV, and three states tax public events for educational (conference) and entertainment purposes, as well as, for example, the operation of slot machines as part of a business.

Besides those countries, the Canadian provinces and local authorities may apply amusement and admission taxes (0,034% of GDP in 2009). The amusement tax provides lower, negligible revenues in Luxembourg (“taxe sur les amusements publics (nuits blanches)”), or in the Czech Republic on entry tickets on some entertainment. Some OECD member countries abolished the amusement tax altogether, e.g., the Netherlands or Denmark (cinema) in the seventies, and Japan in the eighties. On the other hand, some OECD countries might still have some form of an amusement tax, although their revenues do not appear explicitly in the OECD revenue statistics. This is the case of Turkey (as discussed below) and, e.g., the United States where the states and local authorities tax admission tickets and charges or gross receipt of specified amusement businesses (whose revenues stopped to appear separately during the eighties in the OECD statistics).

Figure 1 shows the revenue derived from the amusement taxes existing in Switzerland and its immediate neighbours as a percentage of GDP during the period 1965 to 2009 (note that the municipalities of Liechtenstein, also a neighbour country, are legally entitled to levy such a tax, but none of them does it). The relative yield of all countries shows a long term declining trend, excepting Austria, although the ratio for this country is fairly stable since the eighties.

The same picture emerges when tax revenue is compared to total tax revenues which include in the OECD statistics contributions to compulsory social security institutions. Except in Austria where revenue amounts in 2009 to a bare 0.09% of total tax revenue, in all other countries the amusement tax represents less than 0.05 per cent (0.03% in the case of Switzerland).

Figure 1: Amusement tax in Switzerland and its neighbour countries, 1965-2009, in percentage of GDP



Source: OECD (2011), World Development Indicators 2011.

The following section highlights the experience in Switzerland where the amusement tax (“Vergnügungssteuer”, formerly also “Billettsteuer”) may exist on the state (“cantons”) and local level (municipalities). One must remember that the cantons enjoy a very large autonomy from the central state in tax affairs, and municipalities may also decide to levy an amusement tax if superior state tax laws permit it.

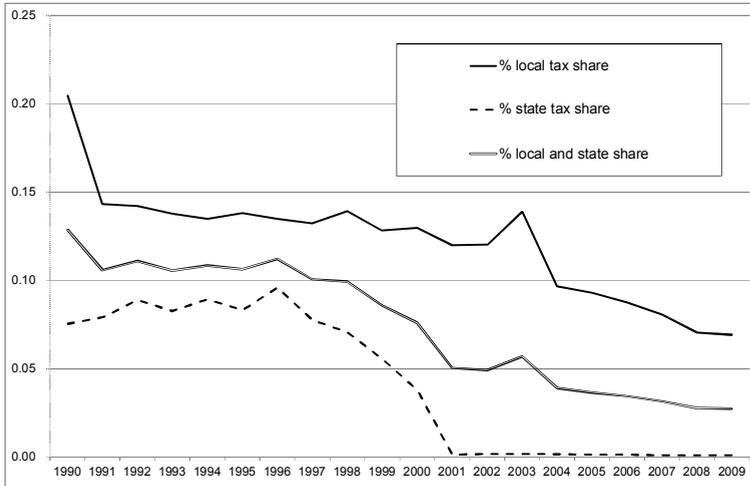
3. AMUSEMENT TAXES IN SWITZERLAND

The official financial statistics of Switzerland show in 2009 revenues from the amusement taxes amounting to some 41 million francs (34 million euros), having subtracted for 2009 a large error in classifying the revenues of other taxes in one canton and having added the missing amusement revenue from the city of Lausanne. In other terms, the tax amounts to 0.06% of total state and local tax revenues raised by the 26 states (cantons) and 2’636 municipalities. Unfortunately, the official published figures, as do consequently the OECD figures, include various other revenues (e.g., taxation of casino operations, lottery stakes, and slot machines).

Figure 2 shows the evolution of revenues of the amusement tax in percentage of total tax revenue of the corresponding government level from 1990 to 2009, after correcting for other revenues and other errors. This share of the amusement tax fell rapidly from about 0.8% in 1960 to 0.2% of tax revenues in 1990, and continued decreasing since then. The effective tax revenue in 2009 is now 17.36 million francs (14.4 million euros), whereby 0.45 million concern the only and last remaining amusement tax at the state level (Ticino, on cinemas, earmarked to

the promotion of cinematography). About 70% of the tax revenues are now generated by the two cities of Lausanne and Lucerne only.

Figure 2: Amusement tax revenues, 1990-2009, tax share in % local and state administration



Source: Federal Finance Administration, Financial statistics, own calculation.

The declining importance of the amusement tax has one foremost explanation: its popularity has progressively and rapidly declined in face of the development of alternate entertainment possibilities (TV, video/DVD, internet, games, etc.), and the competition between regions and towns for hosting large events such as music festivals and rock concerts. The cantons of Basel and Geneva scrapped the taxation of such events including cinemas, theatre performances and other taxable events in 2000. At the municipality level, Zurich abandoned the tax in 1990, followed in the nineties by seven other cantons, and three more afterwards. Besides Lucerne and Vaud (capital city: Lausanne), some of the municipalities of Fribourg and Neuchâtel are persevering in taxing entertainment. A stagnant tax base is one other explanation of the relative decline of the amusement tax as sources of finance for government, and in face of this tendency the authorities were unable or unwilling to raise the rates. As a consequence, revenues from amusement taxes when still applied rose slowly, and were outpaced by the revenues from the progressive income tax, and other direct taxes, which yields the overwhelming part of the tax revenues at state and local levels. For instance, in Lausanne (city and municipality) the revenue from the amusement tax increased nominally by 25 per cent whereas total tax revenue doubled since 1990.

4. THE TURKISH AMUSEMENT TAX

The amusement tax in Turkey is based on state regulation/law under the Municipalities Revenue Law. According to it, Turkish municipalities have different revenue sources (Municipality Law, Law No. 5393, 03.07.2005, article 59). These are: a) Municipal taxes, rates, fees and contributions, b) Transfers from central budget under a revenue sharing system, c) Transfers from general and special budget administrations, d) Revenue from moveable and immoveable properties, e) Charges for services, f) Revenues from interest and fines, g) Donations, h) Other revenues. Tax revenues from the amusement tax represent overall, comparable to other OECD countries, nearly 0.02% of total tax revenues in 2009, and 0.36% of total municipality revenues.

Table 1 shows the tax base and the rates which have to be applied uniformly at the local level, compulsory for all local authorities. There are five different rates each applying to a specific tax base. Cinema entries are taxed differently depending on whether the movie is of foreign or domestic origin. Unlike the other rates decided by the central government, the flat rates are decided by the city council.

Table 1: Amusement tax amounts and rates in Turkey

| Tax Base | Tax Rate |
|--|---------------------------------|
| I – For places entered by ticket: | |
| 1. For domestic movies | 20% |
| 2. For foreign movies | 50% |
| 3. For theatre, opera, operetta, ballet, light comedy | 5% |
| 4. For sport contests, horse riding, and concerts | 10% |
| 5. For circus, funfair, gardens with music, and similar activities | 20% |
| II – For bookings made: | 5% |
| III – For places entered without ticket: (Daily Turkish Lira) | Minimum 5 TL, Maximum 100 TL |

Source: Law 2464 of the Municipal Revenues (Belediye Gelirleri Kanunu, 2010).

In Turkey, the tax collection is organized in the following way. Every city has one metropolitan municipality and several county municipalities. Metropolitan municipalities collect the amusement tax only from their main streets, open spaces, and other areas for fun activities. In other places, the amusement tax is collected by county municipalities. But, in practice, county municipalities collect the amusement tax only from cinemas via its tax office because administrative costs for county municipalities are sometimes higher than tax revenues. On the other hand, collection costs are relatively low for metropolitan municipalities. For

example, the Izmir Metropolitan Municipality is using the same manpower for collecting and auditing different kinds of taxes, thus reducing unproductive time. In addition, some of the taxes collected from, e.g., hippodromes, are directly transferred electronically as a percentage of the hippodrome revenues.

5. CONCLUSION

Taxes are generally disliked but recognized as an unpleasant necessity. Hence, designing a tax or tax system has always been a subject of great controversy. According to Stiglitz (2000), a “good” tax (system) should respect the following five characteristics: First, the tax should not be distortionary, i.e., it should not interfere with the efficient allocation of resources. Indeed, it should be used to enhance overall *economic efficiency*. Secondly, the tax system should be easy and relatively *inexpensive to administer*. Thirdly, the tax system should be *flexible* allowing easy (or even automatic) adjustments to changing (economic) circumstances. Fourthly, political responsibility: the tax system should be *transparent*. And fifthly, the tax system ought to be *fair* in its relative treatment of different individuals.

The contribution to the financing of government has a clear tendency to decline in developed economies and has become nowadays negligible. The increased mobility of consumers, competition among cities for cultural and sports events, in countries where different rates apply, as well as the development of alternative (untaxed) products and services has considerably limited the revenue raising performance of the tax. In developed economies, the rising standard of living and the appearance of a large choice of substitute goods and service for leisure might have increased the price-elasticity of the tax base and the possibilities to avoid the tax even locally, e.g., lowering the (taxed) admission price eventually up to zero and rising instead the prices of complementary products (e.g. food and beverages). In addition, the potential tax base has already been or is likely to be further reduced by exempting small or charity events or events held by local (non-profit) organisations.

Taxing substitute goods or activities is likely to increase considerably the cost of administration. By large, the administrative cost of the amusement/entertainment tax is said to be low, but it is much higher than the marginal cost of increasing an existing tax which is subject to large economies of scale (e.g., local income or property tax).

The feeling that the consumption of leisure and entertainment are morally not desirable for society could have played a role in justifying the introduction of

amusement taxes, especially since these “luxuries” were reserved to a wealthier and small part of the population. Entertainment and leisure activities have widely expanded and democratized, and are no longer the preserve of a minority of the population. Concerts, film shows or theatre performances are no (longer) regarded as luxury consumption. The direct distributional incidence of the tax could have been reverted. On equity or fairness grounds, the tax is therefore “difficult to justify in industrial economies with sufficient administrative capacity to levy comprehensive, graduated income taxes” (Cnossen, 2005, p. 6).

Earmarking the revenue to uses reflecting social concerns like benefitting the poor or the financing of alternative “accessible” and popular cultural events, or as a general support of cultural policy might have increased or preserved the acceptance of the tax (in case of the last two larger Swiss cities levying an amusement tax).

The internalisation of external costs is not put forward in justifying the taxation of amusement and entertainment events. Nevertheless, cities and urban centres provide central services benefitting the suburban and surrounding areas but are not or not fully compensated for the costs incurred. The price of the entry ticket does indeed not cover the entire cost of the classic cultural performances, such as theatre, or concerts, which are subsidised by local authorities (this is not the case for a large number of purely commercial ventures, which are organised for a large audience). Taxing the services consumed by the non-residents of the agglomeration can take into account these geographical spillovers of benefits. It happens however that the revenues collected by the amusement or entertainment tax often do not, and by far, cover the costs and subsidies borne by the local taxpayers. On the other hand, subsidising “non-commercial” events is justified by their supposedly external benefits for the population but also by the effect of attracting outside visitors, who generate income and additional revenues for the city.

Hence, to conclude, the main arguments in favour of the amusement tax are the provision of financial resources (though constantly decreasing), the financial contribution of non-residents (at least partially) to the cost of providing or subsidising the services which are taxed, and the possibility to easily adapt the tax to changed circumstances (e.g., by allowing certain exemptions). The main arguments against it are the stimulation of economic and cultural activities (e.g., because of lower admission fees), the existence of administrative and perception costs (even though they seem to be generally low the perception might be complicated), and an overall falling acceptability of the tax by the population.

Concerning the case of Turkey in particular, if government does not think of any tax surcharge (hike) in the near future, this tax will not suffer the same fate as in the case of other OECD countries. Moreover, unlike in Switzerland, the amusement tax is almost the same for all of Turkey, so that there is no tax induced competition among Turkish municipalities. On the other hand, as the rates and the tax base are decided by central government, local specificities can hardly be entirely understood by the Centre, and the tax will unlikely cover all amusement activities. Thus, because of the central decision making process, the revenue from this tax will remain limited.

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