



Sugar-Sweetened Beverage Tax Policy Brief

Executive Summary

Two of the most pressing priorities for advancing children's health are ensuring that children's health programs, such as Medicaid and the Children's Health Insurance Program (CHIP), continue to receive adequate funding and combating the childhood obesity epidemic. Both of these problems must be addressed now to preserve the gains made for children in the Affordable Care Act (ACA) and provide a foundation for improving child health outcomes in the years to come.

Medicaid, CHIP, and other health care programs that serve children and families face increasing demands (including the current recession) and require stable funding sources. Because of this situation, we need to advocate for revenue options that will ensure adequate funding levels for children's health priorities.

At the same time, more than one in six children in the United States are obese and the rate has tripled in the past 30 years. Childhood obesity is linked to a number of debilitating and expensive diseases including cardiovascular disease, diabetes, hypertension, several kinds of cancer, and other chronic conditions.¹

There are four key decision points that must be addressed related to a sugar-sweetened beverage (SSB) tax, as shown in the following chart:

Key SSB Tax Decision Points
Scope of the SSB Tax Definition
Type of SSB Tax (Sales vs. Excise)
Rate of the SSB Tax
Use of SSB Tax Revenues

This brief describes the different policy choices related to each of these decision points and makes the case that an excise tax of one cent per ounce levied on SSBs would be the most effective form of an SSB tax.

Scope of the SSB Tax Definition

As a broad category, SSBs are defined as beverages that contain added caloric sweeteners. These include all "sodas, fruit drinks, sport drinks, low-calorie drinks and other beverages that contain added caloric sweeteners, such as sweetened tea, rice drinks, bean beverages, sugar cane beverages, horchata and nonalcoholic wines and malt beverages." These drinks are major contributors to the

¹ The Robert Wood Johnson Foundation. (2009, November). *The Negative Impact of Sugar-Sweetened Beverages on Children's Health*. Retrieved from <http://www.rwjf.org/files/research/20091203herssb.pdf>, p. 1.

childhood obesity epidemic. And for the last 30 years, children have been increasing the amount of SSBs they consume. As of 2004, children consumed an average of 300 calories per day from SSBs, which represents 13 percent of their daily calories.²

An SSB tax can be structured broadly to include all SSBs or can be narrowed to include only certain types of SSBs such as soda. For either a broad or narrow SSB tax, a legislative definition that makes clear which type (or types) of SSBs would fall under the tax and which would be exempt needs to be developed.

For instance, a bill introduced in the New Mexico Senate (SB 243) contains an example of a broad SSB tax definition: “‘sweetened beverage’ means a nonalcoholic beverage, whether carbonated or noncarbonated, sold for human consumption, that contains five grams or more of added sugar or other caloric sweetener per twelve ounces; ‘sweetened beverage’ includes soda, water, sports drinks, energy drinks, colas and flavored drinks; diluted fruit or vegetable drinks containing seventy percent or less of natural fruit juice or natural vegetable juice; frozen, freeze-dried or other concentrates to which water is added to produce a nonalcoholic beverage containing less than seventy percent natural fruit juice or natural vegetable juice; a powder or base product; and coffee or tea bottled as a liquid for sale.”³ This definition includes a wide range of beverages and would only exempt a small number of items.

In contrast, a more narrow definition was used in a bill proposed in the Connecticut Senate (SB 38): “That chapter 219 of the general statutes be amended to impose a tax of one cent per ounce on all carbonated soft drinks in liquid form intended for human consumption.”⁴ This definition likely includes only beverages commonly thought of as soda.

Type of SSB Tax (Sales vs. Excise)⁵

There are two potential types of SSB taxes: sales taxes and excise taxes. Both have advantages and disadvantages even though on balance an excise tax is likely to be the most effective form of SSB tax in terms of its potential to alter consumer behavior.

A sales tax is defined as “a tax levied as a percentage of the price of an item. It is applied at the cash register, and therefore shows up on the customer’s receipt *after* purchase.” The advantages of using a sales tax as an SSB tax are:

- Most states already have the infrastructure necessary to collect a sales tax easily.
- The revenue raised from a sales tax rises with inflation because as an item’s price increases, so does the tax amount.

² Ibid.

³ An Act Enacting the Sweetened Beverage Excise Tax Act, S. SB 243, 49 Leg., 2d Legis. Sess. (N.M. 2010), <http://legis.state.nm.us/Sessions/10%20Regular/bills/senate/SB0243.pdf>, p. 3.

⁴ An Act Imposing a Tax on Soft Drinks, S. SB 38, 2010 Leg., February Legis. Sess. (Conn. 2010), <http://www.cga.ct.gov/2010/TOB/s/pdf/2010SB-00038-R00-SB.pdf>, p. 1.

⁵ Yale University Rudd Center for Food Policy and Obesity. (n.d.). *A Glossary of Terms Related to Sugar-Sweetened Beverage (SSB) Taxes*. Retrieved from http://www.yaleruddcenter.org/who_we_are.aspx, pp. 1-2.

However, the disadvantages of a sales tax include:

- Consumer behavior is less likely to be altered by a sales tax because the tax is levied at the point of sale and not apparent to the consumer when he or she makes the decision to purchase an SSB.
- Sales taxes may offer an incentive for consumers to buy larger volume containers of SSBs because the tax per ounce decreases as the volume increases.
- Sales taxes may also offer an incentive for consumers to purchase less expensive brands with the same caloric content instead of choosing not to purchase an SSB at all.

An excise tax is defined as “a tax levied as a fixed amount per unit of measurement (e.g., ounce, gallon, case, etc.) on the producer of certain goods.” The tax is then built into the price a consumer pays for the item. The advantages of using an excise tax as an SSB tax are:

- An excise tax may have a greater effect on consumer behavior because the tax is built into the purchase price of the item, which is what the consumer sees as he or she makes the decision to purchase the item.
- Excise taxes may offer a disincentive for consumers to buy larger volume containers of SSBs because the tax increases as the volume increases. This differs from a sales tax, which does not increase relative to a product’s volume.

The main disadvantage of an excise tax is that it does not naturally rise with inflation but this issue could be addressed by explicitly indexing the rate of the tax to inflation.

Rate of the SSB Tax

The March 2010 *Health Affairs* states that: “A tax of one cent an ounce on sugar-sweetened beverages—about a 10 percent price increase on a twelve-ounce can—would be likely to be the single most effective measure against the [childhood] obesity epidemic.”⁶ A systematic review of 160 studies related to the price elasticity of demand (a measure of how responsive demand is to changes in price) for major food categories found that soft drinks were responsive to price changes such that a 10 percent increase in price should reduce consumption by approximately 8 percent. However, if the rate of the tax is increased or decreased, its effects on consumption will also vary. For every 1 percent increase in price, consumption is estimated to decrease by approximately 0.8 percent.⁷ The rate of the tax, therefore, can be scaled up or down depending on policy goals and political concerns.

Use of SSB Tax Revenues

Revenues generated by a tax on SSBs can be used to provide states with much needed revenue to help them protect their public insurance programs, including Medicaid and CHIP, from damaging

⁶ Frieden, T. R., Dietz, W., & Collins, J. (2010, March). Reducing Childhood Obesity through Policy Change: Acting Now to Prevent Obesity. *Health Affairs*, 357-363. doi:10.1377/hlthaff.2010.0039, p. 358.

⁷ Andreyeva, T., Long, M. W., & Brownell, K. D. (2010). The Impact of Food Prices on Consumption: A Systematic Review of Research on Price Elasticity of Demand for Food. *American Journal of Public Health*, 100(2), 216-222. doi:10.2105/AJPH.2008.151415, p. 216.

cuts and restrictions, reimbursement rate reductions, service limitations, and co-payment increases. Maintaining affordable, accessible, and robust public insurance programs is especially important in the context of the ACA because the framework for coverage that the law creates uses Medicaid and CHIP as its cornerstone.

Additionally, revenues can be allocated to help address the childhood obesity epidemic by providing funding to targeted public health initiatives aimed at reducing childhood obesity. Examples of such initiatives include: comprehensive and statewide obesity prevention programs, subsidies for the purchase of healthy foods such as fresh fruit and vegetables—especially for low-income communities, safe routes to schools, physical activity programs including local physical education, recruitment of supermarkets for low-income areas, and public education campaigns.⁸

⁸ Yale University Rudd Center for Food Policy and Obesity. (2009, Fall). *Soft Drink Taxes: A Policy Brief*. Retrieved from <http://www.yaleruddcenter.org/resources/upload/docs/what/reports/RuddReportSoftDrinkTaxFall2009.pdf>, p. 5.