F I S C A L   I M P A C T   R E P O R T

SPONSOR Ortiz y Pino **ORIGINAL DATE** 2/12/06 **LAST UPDATED** **HB**

SHORT TITLE Soft Drink Sale Gross Receipts **SB** 724

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	1,252.0		Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB228.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Health (DOH)
Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 724 proposes removing soft drinks and nonalcoholic flavored beverages containing a sweetener additive such as corn fructose, sugar or aspartame from the list of foods eligible to receive a gross receipts tax deduction passed by the 2004 Legislature.

The effective date of these provisions is July 1, 2006.

FISCAL IMPLICATIONS

According to TRD, the American Beverage Association reports that in 2004 the average American consumed 52 gallons of soft drinks per year. Assuming New Mexico's population means that about 100 million gallons of soft drinks are consumed in the state each year. About 77 percent of soft drink products are packaged and therefore are likely to be sold in a retail food store, but only about half of these sales occur in retail food stores that qualify for gross receipts tax deductions from food. TRD assumes that a half gallon of soda costs about $1.

TRD believes reinstating the gross receipts tax on soft drinks will increase revenue by about $1.3 million per year. This estimate includes the direct effect of reinstating the tax as well as the effect of removing the local government hold harmless provision for soft drinks.

SIGNIFICANT ISSUES

Senate Bill 724 attempts to reduce consumption of soft drinks by increasing their price relative to other beverages.

According to DOH, a 12 ounce can of non-diet soda contains 10 teaspoons of sugar. Consumption of soft drinks is associated with obesity.

PED believes the bill may increase student performance because performance is positively linked with nutrition.

ADMINISTRATIVE IMPLICATIONS

TRD reports that implementing the food and medical deductions has been unusually complicated and expensive due to programming necessary to distribute hold-harmless payments to local governments. Changing the definition of food items eligible for the deduction will cause administrative problems to grow.

TRD also notes that retail food stores selling "soft drinks" will have to retain a tally of soft drink sales on which gross receipts tax must be paid. Retailers will have to recode systems.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 724 relates to Senate Bill 228, which creates a soft drink tax.

TECHNICAL ISSUES

TRD notes that the term "soft drink" should be defined. Some juices, fruit-flavored drinks, energy drinks, flavored bottled water and bottled tea and coffee drinks contain sweeteners equal to the amount found in "soft drinks" but are not excluded from the provisions of this bill.

SS/nt