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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/17

SPONSOR Ortiz y Pino LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Carbonated beverage gross receipts SB 232

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
0.0	\$4,900.0	\$5,100.0	\$5,200.0	\$5,300.0	Recurring	General Fund (deduction)
0.0	\$740.0	\$750.0	\$770.0	\$790.0	Recurring	Counties (deduction)
0.0	\$1,960.0	\$2,000.0	\$2,050.0	\$2,090.0	Recurring	Munis (deduction)
0.0	\$2,010.0	\$1,940.0	\$1,860.0	\$1,750.0	Recurring	General Fund (hold harmless)
0.0	(\$400.0)	(\$390.0)	(\$370.0)	(\$350.0)	Recurring	Counties (hold harmless)
0.0	(\$1,610.0)	(\$1,550.0)	(\$1,490.0)	(\$1,400.0)	Recurring	Munis (hold harmless)

Parenthesis ( ) indicate expenditure decreases. \*\* R = recurring; NR = non-recurring

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	R or NR **	Fund Affected
<b>Total</b>	Minimal	Minimal	Minimal	Minimal	NR	TRD Operating

Parenthesis ( ) indicate expenditure decreases. \*\* R = recurring; NR = non-recurring

### SOURCES OF INFORMATION

LFC Files

No Responses Received From

### SUMMARY

#### Synopsis of Bill

Senate Bill 232 reduces the food deduction (7-9-92 NMSA 1978) and the companion hold harmless distribution (7-1-6.46 and 7-1-6.47 NMSA 1978) for the value of carbonated beverages.

The effective date of this bill is July 1, 2017

**FISCAL IMPLICATIONS**

A recent report commissioned by the United State Department of Agriculture is titled, *Foods typically purchased by Supplemental Nutrition Assistance Program (SNAP) households*, November 2016.

	SNAP Households			Non-SNAP Households		
	\$	%	Derived	\$	%	Derived
Soft drinks 12/18 and 1 l cans carb	\$164.6	2.50%	\$6,584	\$601.2	1.91%	\$31,476
2 l btls carb	\$70.9	1.08%	\$6,565	\$230.1	0.73%	\$31,521
20 pk and 24 can pk, carb	\$39.7	0.60%	\$6,617	\$106.4	0.34%	\$31,294
Soft drink multipak carb	\$34.0	0.52%	\$6,538	\$173.6	0.55%	\$31,564
Soft drink, single carb	\$27.8	0.42%	\$6,619	\$71.4	0.23%	\$31,043
	\$337.0	5.03%	\$6,700	\$1,182.7	3.66%	\$32,300

The overall study found few significant differences between SNAP and non-SNAP households, except that 5.03% of SNAP households eligible food purchases were carbonated beverages. Non-SNAP households devoted 3.66% of their food purchased to carbonated beverages. As of December 2016, the state had 257,000 SNAP households.

Using these percentages, and applying them to NM population-weighted “Food- at-home” averages from the Bureau of Labor Statistics, Consumer Expenditure Survey, LFC staff calculate that the average New Mexico household spends \$150 a year on carbonated beverages out of a total food expenditures of \$3,836. These are 2015 statistics.

The bill does not alter the exemption for food purchased with SNAP EBT cards. Thus, we must correct the total estimated revenue gain for these SNAP purchases of carbonated beverages. This reduces the general fund and local government revenue gain from the proposal.

The total county and municipal tax rates and the hold harmless distribution rates were obtained from an RP500 based spreadsheet, that was built to calculate the impact of adjusting the hold harmless distributions.

**SIGNIFICANT ISSUES**

While apparently the major thrust of this bill is to increase revenue, there is a possible collateral benefit to our children and to our adult population. Carbonated and sugared beverages have been implicated as being a major cause of the adult and child obesity epidemic in the US and the increase in both juvenile and adult-onset diabetes. This latter is a particularly acute concern for our Native American and Hispanic populations. There is little data to link higher taxes and thence, lower consumption to improved health outcomes. But whether the price elasticity of purchase of carbonated beverages is -.3 or -.2, there will be some decreases in consumption attributed to this proposal. This is not a certainty, since an alternative purchase to carbonate beverages is other sugary drinks. The estimate above does not assume a volume reduction.

## PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the reduced food deduction and other information to determine whether the deduction is meeting its purpose. On the other hand, asking taxpayers to furnish these data would probably not warrant the TRD costs of capturing the data and preparing a report.

## ADMINISTRATIVE IMPLICATIONS

The primary impact to TRD will be taxpayer education. This will be particularly difficult because carbonated beverages paid for with SNAP EBT cards will be tax exempt, but all other purchases of carbonated beverages will be taxable. Purchases of non-carbonated fruit juices will be deductible. These will be difficult lines to explain and equally difficult for food markets to program into their cash registers.

## TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date. The benefits of this proposal in revenue terms, may not be accompanied with any observable effect on health outcomes or the acknowledged substantial increase in compliance costs.

## OTHER SUBSTANTIVE ISSUES

LFC staff can provide references to pediatric and general population studies indicating the adverse health effects of carbonated beverages health outcomes. Among other recent papers, is *Snacks, Sweetened Beverages, Added Sugars, and Schools*, published March 2015 by the American Academy of Pediatrics.<sup>1</sup>

## WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

### Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

- 1. Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee (RSTP), to review fiscal, legal, and general policy parameters.
- 2. Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
- 3. Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
- 4. Accountable:** The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
- 5. Effective:** The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
- 6. Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

<sup>1</sup> <http://pediatrics.aappublications.org/content/pediatrics/135/575.full.pdf>

LFC Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted</b>	✘	
<b>Targeted</b> Clearly stated purpose Long-term goals Measurable targets	✘ ✘ ✘	
<b>Transparent</b>	✘	
<b>Accountable</b> Public analysis Expiration date	✘ ✘	
<b>Effective</b> Fulfills stated purpose Passes “but for” test	✘ ✘	
<b>Efficient</b>	✘	
Key:    ✓ Met    ✘ Not Met    ? Unclear		

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