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

ORIGINAL DATE 1/25/18
SPONSOR Trujillo, CH **LAST UPDATED** **HJM** 4

SHORT TITLE Study Sugar-Sweetened Beverage Tax **SB**

ANALYST Graeser

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications	See Fiscal Implications			

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files – 2017 HB 232 Fiscal Impact Report

Responses Received From
None

SUMMARY

Synopsis of Joint Memorial

House Joint Memorial 4 requests that the Legislative Finance Committee conduct a study of the potential benefits in revenue and public health outcomes and the potential negative impacts of a tax on sugar-sweetened beverages. The joint memorial suggests that the most efficient implementation of the tax is as a manufacturer's excise tax, increasing the retail cost of soda by the 20 percent increase recommended by the World Health Organization.

The joint memorial does not have an effective date, but requires the LFC to prepare and present the study to the Governor and Legislature by October 2018.

FISCAL IMPLICATIONS

This study has no direct fiscal implications on revenues and only minor impacts on LFC staff resources.

Ultimately, a bill passed in response to health and revenue impacts might have fiscal consequences similar to those reported in 2017's SB 232. The revenue impact of denying a gross receipts tax deduction for carbonated beverages in that bill follows:

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

So that bill would increase general fund revenues by up to $7 million (assuming no decrease in volumes sold) and local government revenues by $1.2 million. In the analysis of HB 232, it was assumed that the tax provision would have minimal impact on the volumes of carbonated beverages sold. A few jurisdictions around the US and the world have implemented "sugary drinks" taxes and reported some decrease in volumes sold.

Because this study is restricted to studying the effects of a tax on sugar-sweetened beverages, the analysis of SB 232 may not be relevant. However, the underlying data sources for that study would be relevant to a broader and different study. LFC would probably study effects with and without including diet beverages, with and without carbonation, and including or excluding natural or sweetened juices.

SIGNIFICANT ISSUES

The principal data source for the last year's SB 232 FIR was a recent report commissioned by the United State Department of Agriculture entitled, ***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 percent of SNAP households eligible food purchases were carbonated beverages. NonSNAP households devoted 3.66 percent 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 2017’s SB-232 was to increase revenue, there was 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.

The Wikipedia article https://en.wikipedia.org/wiki/Sugary_drink_tax adds some interesting insights, including the fact that Soft drink manufacturers may be subsidizing research that minimizes the importance of restricting access to sugary drinks and discusses the issue of price elasticity of demand for sugary drinks.

> **Tobacco taxes**
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> Proponents of soda taxes cite the success of tobacco taxes worldwide when explaining why they think a soda tax will work to lower soda consumption.[18] Where the main concern with tobacco is cancer, the main concerns with soda are diabetes and obesity. The tactics used to oppose soda taxes by soda companies mimic those of tobacco companies, including funding research that downplays the health risks of its products.[19]
>
> **Economics and Economic Theory of the tax**[edit]
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> The U.S. Department of Health and Human Services reports that a targeted tax on sugar in soda could generate $14.9 billion in the first year alone. The Congressional Budget Office (CBO) estimates that three-cent-per-ounce tax would generate over $24 billion over four years.[20] Some tax measures call for using the revenue collected to pay for relevant health needs: improving diet, increasing physical activity, obesity prevention, nutrition education, advancing healthcare reform, etc.[21] Another area to which the

revenue raised by a soda tax might go, as suggested by Mike Rayner of the United Kingdom, is to subsidize healthier foods like fruits and vegetables.[22]

The imposition of a sugar tax means that sellers of sugary drinks would have to increase the price of their goods by an amount P2 from the original price X, and then take on the rest of the tax themselves (P1) in the form of lower profit per unit sold. The tax burden on consumers (P2) makes it more expensive for consumers to buy sugary drinks and hence a higher proportion of their incomes would have to be spent to buy the same amount of sugary drinks. This decreases the equilibrium quantity of sugary drinks that will be sold. Whether the sugary drinks tax is imposed on the seller or consumer, in both cases the tax burden is shared between both.[23]

The way that the tax burden is divided upon the consumer and seller depends on the price elasticity for sugary drinks. The tax burden will fall more on sellers when the price elasticity of demand is greater than the price elasticity of supply while on buyers when the price elasticity of supply is greater than the price elasticity of demand. The price elasticity for sugary drinks is different from country to country. For instance, the price elasticity of demand for sugary drinks was found to be -1.37 in Chile while -1.16 in Mexico.[24][25] Hence if both of those results were realistic and the price elasticity of supply would be the same for both, the tax burden on consumers would be higher in Mexico than in Chile.[23]

CONFLICTS, DUPLICATES, COMPANIONS

SJM 6 differs in only minor ways with this joint memorial

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.[1]

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[1] http://pediatrics.aappublications.org/content/pediatrics/135/575.full.pdf