The State of State (and Local) Tax Policy

How do state and local soda taxes work?

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A. While no state currently taxes sweetened beverages, several localities levy what’s commonly referred to as a soda tax. Six local governments levy a per volume excise tax on drinks sweetened with sugar and one government levies a per volume tax on all sweetened drinks.

HOW MUCH REVENUE DO STATE AND LOCAL GOVERNMENTS RAISE FROM SODA TAXES?

No state currently has an excise tax on sugar-sweetened beverages. Instead, soda taxes are levied locally in Boulder, Colorado; Philadelphia, Pennsylvania; Seattle, Washington; and four California cities: Albany, Berkeley, Oakland, and San Francisco.

Philadelphia’s tax is nearly 2 percent of its own-source revenue, but the taxes in the other jurisdictions account for 1 percent or less of own-source general revenue. (Own-source revenue excludes intergovernmental transfers.)

HOW DO SODA TAX RATES DIFFER?

All current soda taxes are based on a drink’s volume. Tax rates range from 1 cent per ounce in all four California jurisdictions to 2 cents per ounce in Boulder (table 1). For concentrates (i.e., fountain soda), the tax is typically applied to the maximum volume the syrup can produce. As with state alcohol taxes, distributors or wholesalers pay the tax when they deliver products to retailers. The expectation is that much or all of the tax on soda is then passed on to customers in the form of higher retail prices. No current soda taxes are levied as a percentage of retail price.

Each jurisdiction exempts some beverages from its tax, including alcoholic beverages, milk, infant formula, and drinks for medical purposes (not including sports and energy drinks). Philadelphia’s tax base is notably larger than other jurisdictions’ because it includes any beverage with real or artificial sweeteners. As such, Philadelphia is the only jurisdiction that taxes diet sodas. In the other six localities, a drink is only taxed if the sweetener adds calories. Further, some jurisdictions only tax drinks if the drink surpasses a calorie minimum (e.g., 2 calories per ounce in Berkeley).

Cook County, Illinois (which includes Chicago), passed a 1 cent per ounce soda tax in November 2016. However, that tax was in effect for only a few months before the county board reversed itself and repealed it in October 2017.

Arizona and Michigan preemptively blocked local governments from enacting soda taxes. California,
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despite already having four local soda taxes, passed legislation in June 2018 banning any new locality from establishing a tax for 12 years.

Washington voters also approved a ban on local soda taxes in November 2018. The ban does not affect Seattle’s soda tax, though. Oregon voters rejected a similar ballot initiative that would have preemptively blocked local soda taxes.

<table>
<thead>
<tr>
<th>City</th>
<th>Tax rate</th>
<th>Eligible drinks</th>
<th>Paid by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albany, CA</td>
<td>1 cent per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
<tr>
<td>Berkeley, CA</td>
<td>1 cent per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
<tr>
<td>Boulder, CO</td>
<td>2 cents per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
<tr>
<td>Oakland, CA</td>
<td>1 cent per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
<tr>
<td>Philadelphia, PA</td>
<td>1.5 cents per ounce</td>
<td>Sweetened beverages (includes diet drinks)</td>
<td>Distributors</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>1 cent per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>1.75 cents per ounce</td>
<td>Sugar-sweetened beverages</td>
<td>Distributors</td>
</tr>
</tbody>
</table>

Source: City government websites.
Notes: Every jurisdiction exempts certain drinks such as milk. Seattle’s tax is on “sweetened beverages” but their definition of these drinks only includes drinks with “caloric sweetener.” Manufacturers in Seattle can apply for a lower rate based on gross income.

WHAT ARE THE OBJECTIONS TO TAXING SODA?
Soda taxes tend to be regressive because lower-income consumers spend a larger share of their income on the tax than higher-income consumers. Further, families with lower incomes typically spend more of their income on groceries—specifically, on products like sugar-sweetened beverages. However, policymakers could soften the regressivity of the tax by using the revenue for targeted tax relief (e.g., the earned income tax credit) or spending it on programs aimed at lower-income communities. Further, the tax might encourage the purchases of healthier beverages and thus amplify positive public health effects for this group.

Also, while sugar is consistently identified as contributing to obesity, it is not the only factor. And the health effects and medical costs of obesity are not uniform. Some consumers with no risk of harm or medical cost will pay the tax. Meanwhile, others may substitute equally or more unhealthy options (such as alcohol) to avoid the tax.

Further Reading

