The State of State (and Local) Tax Policy

How do state and local soda taxes work?

Q. How do state and local soda taxes work?

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; the District of Columbia; Philadelphia, Pennsylvania; Seattle, Washington; and four California cities: Albany, Berkeley, Oakland, and San Francisco.

Annual soda tax revenue ranges from about $2 million in Berkeley to $75 million in Philadelphia, but this range is almost entirely a function of each city's population. In each locality the tax accounts for 1 percent or less of own-source revenue. (Own-source revenue excludes intergovernmental transfers.)

HOW DO SODA TAX RATES DIFFER?

Except for the District of Columbia, these local 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. The District of Columbia levies a special 8 percent sales tax on the retail purchases of soda. (The city's general sales tax rate is 6 percent.) However, the DC Council is considering changing this to a per-ounce tax.

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). The tax base in Philadelphia and the District of Columbia is notably larger than in other jurisdictions because they include any beverage with real or artificial sweeteners, and thus the tax applies to 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.

How do state and local soda taxes work?

TABLE 1

Soda Tax Rates

City	Tax rate	Eligible drinks	Paid by
Albany, CA	1 cent per ounce	Sugar-sweetened beverages	Distributors
Berkeley, CA	1 cent per ounce	Sugar-sweetened beverages	Distributors
Boulder, CO	2 cents per ounce	Sugar-sweetened beverages	Distributors
Oakland, CA	1 cent per ounce	Sugar-sweetened beverages	Distributors
Philadelphia, PA	1.5 cents per ounce	Sweetened beverages (includes diet drinks)	Distributors
San Francisco, CA	1 cent per ounce	Sugar-sweetened beverages	Distributors
Seattle, WA	1.75 cents per ounce	Sugar-sweetened beverages	Distributors
Washington, DC	8 percent sales tax	Sweetened beverages (includes diet drinks)	Consumers

Source: City government websites.

Notes: Every jurisdiction exempts certain drinks such as milk. Seattle's tax is on "sweetened beverges" but their definition of these drinks only includes drinks with "caloric sweetener." Manufacturers in Seattle can apply for a lower rate based on gross

Arizona and Michigan preemptively blocked local governments from enacting soda taxes. California, 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.

WHAT ARE OTHER OPTIONS FOR TAXING SODA?

Most current soda taxes in the United States are based on an eligible drink's volume and not its sugar content. That is, an eight-ounce drink with two teaspoons of sugar (e.g., iced tea) is taxed the same rate as an eight-ounce drink with seven teaspoons of sugar (e.g., soda). This tax is simple and allows distributors to collect a set amount based on sales. It also works well if the government's primary goal is raising tax revenue. Notably, Philadelphia's tax, which taxes all sweetened beverages including diet drinks, is specifically designed to generate revenue. In fact, the tax was sold as a means for funding education programs and not primarily for improving health outcomes.

However, if the primary goal of the tax is improving public health by reducing sugar consumption, governments should consider taxing a beverage's sugar content. Taxing sugar content could encourage consumers to choose lower-sugar options and possibly encourage manufacturers, distributors, and retailers to stock and market more healthy options. The government could tax each unit of sugar or create a tiered system—similar to the different tax rates on liquor, wine, and beer. Taxes in Hungary, South Africa, and the United Kingdom are based on sugar content.

How do state and local soda taxes work?

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.

Updated May 2020

Further Reading

Auxier, Richard, and John Iselin. 2018. "Philadelphia's Soda Tax Shouldn't Take Kids Out of the Classroom." *TaxVox* (blog). March 12.

Dadayan, Lucy. 2019. "Are States Betting on Sin? The Murky Future of State Taxation." Washington, DC: Urban-Brookings Tax Policy Center.

Francis, Norton, Donald Marron, and Kim S. Rueben. 2016. "The Pros and Cons of Taxing Sweetened Beverages Based on Sugar Content." Washington, DC: Urban-Brookings Tax Policy Center.

Marron, Donald. 2016. "Building a Better Soda Tax." *TaxVox* (blog), December 12.

Marron, Donald, Maeve Gearing, and John Iselin. 2015. "Should We Tax Unhealthy Food and Drinks?" Washington, DC: Urban-Brookings Tax Policy Center.
