

# Consumer Response to Beverage Taxes

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# Summary

- Data on impact of selective taxes are limited
- Proposed beverage taxes are significant
- Economic modeling indicates significant adverse economic impacts from these taxes
- Tax structure issues mitigate against intended health outcomes
- Tenuous link between tax and health outcomes

# Limited Data on Selective Taxes

- Only two states have excise taxes on beverages
  - Arkansas and West Virginia
  - Both cover a range of beverages without regard to sweetener or caloric content
- More than 30 states impose sales taxes on at least some refreshment beverages, but many of those also tax other foods
- Therefore, data on consumer response to selective taxes are theoretical and, in most analysis, not at all sophisticated.

# Proposed Beverage Taxes are Significant

- 1¢ per ounce taxes proposed in NY and DC “typical”
- Represents a substantial tax given product prices:
  - 25% increase on soda at national average retail price
  - Nearly 50% increase on commonly purchased items
    - 12-pack 47% over \$3.05 base price (NY)
    - 2-liter 57% over \$1.19 base price (NY)

# Adverse Economic Impacts

- National analysis of a 3¢ and 10¢ per 12-ounce tax
  - “would likely result in a significant short-term reduction in economic output in the industries currently involved in the production of beverages”\*
- Mechanism:
  - Tax raises costs to produce and/or sell beverages
  - Beverage producers pass higher costs on to customers, leading to higher consumer prices
  - Consumers substitute to other products or stop buying
  - Net lower sales (for both taxed and untaxed beverages)
  - Lost sales for beverage companies, retailers, and suppliers leading to lost jobs, wages, and economic output

\* *The Potential Economic Impact of a US Excise Tax on Selected Beverages*, Robert Hahn for the American Beverage Association, August 31, 2009, [www.nofoodtaxes.com/economic-impact-of-a-proposed-beverage-tax/](http://www.nofoodtaxes.com/economic-impact-of-a-proposed-beverage-tax/)

# Example: NY Study (Hahn)

- NY tax would raise prices 16% to 24% for taxed items
- Net loss of 24% of sales *across all refreshment beverages*
- 15,000 jobs lost statewide
  - \$670 million in lost wages
  - \$3 billion in lost economic output
- Consumer response is complex
  - Varying responsiveness to price across products
  - But cross-product factors are crucial: small increases in untaxed items not even close to reductions in taxed items

# Tax Structure Issues

- Excise taxes are hidden
- Selective taxes may manifest themselves in price increases across a wide range of wholesale and retail prices
- Politically expedient structure, but precludes intended price signal to consumers

# Tenuous Link Between Tax and Health Outcomes

- No empirical evidence as no selective taxes exist
- Theoretical conclusions hampered by:
  - Overly simplistic demand analysis – no cross-elasticities
  - No exploration of substitutes outside beverage area
  - Tax structure contradicts modeled behavior