EAI Issue Brief, Sugar Sweetened Beverage Tax

Ethan Allen Institute
ISSUE BRIEF

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Sugar-Sweetened Beverage Tax

Legislation:

H.234 - An act relating to the imposition of an excise tax on sugar-sweetened beverages.

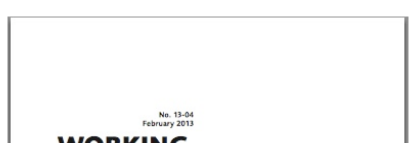
This bill would put a $0.01 per ounce excise tax on sugar-sweetened beverages, including soda, sports drinks, ready to drink teas, flavored water, and energy drinks, and the powders and syrups used to make them. A 12 oz. soda will be taxed 12 cents. A 20 oz. soda will be taxed 20 cents, etc. The tax will be imposed on the distributor, and is **estimated to cost taxpayers $27 million a year.**

Analysis:

Supporters of this bill argue that the increasing incidence of obesity and the illnesses associated with it justify this tax. The logic, the mechanism and the morality of this are all flawed. This tax, as well as the growing trend in "sin taxes," has more to do with growing government than shrinking waistlines.

A recent study, "SIN TAXES: Size, Growth, and Creation of the Sindustry," by the Mercatus Center at George Mason University, revealed a number of important findings:

- **Bait & Switch:** The money raised by sin taxes is overwhelmingly NOT used to combat the problem for which it was supposedly raised. For example, after the states settled with the tobacco companies, less than five cents of every dollar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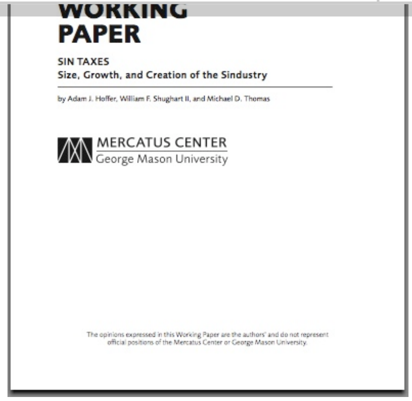
WORKING PAPER

SIN TAXES
Size, Growth, and Creation of the Sindustry

by Adam J. Hoffer, William F. Shughart II, and Michael D. Thomas

MERCATUS CENTER
George Mason University

The opinions expressed in this Working Paper are the authors' and do not represent official positions of the Mercatus Center or George Mason University.

- **False Science**: Sin taxes are not usually based on hard science. They are based on “correlations rather than causality,” and are therefore ineffective.
- **Exploitation of a Minority**: The dynamic of sin taxes results in a transfer of wealth from an identified minority (the few who engage in the taxed activity) to the majority who don’t.
- **Unfair:** “Sin taxes” penalize those consume responsibly as well as those who abuse, raising the issue of fairness.

(In the case of H.234, the possibility exists that the tax will hit those who don’t even consume sugary drinks at all. Because the tax would be levied on the distributor, not on the consumer at the time of sale, the distributor can pass the increased cost of the tax on to consumers in any way he or she chooses. A store owner could, for example, keep the price of soda where it is, or even lower it, but raise the price of organic vegetables to make up the difference on the balance sheet.)

- **Empowering Special Interests**: Responding to the rise in potential sugar taxes nationwide, “the soft drink and beverage industries increased their lobbying efforts by 160 percent during the 2008 election cycle,” and increased their campaign donations to politicians significantly. This type of tax does not foster good or ethical government.

Conclusion:

States strapped for cash are easily tempted by sin taxes, but there are both practical an moral reasons to avoid them. Practically, they don't really help solve the problem the tax was levied to supposedly solve. Morally, they demonize a minority and "divide and conquer" communities based on behavior. They tend to foster a pay-to-play, "government to the highest bidder" dynamic. And, underlying this debate is the ultimate question, *who* should be making the choices in the first place, individuals or governments? If it's okay for government to manipulate and micromanage behavior it deems risky or just "bad" like drinking soda, etc, there is no limit to what government can similarly tax - fast food, doughnuts, potato chips, snowmobiling. This trend poses a great danger to a free society.

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