UCONN RUDD CENTER FOR FOOD POLICY & OBESITY

A GLOSSARY of TERMS related to SUGAR-SWEETENED BEVERAGE (SSB) TAXES

Beverage manufacturing and distributing process:

- **Soda:** The **manufacturer** makes concentrated syrup and either adds the other ingredients and bottles it on site, or sends the syrup to a local **bottler** who adds water, sweetener, and other ingredients, and bottles the product. For larger brands, the bottler is also often the **distributor** and has warehouses and delivery trucks which take the product to retailers.
- **Other types of beverages:** Non-soda products are often made and bottled at the manufacturer and then sent to distributors.

Cross-price elasticity of demand: A measure of change in demand for a product when the price of a related product changes.

- Example: as the price of soda increases, demand for fruit juice goes up because juice is a substitute for soda.
- **Policy implication**: Cross-price elasticity is important in SSB tax policy because changes in the price of one SSB can affect demand for others, thereby jeopardizing the goal of decreasing consumption of sugar-sweetened beverages overall.

Earmarking (aka dedicated tax revenues, restricted receipts): the process whereby the revenues from a tax are dedicated to (or earmarked for) a specific purpose or program, defined by law.

- Example: Arkansas soft drink tax revenue is earmarked for the Medicaid program.
- Example: SSB taxes could be earmarked for revenue for new public health nutrition and physical activity initiatives, such as subsidies of fresh fruits and vegetables in schools, or statewide, comprehensive obesity prevention programs. (See Rudd Policy Brief for other examples.)

Excise Tax: a tax levied as a fixed amount per unit of measurement (e.g., ounce, gallon, case, etc.) on the producer of certain goods. The tax is often passed on to customers in the price of the item.

- **Advantage:** The tax is embedded in the price of the product *prior* to the purchase, which may cause a customer not to buy it.
- **Advantage:** The amount of tax goes up as the volume increases, and therefore may discourage consumers from buying larger quantities. This is as opposed to a sales tax (a percentage of the cost) which is an incentive to buy BIGGER amounts at once.
- **Disadvantage:** The fixed amount does not rise with inflation, but could be levied as a percentage of sales or a cost per volume that is indexed to inflation (which means the fee is adjusted each year, according to the consumer price index which measures the change in the cost of a fixed group of products such as food).

Price elasticity: The change in the purchased quantity of a product as a result of a change in the product's price. If the percentage change in purchased quantity is below the percentage change in price, the demand is **inelastic**. If the percentage change in purchased quantity is above the percentage change in price, the demand is **elastic**.

- **Inelastic example:** Consumers will buy some products that are considered necessities, such as milk and eggs, no matter what the price. Demand for them is inelastic. So, if the price of milk or eggs is raised by 10%, but the demand falls by only 5%, the demand is inelastic.
- **Elastic example:** If the price of SSBs is raised by 10% and the demand falls by 15%, then demand is elastic. Therefore, a significant increase in price could result in decreased demand and consumption.

- **Policy implication:** It is important to understand the price elasticity concept to be able to predict tax revenues.

Market failure: In economics, a market failure indicates a need for government intervention because production or use of goods or services by the market is not optimal or efficient. For SSBs, there are several market failures to consider. People drink SSBs:

- without knowing the possible negative impact they may have on health;
- for short-term gratification, without considering the long-term harm of excessive consumption;
- without bearing the full burden of the cost to everyone on their decisions to consume them (called "negative externalities"—see below).

Negative externalities: The negative impact of a transaction or activity on those who are not directly involved in (or are external to) it. Because of the relationship of SSB intake with negative health outcomes in both children and adults, health care costs rise.

- Example: obesity-related medical expenditures are estimated to be $147 billion, half of which is paid for with taxpayer dollars through Medicaid and Medicare.
- **Use in SSB tax discussion:** to point out why SSB taxes may benefit everyone.

Regressive tax: One for which low-income people pay a higher percentage of their income in taxes than do high-income people.

- Example: a low-income family earning $20,000/yr drinks the same amount of SSBs in a year as a high-income family (earning $200,000/yr). Both pay $200 in soda taxes. The low-income family is paying 1/100th of their income in SSB taxes, whereas the high-income family is paying 1/1000th of theirs.
- **Policy implication:** The concept is used as a main argument against SSB taxes.

Sales Tax: A tax levied as a percentage of the price of an item. It is applied at the cash register, and therefore shows up on the customer's receipt *after* purchase.

- Advantages for SSB taxes:
    - The infrastructure to collect sales taxes is in place in most states.
    - Revenue rises with inflation because sales taxes are a percentage of the item's price.
- Disadvantages:
    - SSB sales taxes may encourage customers to purchase larger amounts at once because the amount of tax per ounce is less as the size increases (because the cost of a 24-ounce soda is usually LESS than double the cost of a 12-ounce soda).
    - For an SSB tax to achieve the goal of reducing consumption, customers would need to be alerted to the fact that they'll be paying a tax on the SSB at the register. The anticipated increased price may discourage them from buying it.
    - May encourage purchase of lower-priced brands containing the same number of calories.
    - Food stamp recipients are not subject to it.

Sugar-sweetened beverages: Beverages that are sweetened with naturally-derived caloric sweeteners such as sucrose (table sugar), high fructose corn syrup, or fruit juice concentrates. The beverages include soda, sports drinks, sweet teas and coffees, flavored waters, and energy drinks. Taxes would also apply to syrups which are used in soda dispensing machines.