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STUDY OVERVIEW

Background

Obesity is a complex health issue associated with many preventable causes of death such as heart disease and stroke. In 2005, 23.9% of U.S. adults were obese and obesity prevalence increased in all states from 1995–2005.1 Consumption of sugar-based soft drinks and snack items contribute to weight gain and obesity in both juvenile and adult populations.2-4 It is not only the individual who suffers from the effects of obesity, but society as a whole. U.S. medical expenditures for obesity-related disease and illness were an estimated $75 billion in 2003 dollars, with additional costs in lost productivity.5 Taxpayers are responsible for financing about half of obesity-related medical costs through Medicare and Medicaid.6 As obesity rates and obesity-attributable medical expenditures for both children and adults continue to climb, public health advocates search for effective strategies to help fight this battle. It is estimated that a national tax of 1% per 12-ounce soft drink would generate about $1.5 billion annually and similar revenues could be generated from a snack tax.7 Recent data on the state-level sales tax variance for sodas and snack products are not readily available.

Study Aims

1. To compare state sales tax rates for sodas and snack products sold in two locations—grocery stores and vending machines.
2. To identify the extent to which states “disfavor” the sale of soft drinks and snacks by taxing them at a higher rate than food products generally.

Data Sources and Methods

Data Sources
- State tax rates: Westlaw and Lexis-Nexis
- Sales tax rates for sodas, 1/1/07
- State tax laws: Online laws from the Center for Science in the Public Interest.
- Sales tax data: Analysis of Federal Trade Commission data on sales tax for sodas and snack products

Methods
- Primary legal research for the state tax rates for sodas and snack products
- Telephone verification by state tax administrators
- On-site field verification in 5 states where information from the state conflicted with state laws

RESULTS

Average sales tax rates by product and sales location

Number of states with sales taxes on sodas and snack products by location

Soda and snacks are taxed at a higher rate than food

Vended items are taxed at a higher rate than grocery items

DISCUSSION

Prior reports have stated that no state currently levies a tax on snack products.9,10 However, the data reported herein dispel that myth. In fact, our research confirms that 40 states do, in fact, impose some type of sales tax on sodas and/or snack products and, in several cases, that these taxes are higher than the standard state sales tax for food (i.e., disfavored tax status).

Evidence is emerging on the relationship between taxation and obesity rates on consumption of soft drinks and snack products with some studies indicating strong, positive associations between state tax changes and changes in obesity prevalence6 and other studies estimate that the demand for snack products would only change by a negligible amount at lower tax rates.8 At the same time, evidence from other public health areas indicates that food pricing is associated with consumption patterns9 and that higher cigarette10 and alcohol11 tax rates are associated with reduced consumption and reduced consequences associated with consuming those products.

What is not known is how the states are using the revenue generated from the sales taxes reported in the current study.12 In other words, are the sales taxes being used for general revenue generation or are they dedicated for some other purpose?

This study did not examine the extent to which the states dedicate a portion of their sales tax to fund programs specifically targeting already overweight and overweight-eligible (a term that has occurred in the tobacco arena relative to dedicated excise taxes) or this is an area deserving of future study.

STUDY LIMITATIONS

- Examined cross-sectional data for two years, 2003 and 2007.
- Examined only one aspect of state taxation of sodas and snacks-products.
- Other types of taxes include license and privilege fees applied to manufacturers, distributors, and wholesalers.
- Did not attempt to link sales tax data to consumption rates or overweight and obesity prevalence; these are the subject of future study.

REFERENCES


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