

FEBRUARY 2018

# POLICY IN BRIEF



## TIERED TAXATION FOR SUGARY DRINKS

### 3 THINGS TO KNOW

1

It is expected that a sugary drink price increase of at least 20% from sugary drink taxes would lead to marked reduction in sugary beverage consumption up to 20-25%.

2

A tiered taxation approach provides economic incentives for consumers to switch to beverages with less sugar and for the beverage industry to reformulate products and reduce added sugar content and serving size by taxing beverages at different rates depending on sugar concentration.

3

U.S. sugary beverage market analysis suggests three or four taxation tiers. (See Table 1)

*“...Taxing sugary drinks based on sugar content may be an effective approach to achieve better health and expand healthier options. Taxes linked to the amount of sugar incentivizes the beverage industry to reformulate and shift product lines towards lower-sugar products... and smaller beverage sizes.”*

AHA CEO Nancy Brown

#### Background

Greater cardiovascular disease prevention and healthy lifestyle promotion including supporting policy approaches to reduce sugary beverage consumption remains a priority of the American Heart Association.

This summary of *Distribution of Sugar Content in Sugary Drink Purchases in the U.S.: Implications for Tiered Taxation*<sup>1</sup> provides recommendations for U.S. policymakers on the development of a similar tiered tax system for sugary beverages based on beverage sugar concentration and current beverage consumption.

#### Taxation Approach

The most common sugary beverage taxation policy currently in effect in the U.S. is per volume with a 1-2 cent(s) tax per fluid ounce. With the per volume taxation approach, all sweetened beverage products are taxed at the same rate, irrespective of added sugar content. Therefore, this approach is not providing incentives for consumers to switch to beverages with less sugar or for the beverage industry to reformulate products and reduce added sugar content per serving.

A tiered tax approach provides these incentives by taxing beverages at different rates depending on sugar content. The tax rate can be categorized by sugar content and levied on a volume basis to encourage producers to reduce both beverage size and added sugar content.

#### Recommendations

The analysis of sugary beverage sales per sugar concentration revealed clusters at 25-32 grams, 18-20 grams, and 12-15 grams per 8-ounce serving (Figure 1). Tax tiers could be implemented at 5-6 grams below dominant cluster areas, suggesting three or four sugary beverage tax brackets based on sugar content (See Table 1):

1. Lowest tax bracket: Sugary beverages with sugar content less than 5 g per 8-ounce serving (less than 20 calories from sugar per 8-ounce serving)



- 2. Second tax bracket: Sugary beverages with sugar content greater than 5 g per 8-ounce serving and less than 10 g per 8-ounce serving (20 to less than 40 calories from sugar per 8-ounce serving)
- 3. Third tax bracket: Sugary beverages with sugar content greater than or equal to 10 grams but less than 20 grams per 8-ounce serving (40 to less than 80 calories from sugar per 8-ounce serving)
- 4. Highest tax bracket: Sugary beverages with 20 grams or more of sugar per 8-ounce serving (more than 80 calories from sugar per 8-ounce serving)

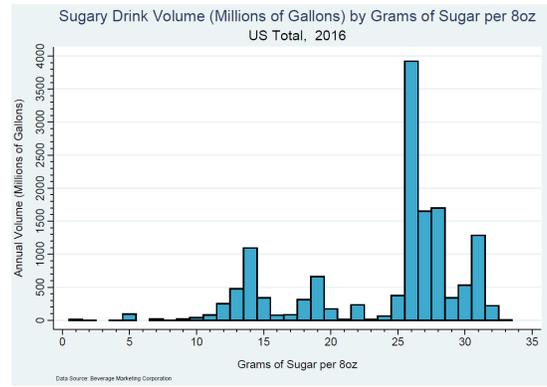


Figure 1

Table 1

Taxation Tiers Based on Sugar and Calories from Sugar Concentration in 8- and 12-ounce Beverage Servings				
TIERS	FIRST (LOWEST)	SECOND	THIRD	FOURTH (HIGHEST)
Sugar (g) per 8-oz	0 to <5	5 to <10	10 to <20	More than 20
Sugar (g) per 12-oz	0 to <7.5	7.5 to <15	15 to <30	More than 30
Calories from sugar per 8-oz	0 to <20	20 to <40	40 to <80	More than 80
Calories from sugar per 12-oz	0 to <30	30 to <60	60 to <120	More than 120
Beverage Examples	Unsweetened or Diet Tea, Water and Sparkling Water, Unsweetened (black) Coffee, Diet or Very Low Sugar sodas	Lightly Sweetened Coffees, Kombucha, Some lightly Sweetened Juices, Teas, and Energy Drinks	Lightly Sweetened Teas, Lightly Sweetened Sodas, Sports Drinks	Fruit-Flavored Drinks, Regular Sodas, Energy Drinks

\*Second and third tiers may be combined to create a three-tiered taxation strategy

Ideally, campaigns choosing a three-tiered taxation strategy will use a cut-off for the lowest tax bracket at 5 g of sugar per 8-ounce serving, keeping the middle bracket at 5 to 20 g per 8-ounce serving and the higher bracket for drinks greater than 20 g per 8-ounce serving. By implementing these brackets, disincentives within the top bracket could yield effective behavioral changes among consumers and encourage manufacturers to reduce added sugar and drink size to move their products out of the high tax brackets.

How to Use Policy in Brief

Stakeholder	How to Use Policy in Brief
Policymakers	To educate and inform their work in developing policy that considers a tiered tax approach for sugary drinks.
Public Health Officials	To educate and inform their work in advocating for tax policies that benefit the health of consumers in an equitable way.
Beverage Companies	To demonstrate the need for a systematic reduction of sugar in beverages for eventual benefits to the company and to support consumer health.
Media	To educate the public on sugary drink taxation and its impact on public health outcomes including consumption volume and consumer sugar intake.
Consumers	To understand how they can use their purchasing power to encourage formulation of healthier and more economical beverages.
Schools / School Districts / School Personnel	To support changing existing policies to promote healthy beverages across the entire school environment.

The Policy Research Department links scientists, clinicians and policymakers to improve cardiovascular health and decrease heart disease and stroke mortality. For more information, visit <http://bit.ly/HEARTorg-policyresearch> or connect with us on Twitter at @AmHeartAdvocacy using the hashtag #AHAPolicy.

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References

<sup>1</sup> Powell, L.M., Andreyeva, T., Isgor, Z., Distribution of Sugar Content in Sugary Drink Purchases in the U.S.: Implications for Tiered Taxation. 2017