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June 1, 2010

Mr. Craig H. Parks  
Senior Budget Analyst  
Senate Finance Committee  
111 Gressette Building  
Columbia, SC 29201

Dear Craig,

This letter is in response to your request dated May 17, 2010 on behalf of the Chairman of the Tax Realignment Committee for advice on the history and repeal of the excise tax of soft drinks in South Carolina.

The soft drinks tax was first implemented in 1925. At that time, the tax was commonly referred to as the milk tax, because the tax was placed on the seal on a bottle of milk. Later, the tax was applied to the "crown" of a bottle of soft drink. This was often referred to as the bottle cap tax. The soft drinks tax was paid by distributors, wholesalers, or retail dealers first receiving untaxed soft drinks or soft drink products for the privilege of carrying on the business. The soft drinks excise tax was repealed in the annual appropriation by Act 145 of 1995 in Part II, Section 48 of H.B.3362. Prior to the repeal of the soft drinks tax, bottled drinks were taxed at 1-cent per each 12 ounces. Soda and fountain drinks were taxed at 95-cents per gallon of syrup, and drinks not made with syrup, e.g., powder concentrate such as Kool-Aid®, were taxed at 16-cents per gallon of drinks. Revenue collections peaked at \$27,231,206 in FY1995-96. Beginning July 1, 1996, the tax liability of the taxpayer was reduced by one-sixth each fiscal year until the excise tax was eliminated effective July 1, 2001. If the soft drinks tax was reenacted today at these tax rates, the soft drinks tax would yield an estimated \$34,187,500 in FY2010-11. I have enclosed a graph depicting the fiscal year tax collections from the soft drinks excise tax during the past forty years.

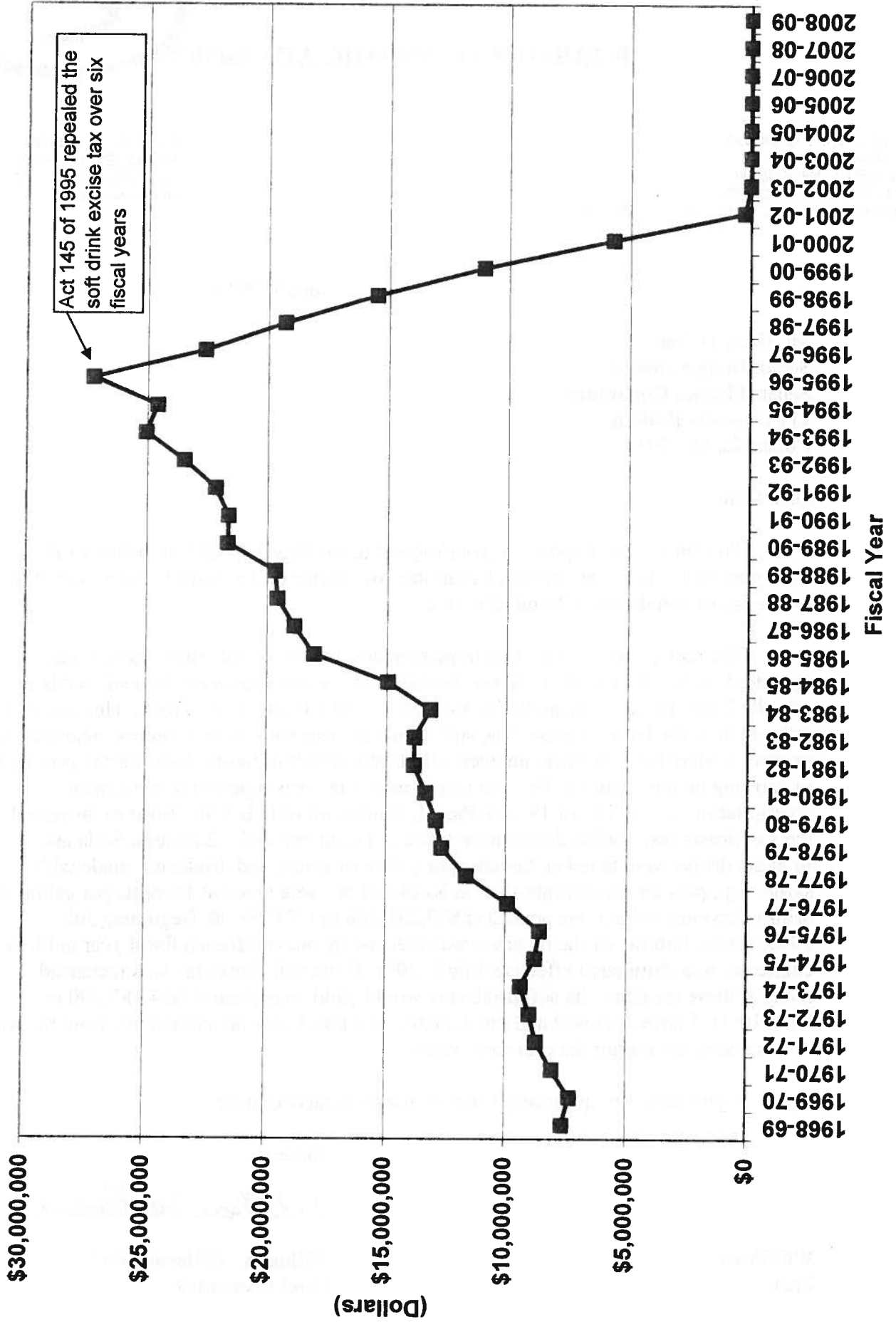
If you have any questions, I will be happy to answer them.

Sincerely,

William C. Gillespie, Ph.D.  
Chief Economist

WCG/rwm  
Encl.

# General Fund Soft Drinks Tax in South Carolina



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Dear Craig,

This letter is in response to your request dated May 17, 2010 on behalf of the Chairman of the Tax Realignment Committee for advice concerning how many states currently implement an excise tax on soft drinks.

Based upon a review of state revenue departments and various legislative and taxation reports, seven states currently implement a tax on carbonated soft drinks. The tax may be applied to the liquid soft drink, the soft drink syrup, or the powdered drink bases. The tax is paid by the manufacturer, wholesaler, distributor, or bottler of the soft drinks. Six of the seven states currently taxing soft drinks use an excise tax based on volume, *e.g.*, one-cent per 12 ounces of carbonated soft drink. Tennessee is the only state that implements an *ad valorem* tax based on the sales of soft drinks, *i.e.*, 1.9% of the gross receipts from soft drinks and soft drink ingredients. I have enclosed a table that shows a comparison of the states that currently impose a tax on carbonated beverages and the rates of taxation on specific products.

If you have any questions, I will be happy to answer them.

Sincerely,



William C. Gillespie, Ph.D.  
Chief Economist

WCG/rwm  
Encl.

Comparison of Soft Drink Taxes in the United States  
Fiscal Year 2009-10

State	Year Enacted	Year Repealed	Tax Specifically Applied To	Use of Revenues
Arkansas	1992	Present	\$0.21 per gal. of liquid soft drink; \$2.00 per gal. of soft drink syrups	Medicaid
Louisiana	1938	1997	2.50% (reduced to 1.25% in 1993) of wholesale tax on bottled soft drinks and syrups	General Fund
Maryland	1992	1997	\$0.02 per soft drink container <= 16 oz. \$0.04 per soft drink container > 16 oz.	General Fund
Mississippi	1969	1992	5% (reduced to 3% in 1985) of wholesale value of soft drinks, artificial fruit drinks, bottled teas	
Missouri	1962	Present	\$0.003 per gal. of soft drinks produced	General Fund (for health inspections of bottling plants)
New York	1990	1998	\$0.02 per container (reduced to \$0.01 in 1995) of carbonated soft drinks & waters	Fund environmental bonds
North Carolina	1969	1999	\$0.01 per bottle \$1.00 per gal. of syrup, milk shake mixes, powdered drink bases	General Fund
Ohio	1993	1994	\$0.008 per oz. of carbonated beverages \$0.64 per gal. of syrup	General Fund
Rhode Island	1984	Present	\$0.04 per case (24, 12 oz. cans) of soft drinks, soda water, mineral water, beer paid by wholesaler	General Fund (originally earmarked for environmental management, litter control)
South Carolina	1925	2001	\$0.01 per 12-oz. container (1947) \$0.95 per gal. of syrup (1967) \$0.16 per gal. of drinks not made with syrup (1968)	General Fund
Tennessee	1963	Present	1.9% of gross receipts from soft drinks and soft drinks & soft drink ingredients paid by manufacturers and bottlers	21% for highway litter control (1981)
Virginia	1977	Present	Small excise tax on wholesalers and distributors based on total sales of carbonated soft drinks	Litter control & recycling fund
Washington	1989	Present	\$0.01 (increased to \$0.02 on July 1, 2010) per 12-oz. can \$1 per gal. of syrup	Violence prevention & drug enforcement
West Virginia	1951	Present	\$0.01 per half-L of carbonated and noncarbonated soft drinks, fruit drinks, and chocolate milk \$0.80 per gal. of syrups paid by manufacturers or wholesalers	West Virginia University medical, dental, & nursing schools

Sources: Revenue departments of respective states; various reports.