Diet Beverages: To tax or not?

Summary
Sugary drink taxes were conceived of as a strategy to prevent chronic health conditions by reducing consumption of sugar. Recently, however, some jurisdictions have included artificially sweetened, or “diet”, beverages. There is strong scientific evidence associating sugary drinks with higher rates of chronic diseases such as type 2 diabetes, heart disease, high blood pressure, liver disease and dental disease. The evidence of harm from diet drinks is less certain.

Therefore, we recommend not including diet drinks in beverage taxes. This brief describes the rationale for this conclusion and touches on additional legal, revenue and messaging considerations.

Taxing beverages has two primary benefits:
- **Improving health** by reducing consumption of an unhealthy product (sugary drinks) through:
  - Raising the price of the product,
  - Raising public awareness of health harms,
  - Providing an incentive for beverage companies to reduce sugar in their products.
- **Raising revenue** for enhancing community well-being and supporting community priorities.

Health evidence is clear for sugary drinks, but not diet
- The health risks associated with the consumption of sugary drinks are well established and supported by a substantial body of medium- to high-quality evidence.
- The health risks associated with consuming diet drinks are uncertain, as the body of evidence is small, inconsistent, and of low quality. While some studies show increased risks, others do not. The studies suffer from significant limitations, including bias from reverse causation. (Less healthy people are more likely to select diet drinks than healthier people).
- The biological mechanisms through which diet drinks might cause disease are not well established; several have been proposed, but none yet has compelling evidence. The mechanisms by which sugary drinks can cause disease are well described.
- It is unknown whether switching from sugary drinks to diet drinks reduces disease risk. For more on the health effects of diet drinks, see our research brief.
**Taxing both sugary and diet drinks lowers health impact**

- **Consumption.** Taxing both types of drinks decreases impact of the tax because:
  - A tax that includes both diet drinks and sugary drinks will produce a smaller decrease in sugary drink consumption than a tax that only includes sugary drinks.
  - If both products were taxed, a 10% increase in price in both beverages would reduce consumption of sugary drinks by 8% (price elasticity for all beverages is -0.8). This is less than the 12% reduction from a tax only on sugary drinks (price elasticity is -1.2).
  - If only sugary drinks are taxed, consumers will have more incentive to shift to other beverages, including diet drinks. If both are taxed, the incentive to substitute diet drinks for sugary drink is less, so more consumers could continue to drink sugary drinks.

- **Awareness.** The primary public health message about sweetened beverages, based on strong evidence, is that consuming too much added sugars from beverages is harmful to your health. Including diet drinks dilutes this message and implies that sugary drinks and diet drinks are equally harmful.

**Including diet drinks may impact tax revenues**

- The amount of revenue generated by a tax depends on the tax rate and which beverages are taxed.

  Sugary drinks account for the largest share of sweetened beverage sales.
  - Sugary drinks comprise 75% of total volume of beverages sold in US.
  - Diet drinks comprise 25%.

- If a jurisdiction is seeking to meet a specific revenue target from imposition of a volume-based tax, and if it chooses to include diet drinks, the tax rate per ounce will be lower than if only sugary drinks are taxed. The lower tax rate will further diminish the effect of the tax on consumption of sugary drinks. An alternative is to set the sugary drink tax rate at a level that will generate the desired revenues.

**Including diet affects the framing of the purpose of the tax**

- If only sugary drinks are included, it is much easier and defensible to frame the tax as advancing health promotion/disease prevention, given the solid scientific evidence.
- If diet drinks are included, the implied goal is revenue generation rather than promoting health, given the lack of clear evidence of health harms from diet drinks.

**Legal issues**

- In some places, including diet may create vulnerability to legal challenge. For example, including diet drinks could bring a legal challenge based on a state’s uniformity clause. Consult a local tax lawyer to understand the implications of taxing diet drinks.

For more Information contact Healthy Food America at 206-451-8196 or http://www.healthyfoodamerica.org/contact