

SUMMARY OF PROPOSAL #15
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Excise Tax on Soft Drinks

Summary of Proposal for Consideration

To increase the excise taxes on soft drinks by five cents (\$0.05) for soft drink syrup and simple syrup, bottled soft drinks, and powder or other base products. The resulting tax rates under this proposal would be as follows:

Product	Tax Rate
Soft Drink Syrup or Simple Syrup	\$1.31 per gallon
Bottled Soft Drinks	25.6¢ per gallon
Powders and Other Base Products	25.6¢ per gallon of soft drink that could be produced using the manufacturer's instructions

Fiscal Analysis

According to the Department of Finance and Administration (DFA), it should be noted that the differing rates between syrups and bottled drinks is because the syrup is used to create a higher volume of bottled drinks. If the rate increase of five cents (\$0.05) is applied to all three types of products, the fiscal impact would be approximately eight million dollars (\$8,000,000). If the rate increase is one cent (\$.01) for syrups and five cents (\$0.05) for the other products, the fiscal impact would be approximately seven million nine hundred thousand dollars (\$7,900,000). If the rate increase is five cents (\$0.05) for syrups and twenty-five cents (\$.25) for the other products, the fiscal impact would be seven million dollars (\$7,000,000).

Legal Analysis

Current Law

Arkansas currently levies a tax on distributors, wholesalers, and manufacturers of soft drinks at the following rates under Arkansas Code § 26-57-904:

Product	Tax Rate
Soft Drink Syrup or Simple Syrup	\$1.26 per gallon
Bottled Soft Drinks	20.6¢ per gallon
Powders and Other Base Products	20.6¢ per gallon of soft drink that could be produced using the manufacturer's instructions

All of the revenues from the soft drink tax are credited to the Arkansas Medicaid Program Trust Fund.

History

Act 7 of 1992 (2nd Ex. Sess.) created the Arkansas Soft Drink Tax Act and levied a tax of two dollars (\$2.00) per gallon of soft drink syrup or simple syrup, twenty-one cents (21¢) per gallon of bottled soft drinks, and twenty-one cents (21¢) per gallon of soft drink that could be produced from a package of powder or other base product using the manufacturer's instructions.

Act 27 of 1994 (2nd Ex. Sess.) provided that the revenues derived from the soft drink tax would be credited to the Arkansas Medicaid Program Trust Fund.

Act 141 of 2017 reduced the tax rate on soft drinks to one dollar and twenty-six cents (\$1.26) per gallon of soft drink syrup or simple syrup, twenty and six-tenths cents (20.6¢) per gallon of bottled soft drinks, and twenty and six-tenths cents (20.6¢) per gallon of soft drink that could be produced from a package of powder or other base product using the manufacturer's instructions.

Potential Legal Issues

None. The soft drink taxes are not subject to Arkansas Constitution, Amendment 19, so increasing these taxes will not require an emergency clause and a ¾-vote of the legislature.