Institute for Fiscal Studies

The Soft Drinks Levy

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The "soft drinks industry levy"

- Tax paid by producers and importers of soft drinks that contain added sugar implemented from April 2018 onwards
  - excludes pure fruit juices and milk-based drinks

- The tax will operate with a specific revenue target of £500 million for the second year of implementation (2019-20)

- The OBR estimates that this implies levy rates of:
  - Main rate charge:18p/litre for drinks with 5–8g of sugar per 100ml
  - Higher rate charge: 24p/litre for drinks with more than 8g per 100ml

How will the tax affect sugar consumption?

- Concern about rates of childhood obesity cited as an explicit motivation for the tax
- Over 90% of households get more than the recommended share of calories from added sugar
  - For households with children around 21% comes from carbonated and non-carbonated soft drinks
  - For households without children this is less, at 14%

- Suggests that a soft drinks tax could be well targeted
- But if people have a strong taste for sugar, they could switch to fruit juices, milkshakes, chocolate or confectionery
  - This could reduce the impact of the tax on total sugar consumption

Estimates of revenue raised will depend on highly uncertain behavioural responses

- On the consumer side:
  - Substitution away from soft drinks
  - Substitution towards other products
  - Cross-border shopping and illicit trade

- On the manufacturer and retailer side:
  - How prices of both taxed and untaxed products respond
  - Reformulation of products to reduce their sugar contents

Designing a sugar tax

- The goal of a corrective sugar tax is to bring the perceived costs of sugar consumption in line with the actual costs
- A sensible starting point for a tax would therefore be a constant tax per gram of sugar
- The proposed tax is levied per litre of product, which means that tax per gram of sugar is lower for more sugary products

Drinks that contain more sugar per 100ml will attract a lower tax per gram of sugar

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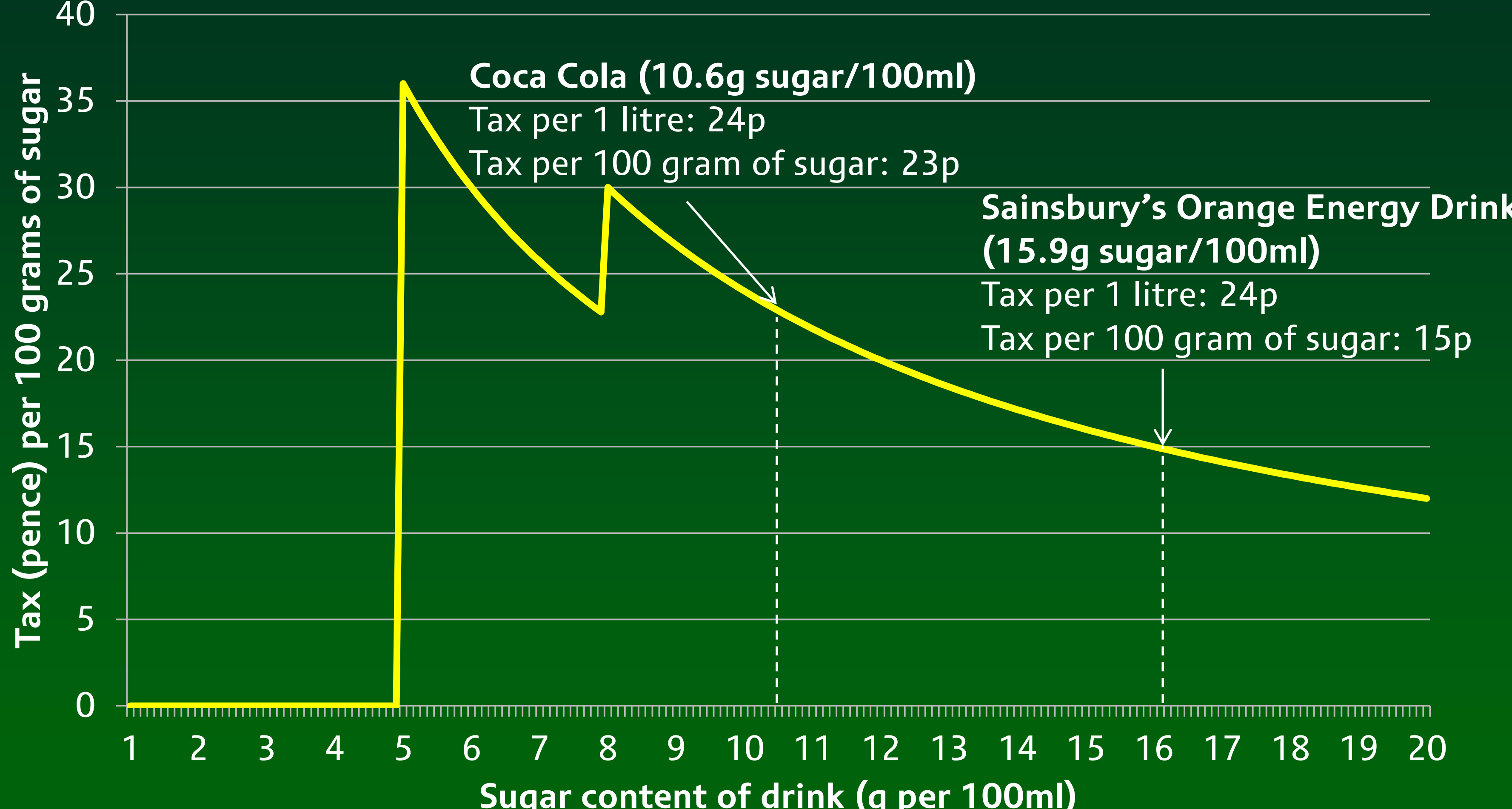

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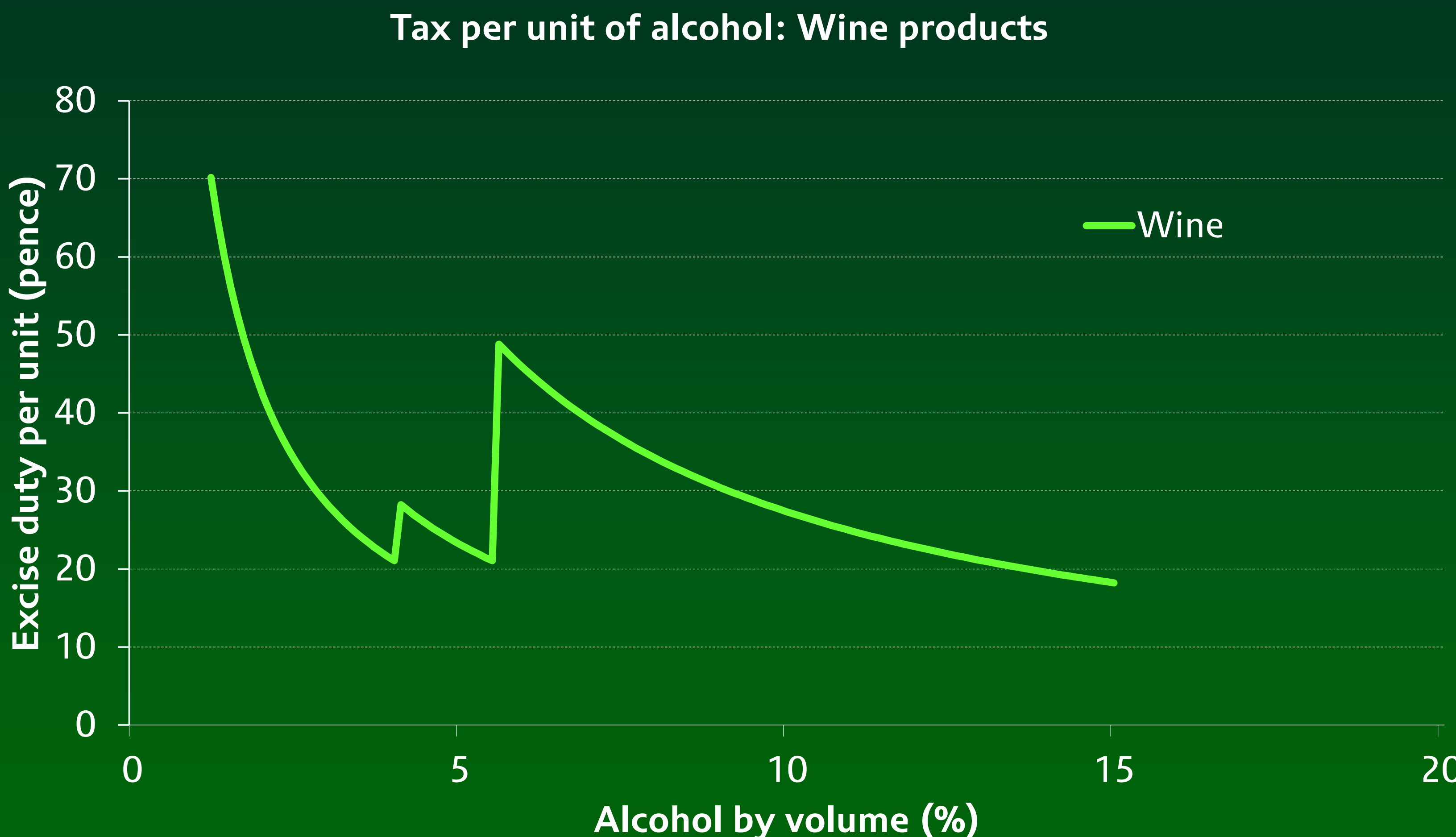
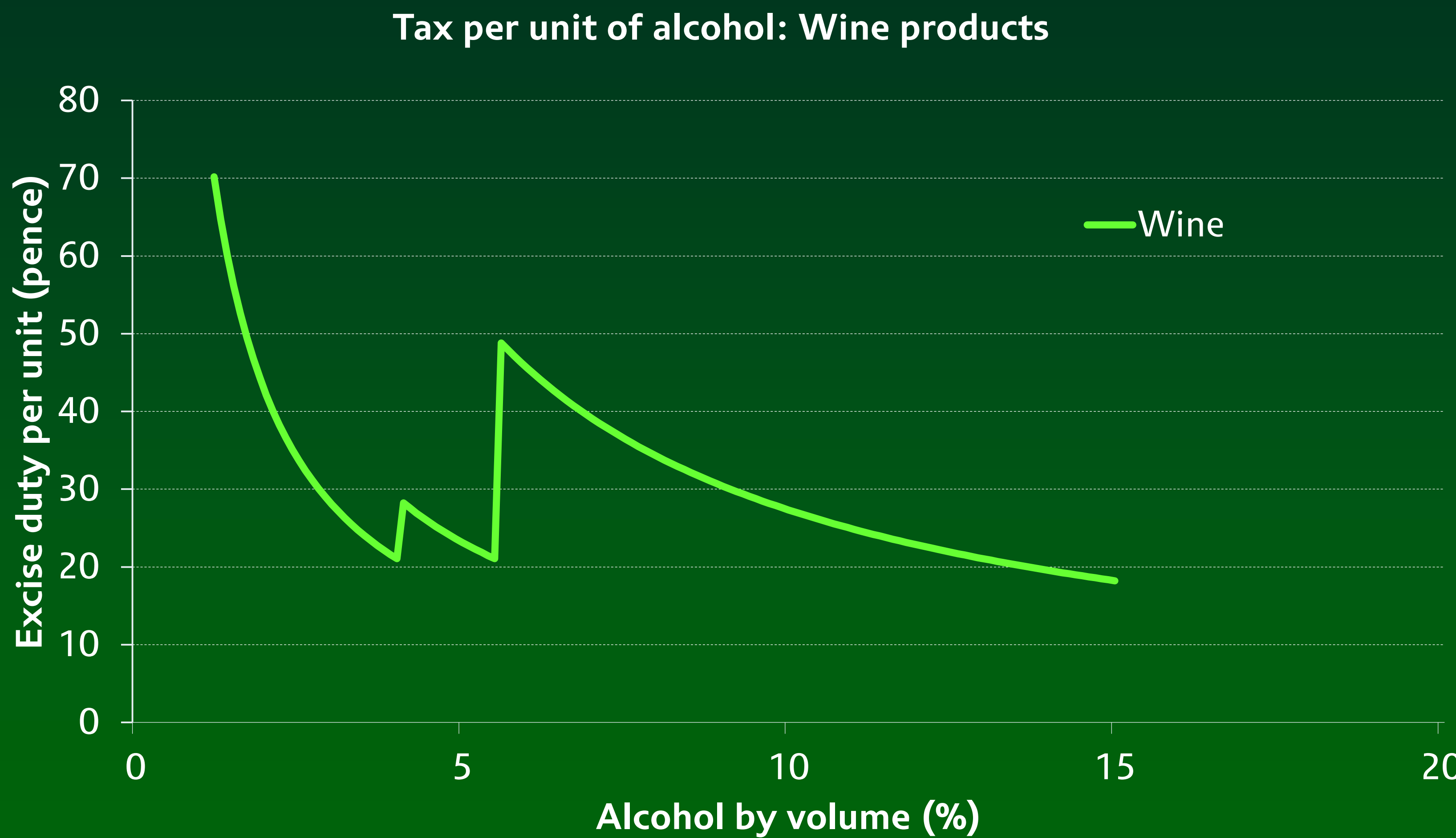
- Someone could pay less tax and consume more sugar:
  - 3 litres Coca Cola: 318 grams of sugar, 72p of tax
  - 2 litres Sainsbury's Orange Energy Drink: 318 grams of sugar, 48p of tax

Look familiar?



Look familiar? We can't blame the EU this time



Summary

- A tax on sugary soft drinks may be a good starting point at reducing excess sugar consumption
  - Evidence that households with children get more of their sugar from soft drinks

- But the effects of a tax are uncertain and depend on how both consumers and manufacturers/retailers change their behaviour
  - The effect of a tax on total sugar consumption might be offset if people switch to fruit juices, or other sugary products

- The design of the tax means that more sugary drinks will attract a lower tax per gram of sugar
  - A more sensible schedule would be a constant or increasing tax per gram of sugar