

TAX BRIEFING NOTE

SOFT DRINKS INDUSTRY LEVY (SUGAR TAX)

DECEMBER 2017

What is it?

The soft drinks industry levy, popularly known as the sugar tax, is a flat-rate tax of 18p a litre on soft drinks with a sugar content of at least 5 grams in 100 millilitres. A higher rate of 24p a litre will apply to drinks with at least 8 grams in 100 millilitres. The levy will apply to alcoholic drinks with an alcohol content under 1.2 per cent (ie, exempt from alcohol duties) but not drinks where no sugar is added. Pure fruit juices and drinks with at least 75 per cent milk are exempt. The levy is planned to be introduced in April 2018. The objective is to influence people's decisions about their diets in a way that will improve health.

What's the problem with it?

The soft drinks industry levy is ineffectually designed, economically harmful and morally questionable.

Ineffectual

It is highly likely that taxing the sugar content of drinks with added sugar will reduce consumption of drinks which fall under the levy. But it is far from certain what effect the levy will have on overall consumption of sugar, still less on the quality of diets, given the alternative choices that people may make such as switching to high sugar (but untaxed) fruit juices or other sugary or otherwise unhealthy foods. Some may simply switch to cheaper brands. Obesity rates have been increasing, but this has been happening while sugar consumption has been falling.

Economically harmful

As well as the compliance costs involved with levying any tax (for both tax authorities and businesses), consumers are likely to suffer a welfare loss due to switching to inferior brands or alternative sugar sources to avoid the levy. To the extent that consumers absorb price increases, their spending power will be reduced as resources are transferred to the public sector.¹

Morally questionable

Perhaps more than any other 'sin' tax, using the tax system to influence the lifestyle choices of adults raises questions about the moral acceptability of interventions. Health authorities may offer advice and education on health issues. But where behaviour has no effect on other people, it becomes highly questionable whether it is justified for government to resort to tax as a means of enforcing its advice.

What should be done?

Plans to introduce the levy should be scrapped immediately.

¹ See TaxPayers' Alliance, *Sugar tax briefing*, 2016, http://www.taxpayersalliance.com/sugar_tax_briefing