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# The Soft Drinks Industry Levy

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# Summary

This briefing provides an overview of the proposed Soft Drinks Industry Levy, and a background on sugar and health.

## Health impact of high sugar products

The consumption of too much high sugar food and drink can lead to weight gain which can increase the risk of medical conditions such as type 2 diabetes, heart disease and stroke. High sugar consumption can also increase the risk of tooth decay. There has been particular concern around the impact of high sugar products on children, and the levels of obesity in this group. Both the World Health Organisation[1] and the Scientific Advisory Committee on Nutrition[2] recommended a reduction in the daily intake of free sugars in 2015.[3]

In October 2015, Public Health England published its report, Sugar Reduction: The evidence for action which recommended interventions to reduce sugar consumption.[4] The report stated that no single action would be effective in reducing sugar intake. It recommended a broad range of different measures, one of these was an introduction of a tax on high sugar products. The report stated that "*it is likely that price increases on specific high sugar products like sugar sweetened drinks, such as through fiscal measures like a tax or levy, if set high enough, would reduce purchasing at least in the short term.*"

## A new levy on soft drinks

In the 2016 Budget, the former Chancellor of the Exchequer, George Osborne announced the introduction of a levy on soft drinks. The levy would apply to manufacturers and importers of sugar added soft drinks and would be implemented in April 2018. There would be exemptions for fruit juices and milk based drinks and for small producers.

In the 2016 Budget it was announced that the proceeds of the levy would be used in England to increase spending on PE in schools, breakfast clubs and extending the school day. The devolved Administrations will receive money through the Barnett formula. Recent changes have been made to this planned spending, with regards to funding to extend the school day. In February 2017, the Department for Education announced that £415 million of funding from the soft drinks industry levy would be allocated to schools in 2018-19 to "*pay for facilities to support physical education, after-school activities and healthy eating.*" The announcement stated that the funding "*built on*" plans for schools to provide a longer school day.

The Government have emphasised that the intention is to encourage producers to reformulate their products to reduce sugar content, and therefore come under the threshold for the levy. A number of producers and retailers, including Lucozade Ribena Suntory and Tesco have already announced plans to reduce the total sugar content of their products. The Chancellor of the Exchequer, Phillip Hammond has announced that because of reformulation action, a lower revenue is now forecast from the levy. However, he confirmed that the Department for Education would still receive the full £1 billion of funding originally planned.

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1 World Health Organisation, WHO calls on countries to reduce sugars intake among adults and children, March 2015
2 Scientific Advisory Committee on Nutrition, Expert nutritionists recommend halving sugar in diet, July 2015
3 Free Sugars is a term used by the World Health Organisation to describe "all monosaccharides and disaccharides added to foods by the manufacturer, cook, or consumer, plus sugars naturally present in honey, syrups, and fruit juices."
4 Public Health England, Sugar Reduction: The evidence for action, October 2015

Health organisations have welcomed the introduction of a levy on soft drinks but there has been some opposition from industry representatives. There has also been some commentary on the design of the levy, and uncertainty around the potential impacts on obesity.

## The Finance (No 2) Bill 2017

The soft drinks industry levy is introduced by Clauses 71-107 of the Finance Bill 2017. This is tabled for its Second Reading debate on 18 April 2017. Clause 107, on the commencement of the levy has been listed as one of the clauses for debate in a Committee of the Whole House.

# 1. Sugar and health

A Public Health England report, *Sugar Reduction: The evidence for action*, published in October 2015, provides a good overview of the impact sugar can have on the health of adults and children:

> Consuming too much sugar and too many foods and drinks high in sugar can lead to weight gain, which in turn increases the risk of heart disease, type 2 diabetes, stroke and some cancers. It is also linked to tooth decay. In 2012, almost 25% of adults in England were obese and a further 37% were overweight. In children, the situation is particularly worrying with almost 10% of 4 to 5 year olds and 19% of 10 to 11 year olds being obese. An additional 13% and 14% of 4 to 5 year olds and 10 to 11 year olds respectively are overweight. In 2013, one-third of five year olds and almost half of eight year olds had decay in their milk teeth, with tooth decay also found in 34% and 46% of 12 and 15 year olds respectively. Obesity and its consequences alone cost the NHS £5.1bn per year.
>
> Both excess weight and tooth decay are associated with deprivation in England. For example, children living in the most deprived communities are twice as likely to be obese or overweight as those in the least deprived for both age groups considered (reception and year 6).

Excessive sugar consumption has been highlighted by the World Health Organisation as being a major factor in the rise of obesity and overweight worldwide. Sugar can be a significant source of unnecessary calories, particularly in children's diets.[5]

Further information on sugar and health is provided in the 2016 POSTnote, Sugar and Health Policy.

## 1.1 Sugar consumption

Since 1991, the Government dietary advice has been that non-milk extrinsic sugars[6] should make up no more than 10% of our total dietary intake. In March 2015, the World Health Organisation published new guidelines on sugar intake. This recommended that the daily intake of free sugars[7] should be less than 10% of total energy intake. It also stated that a further reduction below 5% per day would provide additional health benefits.[8]

In July 2015, the Scientific Advisory Committee on Nutrition (SACN) published new recommendations on carbohydrates. This recommended that free sugars should make up no more than 5% of our total dietary

[5] WHO, WHO urges global action to curtail consumption and health impacts of sugary drinks, October 2016

[6] The SACN states that non-milk extrinsic sugars "include sugars added to foods, e.g. sucrose, glucose and fructose, and sugars naturally present in fruit juices, e.g. glucose and fructose."

[7] Free Sugars is a term used by the World Health Organisation to describe "all monosaccharides and disaccharides added to foods by the manufacturer, cook, or consumer, plus sugars naturally present in honey, syrups, and fruit juices."

[8] WHO, WHO calls on countries to reduce sugars intake among adults and children, 4 March 2015

intake for those aged 2 years and over. This amount of sugar is represented in the Public Health England infographic below:


**Figure 1: Public Health England July 2015**[9]

> "A five year old should have no more than 19g of sugar in a day, but a typical can of cola can have 35g" (Department of Health)

However, UK sugar intakes are well above the recommended dietary levels. The National Diet and Nutrition Survey shows that in the 2008-2012 period, amongst school aged children and teenagers free sugars made up between 14.7% and 15.6% of energy intake, and amongst adults 12.1% of energy intake.[10]

The Department of Health have outlined why sugary drinks are a particularly important source of sugar for children:

> There are nine teaspoons of sugar in a 330ml can of cola, instantly taking children above their recommended maximum for the day. A five year old should have no more than 19g of sugar in a day, but a typical can of cola can have 35g. Public health experts from the Chief Medical Officer to the British Heart Foundation agree that sugar-sweetened soft drinks are a major source of sugar for children and teenagers, and that sugar intake drives obesity.[11]

## 1.2 Childhood obesity

The National Child Measurement Programme reports that 22% of 4-5 year olds in England were overweight or obese, and that in year six (age 10-11) that proportion increased to over a third.[12]

Children living in deprived areas are substantially more likely to be obese. Among reception (age 4-5) children, 5.5% of those in the least deprived areas are obese compared with 12.5% of those in the most deprived areas. In Year 6 (age 10-11), 11.7% of children in the least

9 PHE, Expert interview: New sugar recommendations, July 2015
10 PHE, New National Diet and Nutrition Survey shows UK population is eating too much sugar, saturated fat and salt, May 2014
11 Department of Health, , Soft Drinks Industry Levy: 12 things you should know, 18 August 2016
12 National Child Measurement Programme - England, 2015-16, November 2016

deprived areas are obese, compared with 26.0% in the most deprived areas.

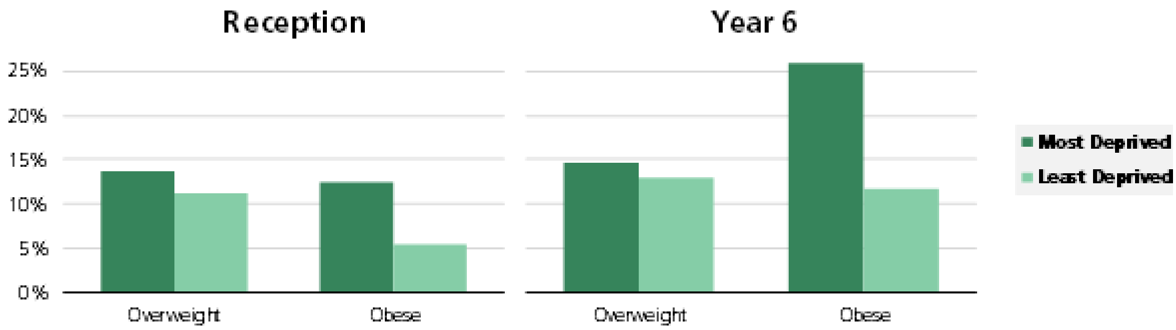


**Figure 2 Childhood obesity by deprivation decile, England, 2015/16**

Children in the most deprived areas are also marginally more likely to be underweight than those in the least deprived areas.

Further information about obesity levels in the UK are provided in the Commons Library briefing paper on [Obesity Statistics.]

# 2. Sugar reduction

In June 2014, Public Health England (PHE) published the discussion paper, Sugar Reduction: Responding to the challenge. This outlined future plans to review the evidence and identify areas of action which would be effective in reducing sugar intake.

In October 2015, the PHE report, Sugar Reduction: The evidence for action outlined the findings of the review and recommended interventions to reduce sugar consumption. The report states that no single action will be effective in reducing sugar intake. It recommends a broad range of different measures, one of these is an introduction of a tax on high sugar products (bold retained from original document):

> Implementing a broad, structured programme of parallel measures to reduce the impact of influences that increase consumption, reduce the sugar content of food and drinks, and support people in making healthier choices through information and education, would be likely to achieve meaningful reductions in sugar intakes across the population. Our analysis of the evidence suggests that a successful programme could include the following levers:
>
> 1. Reduce and rebalance the number and type of **price promotions in all retail outlets including supermarkets and convenience stores and the out of home sector (including restaurants, cafes and takeaways)**
>
> 2. Significantly reduce opportunities to **market and advertise high sugar food and drink products to children and adults across all media including digital platforms and through sponsorship**
>
> 3. **The setting of a clear definition for high sugar foods** to aid with actions 1 and 2 above. Currently the only regulatory framework for doing this is via the **Ofcom nutrient profiling model, which would benefit from being reviewed and strengthened**
>
> 4. Introduction of a broad, structured and transparently monitored programme of **gradual sugar reduction in everyday food and drink** products, combined with **reductions in portion size**
>
> 5. Introduction of a **price increase of a minimum of 10-20%** on high sugar products through the use of a tax or levy such as on **full sugar soft drinks**, based on the emerging evidence of the impact of such measures in other countries
>
> 6. Adopt, implement and monitor the government buying standards for food and catering services (GBSF) **across the public sector, including national and local government and the NHS** to the ensure provision and sale of healthier food and drinks in hospitals, leisure centres etc
>
> 7. Ensure that accredited training in diet and health is routinely delivered to all of those who have opportunities to influence food choices in the **catering, fitness and leisure sectors** and others within local authorities
>
> 8. Continue to raise awareness of concerns around sugar levels in the diet to the public as well as health professionals, employers,

> the food industry etc., encourage action to reduce intakes and **provide practical steps to help people lower their own and their families sugar intake.** [13]

PHE report that by meeting the SACN recommendations on sugar consumption within 10 years the quality of life for individuals would be improved, and the savings to the NHS could be around £500 million every year.[14]

## 2.1 Support for a tax on sugary drinks

The House of Commons Health Select Committee published the report *Childhood obesity—brave and bold action* in October 2015. This supported the introduction of a sugar tax alongside a number of other measures to tackle childhood obesity:

> Chair of the Health Committee, Dr Sarah Wollaston MP, says:
>
> "One third of children leaving primary school are overweight or obese, and the most deprived children are twice as likely to be obese than the least deprived. This has serious consequences for both their current and future health and wellbeing and we cannot continue to fail these children. There are many causes and no one single or simplistic approach will provide the answer. We therefore urge the Prime Minister to make a positive and lasting difference to children's health and life chances through bold and wide ranging measures within his childhood obesity strategy.
>
> We believe that if the Government fails to act, the problem will become far worse. A full package of bold measures is required and should be implemented as soon as possible. We believe that a sugary drinks tax should be included in these measures with all proceeds clearly directed to improving our children's health." [15]

The British Medical Association[16], the Faculty of Public Health[17], Royal College of General Practitioners[18] and dental organisations such as the British Dental Health Foundation[19] have expressed support for a tax on sugary drinks. In October 2016, the World Health Organisation published a report saying that "*taxing sugary drinks can lower consumption and reduce obesity, type 2 diabetes and tooth decay*."[20]

A number of children's and environmental organisations, such as Friends of the Earth,[21] School Food Matters and the Health Visitors Association have also expressed support for the introduction of a tax on sugary drinks.

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13 PHE, Sugar Reduction: The evidence for action, October 2015
14 PHE, Sugar Reduction: The evidence for action, October 2015
15 The House of Commons Health Select Committee, Childhood obesity demands bold Government action committee report finds, 30 November 2015
16 British Medical Association, Food for thought, July 2015
17 Faculty of Public Health, FPH welcomes publication of PHE's sugar report, October 2015
18 Royal College of General Practitioners, GPs back levy on sugary drinks in battle to curb obesity, 20 October 2015
19 British Dental Health Foundation, Oral health charity calls for action on sugar after PHE report, 26 October 2015
20 WHO, WHO urges global action to curtail consumption and health impacts of sugary drinks, October 2016
21 Friends of the Earth, Why Friends of the Earth supports the call for a sugary drinks tax, 2013

Some supporters of a tax on sugary drinks have highlighted the sales tax introduced in Mexico in 2014; where the tax was added to the price of the drink at the point of purchase with the aim of reducing consumption (similar to taxes on tobacco and alcohol in the UK[22]). There, a 10% tax on the price of a drink, has resulted in an average of 6% reduction in sales of high sugar drinks (increasing to 12%) and a 4% increase in the purchase of untaxed drinks.[23] The Soft Drink Industry Levy introduced in the 2016 Budget is a different model - this would be imposed on manufacturers and importers, and aims to encourage the reformulation of products.

[22] For more details on the structure and operation of excise duties in the UK see, Thomas Pope & Tom Waters, *A survey of the UK tax system*, Institute for Fiscal Studies, November 2016 – specifically, pp19-20. Statistics on these taxes published by HM Revenue & Customs are collated on the UK Trade Info site.

[23] BMJ, Beverage purchases from stores in Mexico under the excise tax on sugar sweetened beverages: observational study, January 2016

# 3. The Soft Drink Industry Levy

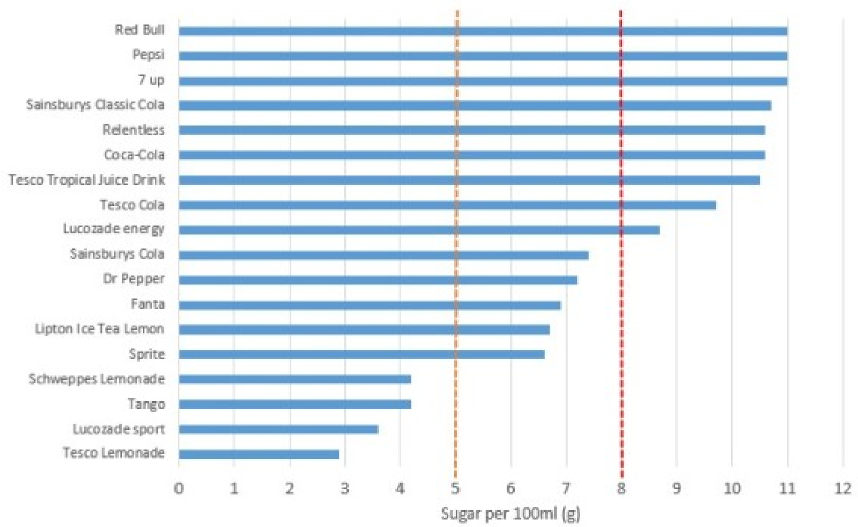
In the 2016 Budget, the former Chancellor of the Exchequer, George Osborne, announced a levy on the producers and importers of soft drinks, to be introduced in 2018. [24]

It is planned that the levy will consist of two rates, based on the total sugar content of these beverages. The Chancellor of the Exchequer, Phillip Hammond announced in the Spring 2017 Budget that that the tax rate for the levy would be 18p per litre for the lower sugar products (5g/100ml and above), and 24p per litre for the higher sugar products (8g/100ml and above).

Pure fruit juices and milk-based drinks are to be exempt from the levy, and there will be an exemption for small producers.

### Box 1: Soft drinks controlled under the levy

A 2016 chart published by the Behavioural Insights Team (a social purpose company, partly owned by the Cabinet Office) illustrates the different cut off points for the two levy rates against the sugar content on a wide range of sugary soft drinks.[25] As illustrated below, regular cola and energy drinks seem to fall amongst those drinks that fall in the higher rate bracket:




In his 2016 Budget speech, George Osborne argued that the levy would create an incentive for producers to reduce sugar levels in products, and he observed that many drinks manufacturers were already reformulating their products to do this:

> We are introducing the levy on the industry which means that companies can reduce the sugar content of their products, as many already do. It means that they can promote low-sugar or no-sugar brands, as many already are. They can take these perfectly reasonable steps to help with children's health. Of course, some may choose to pass the price on to consumers, and

[24] HM Treasury, Budget 2016, HC 901 March 2016 para 1.90-96, para 2.157
[25] Behavioural Insights Team, *Sugar tax: how will it affect behaviour?* 18 March 2016

> that will be their decision, and this would have an impact on consumption too.[26]

The Government published a consultation on the soft drink industry levy in August 2016. This requested responses on a wide range of issues relating to the levy including the soft drinks that would be covered by the levy, and which should be exempt, and who should be liable for the levy.

More information on the consultation responses and the Government response to this can be found in the summary of responses document.[27]

## 3.1 Expected revenue from the levy

Initial Government estimates on revenue from the soft drinks industry levy was that this would be £520 million in the first year.[28] The OBR reported that this revenue was likely to decrease due to reformulation and the promotion of lower sugar alternatives.[29]

In the 2017 Spring Budget, Phillip Hammond announced that due to action already taken by the soft drinks industry to reformulate, the expected revenue from the tax had reduced. The OBR now estimate that the levy will raise around £380 million a year from 2018.[30]

However, the Chancellor confirmed that the Department for Education would receive the full £1 billion funding that had originally been expected from the levy in this Parliament.[31]

### What will the revenue be spent on?

In the 2016 Budget, the Government committed to spend the revenue from the soft drinks industry levy on investments in schools – doubling the PE and sport premium, expanding breakfast clubs and providing opportunities to extend the school day. The devolved Administrations will receive money through the Barnett formula.

The 2016 Budget document provided further details:

> In England, revenue from the soft drinks industry levy over the scorecard period will be used to:
>
> - **double the primary school PE and sport premium from £160 million per year to £320 million per year** from September 2017 to help schools support healthier, more active lifestyles. This funding will enable primary schools to make further improvements to the quality and breadth of PE and sport they offer, such as by introducing new activities and after school clubs and making greater use of coaches
> - **provide up to £285 million a year to give 25% of secondary schools increased opportunity to extend their school day** to offer a wider range of activities for pupils, including more sport

26 HC Deb 16 March 2016 c964
27 HMRC, Soft Drink Industry levy: Summary of Responses, December 2016
28 HM Treasury, Budget 2016 Policy Costings, March 2016 p12
29 Office of Budget Responsibility, Budget 2016: policy costings, March 2016
30 OBR, Spring Budget 2017: policy costings, March 2017
31 HC Financial statement, 8 March 2017 c815

- **provide £10 million funding a year to expand breakfast clubs** in up to 1,600 schools starting from September 2017, to ensure more children have a nutritious breakfast as a healthy.[32]

However, changes have subsequently been made to the planned spending, specifically relating to the funding for secondary schools to extend their school day and the creation of the Healthy Schools Capital Programme.

### Healthy Schools Capital Programme

In response to a parliamentary question in January 2017 about funding schools to extend their school day, the Minister of State for Vulnerable Children and Families, Edward Timpson, stated that since the 2016 Budget announcement the Department for Education had "*been reviewing how funding for the soft drinks industry levy could be used to help schools offer a wider range of activities and support pupils' health.*" He added that the department was "determining the details how this funding will be allocated."[33]

Subsequently, on 28 February 2017, the Department for Education announced that £415 million of funding from the soft drinks industry levy would be allocated to schools in 2018-19 to "*pay for facilities to support physical education, after-school activities and healthy eating*." It added that schools would be able to use the funding – referred to as the Healthy Schools Capital Programme – to "*improve facilities for children with physical conditions or support young people struggling with mental health issues.*"[34]

The announcement stated that the funding "built on" plans for schools to provide a longer school day by changing their focus:

> The healthy pupils capital programme will build on the government's plans for schools to provide a longer school day by changing the focus of the scheme to provide new facilities or improve existing ones to make it easier for a range of extra-curricular activities to be provided.[35]

*Schools Week* reported that the funding originally planned for extending the school day in secondary schools would now instead be used for the Health Schools Capital Programme. The same article stated that the Government had confirmed that the announced funding for the Primary PE and Sport Premium and breakfast clubs (see above) remained.[36]

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32 Budget 2016, HC 901 March 2016 para 1.90-96
33 PQ 60086, 19 January 2017.
34 Department for Education, New funding to boost schools facilities and healthy lifestyles, February 2017
35 Ibid.
36 Government scraps longer school day pledge, *Schools Week,* 1 March 2017.

**Box 2: Healthy Schools Capital Programme funding allocations**

Under the Health Schools Capital Programme, funding will be allocated to local authorities and larger multi-academy trusts, who will then determine how the money is invested locally. Smaller multi-academy trusts, individual academies and sixth-form centres will be able to bid for grants for specific one-off projects. The Government has said that the funding allocated will not fall below £415 million regardless of the funds generated by the soft drinks industry levy. Further information on the allocation formula and bidding criteria is expected to be published in summer 2017.

The March 2017 Health Committee report, *Childhood obesity: Follow up*, provides a summary of the more recent plans for how proceeds from the levy will be spent, from correspondence with the Minister for Public Health:

- £160 million per year for primary schools for the primary PE and sports premium from September 2017;
- £10 million per year to expand breakfast clubs in up to 1,600 schools from September 2017, providing more children with a healthy start to their school day (£6m in Year 1, £10m in Year 2 and £10m in Year 3);
- £415 million through a new Healthy Pupils Capital Programme, to help pupils benefit from healthier, more active lifestyles. Primary, secondary and sixth form colleges will be able to use the funding to pay for facilities to support PE, after school activities and healthy eating. The money will be available to schools in the 2018/19 financial year: further details on the allocation formula, spending guidance and bidding criteria will be provided by the Department for Education in the summer.[37]

[37] House of Commons Health Committee, *Childhood obesity: follow-up*, March 2017

# 4. Responses to the levy

## Health organisations

The announcement in the Budget was widely welcomed by a number of medical organisations[38] and health charities.[39] For example, the President of the Faculty of Public Health described the levy as a significant step in the right direction that would have a positive effect on the lives of the population:

> "This levy is a very welcome and significant step in the right direction. It is a strong and symbolic tool for helping to reduce the levels of sugar in our diets.
>
> "This measure is supported by a majority of the public, and sends a clear signal to industry that the public's health is a key part of the economic recovery.
>
> "FPH congratulates the government for accepting the strong, evidence-based argument that this will have a positive effect on the lives of the population. Today's announcement, which we called for in our 2014 manifesto, should encourage everyone who campaigns to improve health that it is possible to influence government policy.
>
> "Today's announcement is a significant moment for our health, because one in three children and two in three adults in the UK are obese or overweight. The average child consumes over 100 calories a day from sugar sweetened drinks, representing one tenth of their entire daily intake. Regular consumption of sugary drinks can lead to obesity, diabetes, heart disease and rotten teeth [..][40]

The Sports and Recreation Alliance Chief Executive, Emma Boggis, said that the funding for sport will deliver more opportunities for children to be active. [41]

## Industry response

Since Budget 2016, a number of soft drink companies and retailers have already announced that they will be reformulating their products. This includes Tesco,[42] Lucozade Ribena Suntory,[43] Britvic[44] and AG Barr.[45]

Some industry representatives, such as the British Soft Drinks Association have expressed concerns about the levy, saying it could lead to job losses and not have a significant impact on obesity levels.[46] The

38 Royal College of Paediatrics and Child Health, George Osborne unveils sugar tax on soft drinks, 16 March 2016
39 British Heart Foundation, George Osborne announces levy on sugary drinks and a rise in tobacco tax, 16 March 2016
40 Faculty of Public Health, FPH warmly welcomes new sugar tax, 16 March 2016
41 Sport and Recreation Alliance, Budget 2016 - Primary PE and school sport premium to get sugar tax funding, 17 March 2017
42 Tesco, Tesco reduces sugar content in all own brand soft drinks, November 2016
43 The Times, Lucozade promises 'game-changing' reformulation with less sugar, November 2016
44 The Guardian, Britvic to change recipes for more of its drinks to avoid sugar tax, 19 May 2016
45 The Telegraph, Irn-Bru maker expands sugar reduction drive ahead of proposed Government crackdown, 1 March 2017
46 British Soft Drinks Association, BSDA's response to the Soft Drinks Tax Consultation and the Childhood Obesity Strategy, October 2016

'Face the Facts, Can the Tax' campaign is supported by a number of retail, manufacturing and hospitality companies, and calls on the Government to review the policy and withdraw plans to introduce the levy.[47] Some soft drinks manufacturers have said they are disappointed and that soft drinks have been singled out by the Government.[48]

## The structure of the tax

In their commentary on the Budget, the Institute of Fiscal Studies (IFS) raised concerns about how effective the new levy might be due to its design. [49]

The planned charge will be a flat rate per litre of product that will be dependent on whether the product is within the lower or higher sugar bracket. This would mean that a product with a higher sugar total would, in effect, pay less per gram of sugar than lower sugar products that are still within scope of the levy.

In December 2016, an article published by the IFS suggested that the levy structure could create a lack of incentive to reformulate products within either the high sugar rate (over 8g/100ml), or the mid-sugar rate (5-8g/100ml) unless the reformulation would move the product into the lower tax bracket, or to becoming an untaxed product. Under the levy for example, a product with 10g/100ml of sugar would be taxed at the same rate as a product with 20g/100ml of sugar. The authors suggested an alternative tax design - to introduce a rate of 20p per 100 grams of sugar:

> This would lead to clear incentives for all manufacturers to reduce the sugar content of their products. Consider again a manufacturer of a 1 litre bottle of drink that contains 11 grams of sugar per 100 millilitres. Now the product will face a tax of 22 pence. Lowering the sugar content of the product by 1 gram per 100 millilitres reduces this by 2 pence and increasing the sugar content by 1 gram per 100 millilitres raises tax due by 2 pence.[50]

The IFS Chart below shows distribution of the sugar contents across all soft drink purchased in 2010-11 (with fraction of purchases shown on left hand vertical axis) alongside the current proposed tax amount and the alternative tax proposed by the IFS (per 100 grams of sugar):

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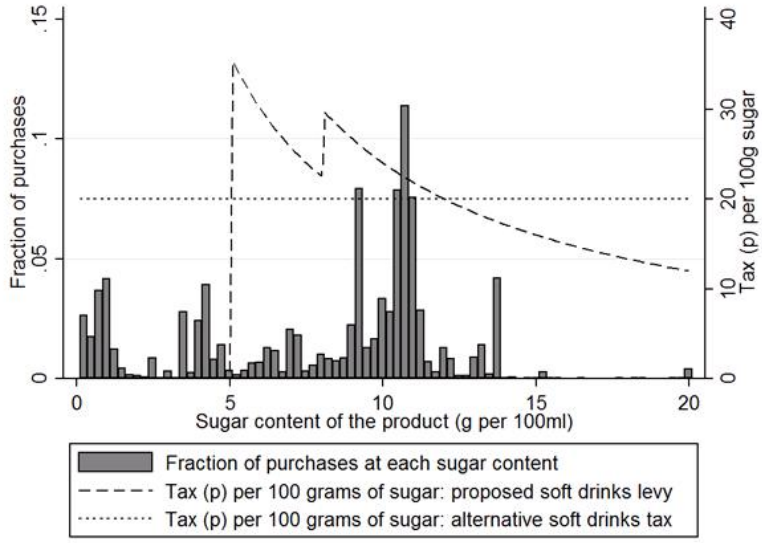
47 Face the facts, can the tax campaign website [accessed 10 April 2017]

48 Beverage Daily, UK sugar tax on soft drinks: the industry's reaction, March 2016

49 Institute of Fiscal Studies, IFS Budget briefing: The Soft Drinks Levy, 17 March 2016. See also, the opening remarks made by IFS director Paul Johnson at this event (IFS March 2016 p7).

50 IFS, Observations: Sweetening the sugar tax?, December 2016




Notes: Fraction of purchases is based on the authors' calculations using the Kantar Worldpanel for 2010-2011.

**Figure 3: Institute for Fiscal Studies, Observations: Sweetening the sugar tax?[51]**

## Impacts of the tax

A Lancet study published in December 2016 looked at three possible industry responses to the Soft Drinks Industry Levy - reformulation, a price rise, and a change in the market share of low, medium and high sugar products. The authors' modelling suggested that the first scenario, where industry reformulates its products, would result in the greatest benefits to health. In its best case scenario, the study estimated that there could be 144,000 fewer obese adults in around two years following the introduction of the levy, and 19,000 fewer cases of type 2 diabetes in over ten years, following reformulation (which it assumes to be 30% reduction in sugar content of all high sugar drinks, and 15% reduction in medium sugar drinks).[52] The authors report that the greatest uncertainty as regards the impacts of the levy is how industry will respond; each scenario considered had a different potential impact on health.

An August 2016 economic impacts study produced on behalf of the British Soft Drink Association by Oxford Economics reported that the levy would result in lower sales of soft drinks. It stated that this could lead to the industry contributing £132 million less to UK GDP, and could lead to 4,000 job losses.[53] However, the report has been questioned for assuming that the full cost of the levy will be passed on to consumers and for not considering the impact of reformulation. This contradicts both the Government's stated purpose of the levy, and recent industry

[51] IFS, Observations: Sweetening the sugar tax?, December 2016
[52] The Lancet, *Health impact assessment of the UK soft drinks industry levy: a comparative risk assessment modelling study*, December 2016
[53] Oxford Economics, The Economic Impact of the Soft Drinks Levy, August 2016

reports of reformulation both related and unrelated to the introduction of the levy.[54]

## Health Committee Follow-up Inquiry

Early in 2017, the Health Committee took evidence from Ministers, soft drink manufacturers and Public Health England amongst others on the Government's Childhood obesity plan and progress since the previous Committee Inquiry in 2015.

The report of the Follow-up Inquiry provides conclusions and recommendations on a number of issues in relation to the childhood obesity plan. The Committee said that it welcomed the introduction of a levy on sugary drinks, but had concerns about the design, and the impact this might have on childhood obesity.

### The effect of the levy

The committee acknowledged that the levy had been primarily designed to encourage the industry to reformulate soft drinks, and noted that there had already been action in this area. However, it stated that the impact of the levy may be reduced if the cost is not passed on to the consumers of high sugar drinks. It expressed concerns that producers may choose to pass the cost of the levy on to the price of all their products – thereby making the consumers of low sugar drinks and water subsidise the high sugar products.

### Milk based drinks

The Committee said it was "*unconvinced by the rationale for excluding milk-based drinks from the soft drinks industry levy:*"

> The suggestion that milk-based drinks have been excluded because "milk is one of the things that we also promote as a good thing for children to have" is particularly unconvincing: as we pointed out in questioning, milk is better for children without sugar added to it. While it is welcome that milk-based drinks will be included in the wider reformulation programme, their exclusion from the levy appears to be a missed opportunity to drive progress much faster than it might otherwise take place.[55]

It recommended that the Government consider extending the scope of the levy to include milk-based drinks where sugar has been added.

54 BBC News, Reality Check: Would the sugar tax cost 4,000 jobs?, August 2016
55 House of Commons Health Committee, *Childhood obesity: follow-up*, March 2017

# 5. The Finance (No 2) Bill 2017

The *Finance (No 2) Bill* was published on 20 March 2017. This followed a consultation on the draft Bill. Part 3 (Clauses 71-107) of the Bill will introduce the soft drinks industry levy and the conditions relating to it.

In the Spring Budget 2017, the Government announced two changes to the Bill following the public consultation:

- Small producers and importers[56] were excluded from the levy in the Budget 2016 announcement. The Government decided that this exclusion should not apply to any importers of major brands of soft drinks regardless of the volumes imported; and
- The Bill now includes a criminal offence for evasion of the levy.[57]

For detailed information on the Bill, the following links may be useful:

- *The Finance (No 2) Bill 2017*
- Explanatory notes
- A tax information and impact note relating to the Soft drink Industry Levy

Selected clauses from the *Finance (No 2) Bill* will be debated by the Committee of the Whole House over two days at the start of the Bill's Committee stage. The first of these debates is scheduled to be on 24 April. At the conclusion of the Second Reading debate, the House is to approve a motion, specifying those clauses: details are in the Order Paper for 18 April. Clause 107, on the commencement of the soft drinks industry levy is listed as one of these clauses.

## 5.1 Content of the Bill (Clause 71-107)

This briefing does not provide a clause by clause overview of this section of the Bill. However, the following bullet points provide some further detail on the proposed levy:

- The levy will apply from April 2018 to producers and importers of soft drinks;
- A lower tax rate (18p) per litre will apply to drinks with a total sugar content of 5 grams or more per 100ml; a higher rate (24p) per litre will apply to drinks with a sugar content of 8 grams or more per 100ml;
- The 100ml applies to the 'prepared drink.' This will mean that any drink that requires dilution will be assessed at the diluted level (as indicated by information on the packaging of the product).
- Fruit juice, vegetable juice and milk are not considered an added sugar ingredient. The Bill gives HMRC powers to prescribe what is meant by fruit/vegetable juice.

[56] The small producer threshold has been set at one million litres of product
[57] HM Treasury, Spring Budget 2017: Policy costings, March 2017

- The levy will not apply to drinks where no sugar has been added, to milk based, or milk substitute based drinks.
- There are a number of exemptions to the provisions within the Bill. This includes baby formula and products used to treat dietary conditions;
- HMRC have powers under the draft Bill to make regulations specifying further criteria for exempt soft drinks.
- Drinks containing up to 1.2% ABV alcohol are included in the levy but provision will be made to exempt some of these drinks.
- Small producers and importers will be exempt from the levy (except those importing major brands- see above). The small producer threshold has been set at one million litres of product;
- Producers will be able to claim credit from HMRC in respect of exported soft drinks;
- The Commissioners of Revenue and Customs may make regulations in regards of the payment, collection and recovery of the levy.

# 6. Further reading

- PHE, Why 5%? An explanation of SACN's recommendations about sugars and health, July 2015
- Department of Health, Soft Drinks Industry Levy: 12 things you should know, 18 August 2016
- PHE, Sugar Reduction: The evidence for action, October 2015
- Public Health Matters, Expert interview: New sugar recommendations, July 2015
- POSTnote 530, Sugar and Health Policy, October 2016
- The Lancet, *Health impact assessment of the UK soft drinks industry levy: a comparative risk assessment modelling study,* December 2016
- Oxford Economics, The Economic Impact of the Soft Drinks Levy, August 2016
- House of Commons Health Select Committee, Childhood obesity: Brave and bold action, November 2015 HC465 2015/16
- HMRC Soft Drinks Industry Levy Policy Paper 5 December 2016
- House of Commons Health Committee, *Childhood obesity: follow-up,* March 2017

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