

# 00807-16: Budget 17#23: Sugar Sweetened Drinks Tax

<b>To:</b> Minister	<b>Author:</b> Ambrose Murray
<b>Status:</b> Completed	<b>Owner:</b> Ambrose Murray
<b>Purpose:</b> For Decision	<b>Reviewers:</b> Ambrose Murray, Gerry Kenny, Gary Tobin
<b>Division/Office:</b> Budget & Economics Division	
<b>Decision By:</b>	

## Final Comment

'Sugar Tax from 2018. Proceed as agreed in today's discussions, MN 19/9/16'. (Copy attached)

## Action Required

Budget 2017 - Options around a Tax on Sugar-Sweetened Drinks

## Executive Summary

- The Programme for Partnership government includes a proposal for a tax on sugar-sweetened drinks (SSD).
- The UK proposes to implement a soft drinks industry levy from April 2018, and currently are engaged in a consultation process with industry on the most efficient and effective design of the tax.
- The Department of Health have proposed a structure for an SSD tax, which closely reflects the proposed UK tax.
- Both the Revenue Commissioners and the soft drinks industry are of the view that, given the integrated nature of the soft drinks markets, mirroring the proposed UK tax in terms of structure and the timing of implementation is advisable.
- Significant tax administration difficulties arise for Revenue as, unlike tobacco and alcohol products, SSDs are not subject to tax warehousing. Collection, traceability and ensuring compliance with the tax therefore presents difficulties.
- The stated aim of the tax is to reduce the consumption of drinks with added sugar, as a result yields may fall significantly upon imposition of the tax. However, on the basis of current consumption on sugar-sweetened drinks, with no change in that consumption, it is estimated that a tax of 10c on a 330ml can of SSD could raise €84.5 million.

## Comments

- (16/09/2016 17:20:14) Gary Tobin: Minister, you will want to discuss with officials.

## Detailed Information

### 1. Programme for a Partnership Government

The Programme for a Partnership Government includes a proposal for a new tax on sugar sweetened drinks (SSDs) to serve as a revenue raising and public health measure. This follows the inclusion of such a tax in the general election manifestos of all four of the main political parties and ongoing calls from the Department of Health, as well as a significant number of health advocacy and civil society groups. An SSD tax is seen as just one element in a suite of measures proposed to tackle Ireland's obesity problem. The Department of Health have a comprehensive, government approved action plan, 'A Healthy Weight for Ireland,' to be published shortly. The effectiveness of such a tax will depend on the scope and the rate of the tax and the response of industry in reformulating their ingredients, i.e. reducing the amount of sugar used in their products.

### 2. Department of Health Proposal

The Department of Health proposes that the sugar-sweetened drinks tax should apply to water-based and juice drinks which have an added sugar content of 5grams/100ml and above. Most soft drinks and energy drinks have an added sugar content of circa 10-11 grams of sugar per 100ml.

**Structure of tax:** A volumetric rate imposed at a specific amount per hectolitre is the tax structure most likely to deliver on the PfPG goals of raising revenues while tackling obesity. A volumetric tax is easier to impose and administer, and has a greater price impact on multipacks, large volume SSD bottles and cheaper 'own-brand' SSD products than an *ad valorem* tax calculated as a percentage of the price of the product.

**Exclusions:** First, by specifying added sugar, the DOH proposal excludes pure fruit juices with natural sugar content of over 5grams/100ml. Second, the proposal also excludes soft drinks, energy drinks and sports drinks that have a sugar content lower than 5grams/100ml, e.g. diet

drinks. Third, the proposal excludes all dairy-based sugar-sweetened drinks with both naturally occurring sugar and with added sugar, irrespective of the level their sugar content.

3. **DOH Health's key rationale:** the reduction of consumption of added-sugar in drinks.

- The focus is on drinks as opposed to foods because (i) of the poor satiating effect of drinks as opposed to sugary foods, and (ii) these drinks have no nutritional value.
- DOH proposes to reduce consumption of sugar in drinks because of the scientifically established link to obesity and related diseases.
- DOH focuses on added-sugar as opposed to naturally occurring sugar to reflect the policy goal of encouraging reformulation of products by the drinks industry.
- The exclusion of dairy-based products with high levels of added sugar is justified on the basis that dairy drinks occupy an entirely distinct part of the healthy eating guidelines and the food pyramid as opposed to water-based sugar sweetened drinks. Dairy products are a recommended part of children's diets, fulfilling a specific nutritional role.
- The DOH has also cited dental health as a rationale for their proposal.

4. **EU Compliance**

There may be a challenge to the sugar-sweetened drinks from an EU state-aid rules perspective. It is important that the tax is designed in such a way that there is a clearly defined and robust public health rationale for targeting soft drinks and juices with added sugar, and excluding soft drinks and juices with no added sugar, and dairy products with added sugar. Sugar-sweetened drinks taxes in other Member States have thus far not been challenged on State Aid grounds by the Commission.

5. **United Kingdom Proposal**

The United Kingdom government announced a 'soft drinks industry levy' in the March 2016 budget. The levy is a tax on sugar-sweetened drinks to be implemented from April 2018 onwards, after a period of consultation with stakeholders.

- It will apply to sugar-sweetened drinks only, not foods. Small producers, pure-fruit juices and milk-based products will be exempted.
- It also will consist in the two-band approach as set out above in the DOH proposal.
- The independent UK Office for Budgetary Responsibility estimates that the tax will be levied at 18p lower rate and 24p higher rate per litre. This would amount to 8p (11.7%) increase on a 68p can of Coke, 24p on a £1.50 1litre bottle of Lucozade (16%) and an additional 42p on a family sized bottle of coke.
- From an Irish perspective the imposition of a sugar-sweetened drinks tax in the UK removes concerns that an Irish tax would encourage cross-border trade, provided that the taxes are set at similar levels and implemented at similar times.

## 6. Other States

France, Hungary, Finland and Belgium all impose volumetric taxes on SSD. The tax has been shown to have been passed through to the consumer in these States. The taxes in Belgium and France have been quite straightforward in terms of implementation, using CN codes, and thus have included diet and zero-sugar soft drinks. While this approach is far simpler to implement, it does not meet the stated health objectives of the Department of Health, which seeks to target added sugar only, and not diet drinks.

## 7. IBEC's Concerns

The Irish Beverage Council (IBEC), Food and Drink Industry Ireland, the Restaurant Association of Ireland and the National Federation of Retail Newsagents Ireland have all questioned the proposed tax. They argue the tax will be ineffective at tackling obesity, unfairly targets one sugary product over others, ignores the efforts of the soft drinks industry to reformulate their products, damages industry and jobs, and is regressive in terms of affecting lower income consumers more than higher-income consumers.

It should be noted that given that SSD taxes are very new, it may be too early to judge that they have been successful or unsuccessful in other States. In relation to industry reformulation efforts, the tax may be designed to reward and encourage the industry's reformulation efforts through the two-band approach. In terms of the regressive nature of the tax, health advocates argue that the health benefits will be progressive.

The Irish Beverage Council has indicated that the Irish and UK markets of soft drinks production are highly integrated in terms of production and supply lines. They have expressed major concerns that if an Irish tax is structured significantly differently and is introduced at a different time to the UK tax, then this would be highly disruptive to production, and could lead to production being moved wholly from Ireland to the UK.

## 8. Administration of Tax

The Revenue Commissioners advise that, as in any new tax, key practical requirements for the introduction of a sugar-sweetened drinks tax include: clear identification of the product to be taxed; the point at which the tax becomes liable; and the person liable to pay the tax.

Where the source (natural or added), or quantity, of sugar present in a drink determine its liability to tax, this information should be discernible and objectively verifiable to taxpayers and

Revenue. For example, if the tax applies to drinks containing added sugars, but not naturally occurring sugars, difficulties in administering the tax will arise where the added sugars in a product cannot be immediately and objectively distinguished from naturally occurring sugars.

To minimise the compliance burden on taxpayers and for administrative efficiency, and in common with other excises, liability to pay the tax should fall at the earliest possible point in the distribution chain. Under this approach, the tax will be collected from a limited number of traders who are manufacturers and importers of sugar-sweetened drinks, thereby reducing tax administration and compliance costs.

As with any new tax, a sufficient lead in time will be necessary to allow Revenue to put in place the administrative systems for handling the tax, including the requisite IT systems to enable on-line tax declarations and returns.

The UK is currently undertaking an in depth consultation period with industry to design their sugar sweetened-drink levy in a way which is practical and efficient for collection, and not too onerous on industry in terms of systems of declaration. Given how integrated the UK and Ireland markets for soft drinks are, it is advisable from a Revenue perspective that Ireland adopt a similar tax structure and time period for introduction as the UK.

## 9. Yield Options

The Irish Beverage Council in discussions with the Department have advised that the percentage of soft drinks on the market that are sugar-sweetened may be closer to 50% than the 60% estimated in the TSG paper. The yield options below reflect this revision, and therefore are lower than those published in the TSG paper. Furthermore, it must be noted that these yield figures do not take into account the envisaged efforts by industry to reformulate their products or consumers changing their behaviour and consuming less sugar-sweetened drinks.

It is estimated that 50% of the 685.5m litres of soft drinks sold off trade in Ireland (2014) were sugar-sweetened. 50% of the 685.5 million litres sold off trade is 342.76 million litres. On the basis of an estimated 342.75 million litres of sugar-sweetened drinks sold off-trade in Ireland, revenue yield might be as follows;

<b>Rate per hl</b>	<b>€2.46</b>	<b>€4.93</b>	<b>€7.39</b>	<b>€9.85</b>	<b>€12.32</b>	<b>€24.64</b>	<b>€36.96</b>	<b>€49.27</b>
<b>Increase 330ml can</b>	1c	2c	3c	4c	5c	10c	15c	20c
<b>Yield</b>	€8.4m	€15.0m	€25.3m	€33.8m	€42.3m	€84.5m	€126.7m	€168.9m

It should be noted that the above yield projection also doesn't take into account that different rates may apply to drinks depending on the level of sugar content, as it is not currently possible to determine that level of detail within the soft drinks market. In addition to the 685m litres of soft drink sold off-trade in Ireland in 2014, there was also 81m litres sold on-trade. A proportion of this 81m which meets the added sugar criteria would also be subject to the tax, and therefore increase the projected yields outlined above.

Overall it is important to recognise that yield projections are based on current consumption of sugar-sweetened drinks, and given the health objective of reducing such consumption, yields could fall very rapidly upon implementation, as occurred with the plastic bag levy etc.

### 10. Pre-Budget Submission

You may wish to discuss this with officials.

## Related Submissions

There are no related Submissions.

## User Details

### Users with access to Submission

Gareth Walsh  
 Ambrose Murray  
 Sub\_FIN Sec Gens Office  
 Sub\_FIN Ministers Office

### Read receipt list

Gareth Walsh  
 Ambrose Murray  
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## Action Logs

**Created:** 07/09/2016 12:15:46: Submission created by Gareth Walsh

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**Completed:** 20/09/2016 12:30:47: Submission completed on behalf of the Minister's Office by Mary Young