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Parliamentary Budget Office

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Note on Sugar Tax

PBO Note 7 of 2018

Introduction

From May 1st 2018 a new excise duty on Sugar Sweetened Drinks (SSDs), commonly known as the 'Sugar Tax', will come into force in Ireland. This note will provide a brief overview of the Sugar Sweetened Drinks Tax (SSDT), including the design and implementation of the SSDT, the underpinning rationale, and policy implications.

Sugar Sweetened Drinks Tax (SSDT) design and implementation

The policy aim of the SSDT is to encourage producers to reformulate their products to reduce added sugar, and to encourage consumers to reduce their consumption of these products by incentivising individuals to opt for healthier drinks through the imposition of a financial barrier.

The SSDT applies to any ready to consume drinks (such as cans of soft drink or bottled energy drinks) and concentrated SSDs (such as domestic concentrate mixes like cordials and squash, and soft drink syrups supplied for commercial use in drinks fountains in pubs, restaurants or cinemas) containing added sugars such as sucrose, glucose or dextrose.

A volumetric tax was chosen as it is deemed to provide a fair assessment of the sugar content, is considered easier to implement and is regarded as the most effective approach from a health policy perspective.[i] This means that the level of tax on the product is based on the volume of liquid in the product itself, rather than a flat rate as a percentage of the commercial retail price.

The SSDT applies to SSDs with added sugar content between five and eight grams per 100ml, at a rate of 20 cent per litre (including VAT). A second rate applies for drinks with a sugar content of eight grams or above, at a rate of 30c per litre (including VAT).

Exclusions apply to drinks with naturally occurring sugars (e.g. fructose) such as fruit juice; milk substitute drinks such as soy based products; non-alcoholic beer and wine; drinks containing milk fats or dairy; and certain food supplements. In addition, alcoholic drinks are exempt as they are subject to separate excise duties on alcohol.

The SSDT will apply to all producers or importers of SSDs in the state. A tax relief is available where SSDs produced in the State are exported on a commercial basis. An exemption exists for small producers who produce 13,000 litres or less of product and are not subject to mandatory nutritional declaration on their products[ii].

Box 1: Delayed Implementation and EU State Aid case

The SSDT was announced in Budget 2017, to commence alongside a similar tax in the United Kingdom (UK) in 2018.[iii] The decision to coordinate the implementation of Ireland's SSDT with that of the UK's was taken in light of the close relationship between Ireland and the UK's food and beverage markets' and to limit the possibility of un-taxed cross-border trade.

The commencement of the SSDT was delayed from April 6th to May 1st to allow for completion of the necessary administrative processes in relation to its consideration under EU State Aid rules. Given the potential for people to replace the consumption of SSDs with dairy or fruit juice products, which do not fall within the scope of the tax, the SSDT had the potential to give these products a competitive advantage.[iv] On April 24th the European Commission (EC) concluded that the SSDT does not involve any selective advantage and thus does not involve State Aid. A press release detailing the EC's judgement states that: 'the scope of the Irish sugar sweetened drinks tax and its overall design are consistent with the health objectives pursued and does not unduly distort competition.'

Underlying Rationale

The World Health Organisation (WHO)[v] has recommended limiting the consumption of SSDs as part of a multi-pronged intervention to help combat growing obesity rates worldwide. In Ireland, the introduction of a tax on SSDs was proposed by the Department of Health in 2012 as part of a suite of measures aimed at tackling the country's growing obesity rates.[vi] In 2016, the Department of Health introduced 'A Healthy Weight for Ireland – Obesity Policy and Action Plan' which recommended a range of interventions and policy changes, including

the SSDT, to reduce growing obesity rates in Irish children and adults.[vii]

Overweight and obesity rates in Ireland are amongst the highest in Europe, with 66% of males and 55% of females classified as being overweight or obese according to the 2015 Healthy Ireland Survey.[viii] One in four children are classified as overweight, with the majority of cases of childhood obesity tracking into adulthood.[ix] If the number of overweight people continues to increase at the predicted rate, Ireland will become the most overweight country in Europe within a decade, with some projections putting 90% of the population in the overweight category by 2030.[x]

Increases in Ireland's overweight and obesity rate risks placing greater pressure on Irish health services, with potential increases in direct and indirect healthcare costs. A 2017 University College Cork (UCC)/Safefood study estimates that the lifetime economic cost of childhood overweight and obesity in Ireland is €4.6 billion. The study estimates that 21% of this is attributable to direct healthcare costs, while the remaining 79% is associated with indirect costs such as losses in productivity and absenteeism.[xi]

The SSDT follows the model set by other health intervention or 'market failure' taxes, similar to the duties introduced on alcohol and tobacco to induce changes in consumer behaviour. According to the Department of Health, the policy goal is to encourage producers to lower the sugar content in drinks, with a secondary goal to discourage consumers from regularly consuming SSDs through price increases. Other proposed measures include clearer labelling of foods with calorie and nutritional content, and a review of policies related to high fat and high salt foods.[xii]

The rationale behind the exemption of certain drinks (such as dairy) is that milk based or milk substitute products contain essential nutrients and can form part of a balanced diet, especially for children. The Department of Health argued that milk based drinks were also consumed in a different way than soft drinks, which are often consumed to quench thirst, cool down etc. Fruit juices with naturally occurring sugar are also excluded from the tax as producers of such drinks do not have scope to reduce naturally occurring sugar in their products.

While the introduction of the SSDT is widely supported by health organisations such as the Irish Heart Foundation and the Royal College of Physicians, it has been criticised by IBEC's Irish Beverage Council as an ineffective tool.[xiii]

Implications of the SSDT

Since the announcement of the tax in 2016 and in anticipation of the introduction of sugar taxes in other jurisdictions (e.g. South Africa), producers have been reformulating drink products to reduce their sugar content below the five gram threshold. In the UK, these reformulations have resulted in the British Treasury revising downwards the estimated revenue from the new tax from £540 million in 2016 when it was announced, to £240 million in 2018.[xiv] Similar adjustments have been made to estimates by the Irish Department of Finance and the Department of Health, with current estimated revenue from the new SSDT at €30 million in 2018 (assuming commencement in April) and €40 million in its first full year of implementation in 2019, down from an original estimation of €100 million. It is important to note that these estimates are based on retail sales at the current rate, assume no change in behaviour, and take into account the reformulation of products.[xv]

While the longer term impacts on consumption rates in Ireland are harder to predict, the Institute of Public Health's *Health Impact Assessment* in 2012 estimated that a 10% tax on the commercial retail price of SSDs (which is roughly the estimated price impact of the incoming volumetric tax on SSDs) may reduce obesity in adults by 1.25%.[xvi]

However, there are concerns that the SSDT will disproportionately impact lower-income households. According to the 2016 Healthy Ireland Survey, 14% of respondents consume at least one SSD each day, with the highest prevalence of consumption concentrated in young males from lower socio-economic backgrounds[xvii]. A 2017 study by the WHO also noted a concentration in the consumption of SSDs among young males from lower socio-economic backgrounds[xviii].

The exclusion of certain categories of drinks has been critiqued by the Institute of Public Heath in Ireland. They note that the exclusion of dairy and

"new product formats" allows for loopholes in reformulation which can still contribute to obesity and not address the underlying issue of consumer demand for sweet drinks.[xix] In addition, there is a growing body of medical research on the long term health impacts of artificial or chemical sweeteners such as aspartame, which are often substituted for sugar in diet or "zero sugar" drinks. Evidence suggests that consumption of 'diet' soft drinks made with artificial sweeteners has been linked to weight gain and higher instances of certain cancers and stroke.[xx] Other studies suggest links between artificial sweeteners and dementia.[xxi] As such, the implementation of an SSDT which excludes artificial sweeteners or other sweetened drinks may have unintended consequences on consumer's health.[xxii]

Box 2: International Examples

Taxes on SSDs have been introduced in France (2013), Belgium (2016), Finland (2013), Norway (2017), Hungary (2011), Mexico (2014), and numerous US states. Ireland previously implemented a tax on 'Table Waters' which included SSDs; however, this tax was removed in 1992 as part of a broader set of reforms in preparation for Ireland's entry to the European Union (EU) Single Market.[xxiii]

While data on changes in SSD consumption effecting obesity rates is limited and will not be widely available until the medium-to-long term, short-term shifts in consumption have been noted in jurisdictions where SSDTs have already been introduced. Mexico, which had an internationally high rate of SSD consumption, noted a 12% drop in SSD consumption in the first year that their SSDT was introduced. In Finland, a 'sweet tax' which included SSDs was introduced in 2011, and was linked to a fall in demand of 3.2% by 2013.[xxiv]

*Please note additional information is available from the Library and Research Service note "**A tax on sugar sweetened drinks: an overview**", October 2016*

Revenue: Irish Tax and Customs (March 2018) "Sugar Sweetened Drinks Tax – General Taxpayer Guide" *Tax and Duty Manual.*

[ii] Annex V of Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers

[iii] Michael Noonan (2016) Financial Statement of the Minister for Finance, Mr. Michael Noonan TD: 11th October 2016

[iv] Department of Finance (2018) Update on the Commencement of Sugar-Sweetened Drinks Tax

[v] World Health Organisation (2016), Fiscal policies for diet and the prevention of non-communicable diseases

[ivi] Institute of Public Health in Ireland (2012) Proposed Sugar Sweetened Drinks Tax: Health Impact Assessment

[vii] Department of Health Ireland (2016) A Healthy Weight for Ireland: Obesity Policy and Action Plan 2016 – 2025

[viii] Department of Health (2015) The Healthy Ireland Survey 2015– Summary of Findings p. 40

[ix] Royal College of Physicians Ireland (2014) "The race we don't want to win: Tacking Irelands Obesity Epidemic – Evidence Document" Policy Group on Obesity p. 19

[x] Department of Health (October 2016) Introducing A Tax On Sugar Sweetened Drinks Health Rationale, Options And Recommendations p.8

[xi] Safefood (2017) New study reveals total lifetime cost of childhood overweight and obesity on the island estimated at €7.2billion euros

[xii] Department of Health (October 2016) Introducing A Tax On Sugar Sweetened Drinks Health Rationale, Options And Recommendations p.7

[xiii] Ibec (2016) Sugar tax proposal condemned as costly political posturing

[xiv] HR Treasury (2018) Soft Drinks Industry Levy comes into effect

[xv] Department of Finance (2016) 2016 Tax Strategy Group Papers p. 30.

[xvi] Ibid.

[xvii] Department of Health (2016) The Healthy Ireland Survey 2016 – Summary of Findings p. 1

[xvii] World Health Organisation (2017) Adolescent obesity and related behaviours: trends and inequalities in the WHO European Region, 2002–2014 p. 58

[xix] The Institute for Public Health in Ireland (2016) Institute of Public Health in Ireland (IPH) response to Department of Finance Sugar -Sweetened Drinks Tax Public Consultation

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[xxi] Boston University, School of Medicine (2017) Daily Consumption of Sodas, Fruit Juices and Artificially Sweetened Sodas Affect Brain

[xxii] Swithers, S. E (2013) "Artificial sweeteners produce the counterintuitive effect of inducing metabolic derangements" Trends in Endocrinology & Metabolism Vol.24(9)

[xxiii] Department of Finance (2016) 2016 Tax Strategy Group Papers p.28

[xxiv] Department of Health (2016) Introducing A Tax On Sugar Sweetened Drinks Health Rationale, Options And Recommendations p.23

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