

Impact of the Soft Drinks Industry Levy

The Soft Drinks Industry Levy was implemented in April 2018 as a response to concerns about rising childhood and teenage obesity. Will the levy lead to the anticipated outcomes of reduced sugar consumption and improved health, or will it have unintended consequences?

About the research

The Soft Drinks Industry Levy, originally announced in the 2016 Budget, was implemented in April 2018 as a response to concerns about rising childhood and teenage obesity.

The levy applies to the production and importation of soft drinks containing added sugar. It has a lower tax rate for drinks with a total sugar content of five grams or more per 100 millilitres, and a higher rate for drinks with eight grams or more per 100 millilitres. When the policy was announced, it was estimated that revenues from the levy would be over £500 million annually and are intended to be used to fund sports provision in primary schools.

The rationale for taxing sugar is that there might be costs associated with its consumption that are borne by society (e.g. costs to the NHS), and are not taken into account by the individual when choosing what to consume. The tax aims to lower the social costs of sugar consumption by increasing the price of sugar.

However, it is important to recognise that the social costs generated by consuming sugar vary across people – there is a trade-off between the potential benefits of reducing diet-related health costs and the impact of higher prices on people whose consumption doesn't generate any social costs.

Researchers from the Institute of Fiscal Studies have provided evidence on the potential impact of the Soft Drinks Industry Levy, and on the wider questions surrounding the design

of taxes that aim to correct behaviour carrying social costs.

A key consideration in the impact of such taxes is how consumers and firms will respond to the tax. For example, if consumers stop buying sugary drinks and consume water instead the tax could be relatively effective.

On the other hand, if they switch to milkshakes (which are not taxed under the Soft Drinks Industry Levy), the reduction in sugar consumption could be less than intended. The effect of the tax will also depend on how much firms pass the tax on to consumers through price increases, as well as whether they reformulate products with reduced sugar content in order to avoid the tax. Some drink manufacturers have already done this prior to introduction of the new levy.



Key findings

- Over 90% of households in the UK buy more than the recommended number of calories from 'free sugar' – sugar that does not naturally occur in foods and is added during production.
- Many people eat more free sugar than is recommended, but children and teenagers eat three times as much, on average.
- Soft drinks account for about 17% of the free sugar that households buy, on average, with 12% coming from carbonated drinks (e.g. cola, lemonade), and a further 5% from non-carbonated drinks (e.g. fruit squash). The remaining free sugar comes from other sources, such as ready meals and processed food (e.g. chocolate and confectionery contribute around 19%, on average).
- If households are ranked by the share of calories that they get from free sugar, the top 20% of households (i.e. those that buy a lot of free sugar) buy about twice as much of their sugar from soft drinks, in comparison to the bottom 20% households.
- Young people also get more of their sugar from soft drinks. This suggests that taxing soft drinks is a reasonable measure in targeting sugar consumption.
- However, soft drinks constitute less than one fifth of households' sugar consumption, and it is likely that a whole range of policies will be needed to tackle the problems of childhood obesity.

Further information

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Email: kate_s@ifs.org.uk
- Griffith, Lührmann, O'Connell and Smith: *Using taxation to reduce sugar consumption* (PDF, IFS Briefing Note)
www.ifs.org.uk/uploads/publications/bns/BN180.pdf
- Levell, O'Connell and Smith: *Excise Duties*, Chapter 7 in The IFS Green Budget 2016.
www.ifs.org.uk/uploads/gb/gb2016/gb2016ch9.pdf
- Soft Drinks Industry Levy (HM Revenue and Customs Policy Paper, December 2016)
www.gov.uk/government/publications/soft-drinks-industry-levy/soft-drinks-industry-levy

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