

Tax briefing note

Soft drinks industry levy (sugar tax)

June 2025

What is it?

The soft drinks industry levy, popularly known as the sugar tax, is a flat-rate tax on soft drinks with a sugar content of at least 5 grams in 100 millilitres and a higher rate when the sugar content is at least 8 grams in 100 millilitres. Between its introduction in 2018 and March 2025 the rates were 18p and 24p per litre but the autumn 2024 budget announced that the rates from April 2025 would be £1.94 and £2.59 per 10 litres and will rise, by 2029, to catch up with CPI inflation since 2018 but spread evenly over the five years. The levy applies to alcoholic drinks with an alcohol content under 1.2 per cent (i.e., 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 objective of the levy was 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

A 2021 study initially found that there had been no statistically significant change in purchased volume but then was retracted when the authors realised that volumes actually increased.¹ Meanwhile, obesity rates have been increasing.²

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 is reduced as resources are transferred to the public sector.³

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?

The levy should be scrapped immediately.

¹ British Medical Journal, Changes in soft drinks purchased by British households associated with the UK soft drinks industry levy: controlled interrupted time series analysis, 10 March 2021, www.bmj.com/content/372/bmj.n254 (accessed 2 April 2025).

² Office for Health Improvement & Disparities, Obesity Profile: short statistical commentary May 2024, 8 May 2024, www.gov.uk/government/statistics/update-to-the-obesity-profile-on-fingertips/obesity-profile-short-statistical-commentary-may-2024 (accessed 2 April 2025).

³ TaxPayers' Alliance, *Sugar tax briefing*, 2016.