Just what's wrong with the sugar tax

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The idea of a sugar tax has once again raised its ugly head, in the wake of a new study by Public Health England. This study reveals that before the average British child even gets to school they’ve consumed over half of their guideline daily allowance of sugar. And according to Government research, over a fifth of children start primary school obese—a third of children end up leaving it that way.

So why then, shouldn't we stand behind Jamie Oliver, who has accused ministers of “letting down younger people”, and call for further change? The Government is already planning on implementing a tax on sugary drinks from April next year. But this complex, messy measure has side-effects the government has not considered.

Being a consumption tax, it will hit the poorest the hardest (as all consumption taxes do). The poorest 10% of UK households pay over 20% of their incomes on VAT and duties, over double the average. The introduction of a sugar tax will mostly affect the poor, changing the habits of the wealthy very little.

The Office of Budgetary Responsibility has said that the costs of the tax will go “entirely onto the price paid by consumers”, following the usual economic laws of tax incidence. And since fruit and milk-based drinks are excluded from the levy, some of the sugariest drinks, like a Costa Chai Latte, or a Starbucks white Chocolate Mocha (each containing over 18 teaspoons of sugar) get ignored.

Even if it did include all drinks, sugar comes in physical form too. The Institute for Fiscal Studies has said that it is highly likely that people will simply switch to buying other products—all untaxed—to get their fix of sugar. Given that only 17% of our sugar consumption comes from drinks, it seems more likely that the aforementioned levels of sugar consumption are not primarily drinks, but yoghurt, cereal and confectionery. An effective sugar tax would apply to all excessively sugary goods and not just drinks.

As if the proposed tax wasn’t poorly designed enough, it actually taxes a set of drinks per litre rather than by grams of sugar: once over the threshold, the sweetest drinks face the same levy as those just over. It’s obvious how this might discourage lower sugar sweet drinks.

There is no clear example of a sugar tax cutting sugar consumption anywhere in the world, even though such a tax has been tried in Mexico and France already. Here the taxes have had almost no effect on calorific consumption, and consequently no impact on obesity levels.

Ultimately, these arguments may be moot points. Yes, the tax is illogical. No, it hasn't worked around the world, but in any case high calorie soft drinks consumption is falling. Last March soft drink consumption fell to a 30-year low in the US, and over here sales fell 17% 2007-2014. Perhaps, you will agree then that this fiscal gimmick by George Osborne should go the way of many of his other headline-grabbing tax gimmicks - into the dustbin of history.