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SA's proposed sugar tax differs from UK in several ways

SIGNIFICANT differences

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Unlike the UK tax authorities, the SA Treasury says it intends to tax pure fruit juice and says an earlier proposal to exempt the juice was a mistake

The proposed sugar-based drinks tax will not be that sweet.

PHOTO: SIMPHIWE MBOKAZI

WRITTEN comments on the proposed tax on sugar-sweetened beverages (SSBs) had to reach the standing committee on finance and the portfolio committee on health by January 27, with public hearings in Parliament scheduled for January 31.

The SSB Tax was first announced by Finance Minister Pravin Gordhan in his 2016 Budget speech, and less than a month later his UK counterpart Chancellor George Osborne announced a similar initiative in the UK budget speech.

Although the UK's tax is only slated for April 2018, whereas South Africa's is due to come into force a full year earlier in April 2017, the UK government published the first draft of their new "Soft Drinks Industry Levy" on December 5. This draft bill sets out the legislative changes to tax laws which the UK government plans to introduce in the Finance Bill 2017.

The South Africa Treasury has indicated that it will only publish draft legislation in early 2017.

SA legislators may look to provisions in the UK draft bill for guidance on how to structure some of the aspects of the SA tax, but the UK tax differs from the current SA proposals in several significant ways.

According to the draft bill, a beverage will be taxed if it contains added sugar, as long as it contains 5g or more of total sugars per 100ml. Only beverages with an alcoholic strength of less than 1.2 percent will be taxed. Furthermore, alcohol substitute drinks will be exempt, as well as beverages used for medicinal purposes.

Significantly, pure fruit juice and vegetable juice will be exempt from the tax. Contrast this to South Africa, where the Treasury recently announced it is considering taxing pure fruit juice, and its earlier proposal to exempt fruit juice "was a mistake". There has been no indication of the Treasury's view on vegetable juice.

The draft bill exempts all milk-based drinks (drinks which contain at least 75ml of milk per 100ml) and milk substitute drinks (drinks containing a specified quantity of calcium) from the UK tax, whereas the SA Treasury has indicated only unsweetened milk products would be exempt from the tax.

The draft bill provides for a "small producer exemption", where producers who do not exceed 1 million litres in the previous 12 months are exempt from the tax.

The SA Treasury indicated it may consider a similar exemption for very small producers, but did not elaborate on what the parameters of such an exemption might be, except to note its concern that such an exemption could be open to abuse.

The draft bill provides for the taxation of both ready-to-drink beverages and concentrates which are intended to be diluted with water, or prepared with ice or carbon dioxide.

It appears from the draft bill that the UK does not intend taxing drink mix sold in powder form, as only liquids (such as concentrate) intended to be prepared with water are specified.

Contrast this to SA, where the Treasury recently announced at a stakeholders' workshop it was considering extending the scope of the tax to include powder, and that it welcomes industry data in this regard.

Another significant difference between the proposals in the two jurisdictions is that the UK is opting for a threshold approach to the sugar tax, where the beverage will not be taxed per gram of sugar it contains.

On the other hand, as it articulated in its July policy paper, the SA Treasury recommends that a threshold approach not be used, but rather every gram of sugar in a beverage should be taxed at 2.29 cents per gram of sugar, with the intention of increasing that rate yearly by at least inflation.

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