

Taxation on Sugar-Sweetened Beverages (SSBs) in Bangladesh: What should we do?

Introduction

Consumption of sugar-sweetened beverages (SSBs) is a major public health problem globally. Consumption of SSBs has a correlation with less healthy behaviors- such as smoking, insomnia, less exercise, frequent consumption of fast food, increased screen time among adults and adolescents.¹ There is an association between increased soft drink intake with obesity and increased health problems, such as, Type II Diabetes, tooth decay, kidney diseases, cardiovascular diseases, gout.² Keeping other things constant, if one consumes a SSB daily, s/he can gain weight by 5 pounds in a year. One who drinks one to two cans daily possess 26 % higher risk of developing type II diabetes mellitus disease with other metabolic syndromes.^{3,4} The consequences of drinking SSBs are obesity with chronic diseases and these can culminate into a premature death. Regular consumption of SSBs can reduce academic performance and increase body-mass index (BMI) among students.⁵ Consumption of SSBs includes both direct (out of pocket expenditure) and indirect cost (public health cost) to the consumer and the society in the process of treating obesity, metabolic syndromes (cluster of heart disease, stroke and type 2 diabetes) and kidney disease.³

The consumption of SSBs in developing countries is increasing sharply, being highly induced by the mode of urbanization and aggressive beverage marketing. Reducing SSB consumption can play a critical role in reducing premature mortality from non-communicable diseases, thereby contributing in achieving the Sustainable Development Goal (SDG) 3.4 which emphasizes on reducing premature mortality from NCDs by one third within 2030.

One of the most effective ways to reduce the consumption of SSB would be imposing high health taxes on SSB. However, limited research has been done on SSB taxation in Bangladesh.

What is Sugar Sweetened Beverage?

Liquids sweetened with various forms of added sugar are commonly known as SSB. Examples include regular soda, fruit drinks, sports and energy drinks, sweetened waters, pop, cola, tonic fruit punch, lemonade, sweetened powdered drinks, and coffee and tea beverages with added sugars.⁶ WHO guidelines recommend that adults and children should reduce their consumption of free sugars to less than 10% of their daily energy intake (equivalent to around 12 teaspoons of table sugar for adults).³ However, a single can of SSB contains around 40 grams of free sugars,² which is equivalent to about 10 teaspoons of table sugar and provides calorie equivalent to 200 calories approximately.⁷

BACKGROUND

This policy brief is based on the findings of an ongoing research on 'Fiscal and regulatory mechanisms for promoting healthy diet in urban Bangladesh'. The project is funded by Canada's International Development Research Centre (IDRC), Ottawa. The general objective of the research programme is to review how fiscal and regulatory measures can be used to promote healthy diets and reduce non-communicable disease-related mortality and morbidity.

The key focus of this policy brief is to present the gaps in the existing taxation system of sugar-sweetened beverages (SSBs), and outline the actions that need to be adopted to improve the SSB taxation in Bangladesh.

METHODOLOGY

We carried out a rapid review over the period of April-August, 2020. Data had been collected from two sources:

- a) desk review of published peer-reviewed journal articles, documents, research reports;
- b) tax related information from the National Board of Revenue (NBR), Bangladesh.

Consumption of SSBs in Bangladesh

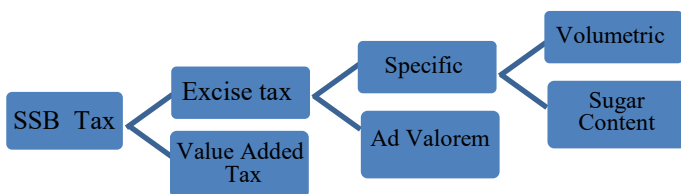
Though per capita consumption of soft drinks per year (250ml bottle) in Bangladesh (17 bottles) is lower than neighboring countries, India (25 bottles), Sri Lanka (40 bottles) and Vietnam (45 bottles), the rate of consumption is alarming among the youth and children.⁸ Evidence suggests that 48% of the school children consumed soft drinks on a daily basis resulting from low price, extensive advertisement, availability and peer influence.⁵ Most of the university students (95.4%) consume SSBs, 53.6% reported more than twice a week. Price and taste (refreshing and good) work as significant factors while choosing beverages.⁹

During the late 1980s, sugary drinks or SSBs emerged in the market of Bangladesh, with only two to three companies operating. Various global and local branded soft drinks (both carbonated and non-carbonated) are now available in the market, and the market structure has become very competitive.

Taxation on SSB

WHO has recommended imposing health tax on SSB as one of the most cost-effective ways to reduce the consumption of SSB.¹⁰ Health taxes are taxes applied on products adversely affecting public health.¹¹ Sugar-sweetened beverages or 'sugary drinks' subject to tax may include refreshing, nourishing, stimulating, soothing and appetizing ones.¹² Increasing the price of SSB by 20% through tax implementation can help reduce the consumption of the same by 20%.¹¹

Figure 1: SSB Tax Structure in different countries



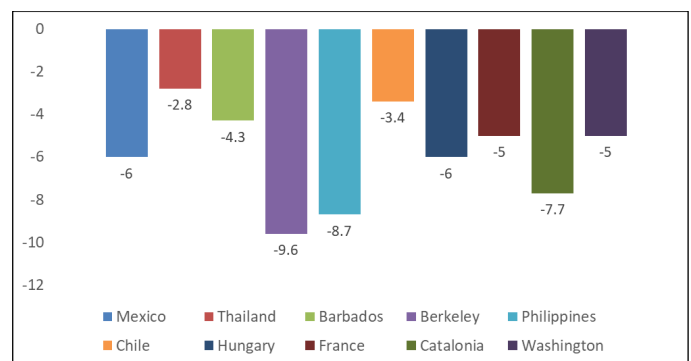
Around 40 countries have implemented taxes on SSB to date. The most common form of taxes used for SSBs are ad valorem excise taxes. A number of countries also impose specific tax, either on volume or sugar content which applies various rates depending on the sugar content.

Taxes coupled with advertising regulation have brought down both sugar and sugary drinks consumption in **Norway** to the lowest level in the last 44 years.¹³ Many drinks manufacturers in **Ireland** have reformulated their recipes and reduced their respective sugar contents to avoid the specific sugar tax.¹⁴

In **France**, the tiered specific tax fully transmitted in cases of soft drinks and partially transmitted in cases of fruit juices.¹⁵ The specific and tiered **UK** sugar tax induced significant decreases in sugar content of SSBs.¹⁶ In **Chile**, purchase of the higher-taxed sugary soft drinks significantly decreased by 21.6%.¹⁷

The 3-tiered SSB tax in **Thailand** motivated producers to bring novel versions of their drinks with less sugar content.¹⁸ SSB Tax in **Malaysia** has different rates for drinks containing different levels of sugar.¹⁹ In the **Philippines**, SSB taxes have raised the prices by up to 20.6% and reduced consumption by 8.7%.²⁰ This could prevent 24,000 premature deaths over the upcoming two decades.

Figure 1: Reduction in Consumption of SSBs after Taxation in Selected Countries



SSB Taxation in Bangladesh

Taxes implemented on SSBs at the domestic production and supply stage

SSBs that are domestically produced are taxed by the following two general taxes (Table 1):

- Value-added tax is levied on at a single rate of 15%. As in most countries, the tax base for VAT is the supply price minus the tax fraction [Ex-factory price – Vat fraction (R/100+R; where R=15)]. However, the tax incidence is equal to the net value added at each stage of the production/commercialization of the product as rebate or input tax credit is allowed.
- Supplementary duty (SD) for domestically produced SSBs is 25% for the carbonated beverages and SD for energy drinks is 35%. The tax base for imposing SD is the base price for VAT minus the SD tax fraction [Base price for VAT-(R/100+R); where R= 25 for Carbonated beverage and 35 for energy drinks].

Table-1: Taxes implemented on SSB²¹

Category	HS CODE	Description	CD	SD	VAT	AIT	RD	ATV	TTI
Manufacturers	2106.90.10	Beverage concentrate (Chapter 21)	25	0	15	5	3	4	58.69
Importers	2202.10.00	Waters, including mineral waters and aerated waters containing added sugar of other sweetening matter or flavoured (Chapter 22)	25	150	15	5	3	4	289.21

Gaps in existing SSB tax structure

- Domestic manufacturers of soft and energy drinks pay 25% Customs Duty and 15% VAT, however, they are enjoying exemption (SRO 148/2016/ Customs) of other duties for importing beverage concentrate. The total tax incidence of importing beverage concentrate is only 58.69%, while in India, the total tax rate on importing beverage concentrate is 172%.
- Domestic manufacturers of soft and energy drinks are enjoying approximately 250% tariff protection as compared to importers.

Policy recommendations

- i. Tax on all SSBs including energy drinks, carbonated soft drinks, molt beverages, fruit juices and flavored sweetened milks needs to be imposed in a way that people do not switch to low-price products as close substitutes.
- ii. A standard classification of drinks based on sugar content and other ingredients can be defined. Consumer associations and academics across countries are coming with the idea of imposing a general tax on sugar used in SSBs itself. This can be considered for Bangladesh as well. The Ministry of Health and Family Welfare and Bangladesh Standard and Testing Institute can take the initiative to agree the ‘maximum’ amount of ‘sugar’ and other ingredients to be used in SSB.
- iii. Impose health development surcharge on SSBs. Earmark the amount raised from health development surcharge for obesity control and other related diseases. Lessons can be learnt from existing health development surcharge on tobacco products.
- iv. Introduce Specific excise tax on SSBs. This can be levied on either volume or sugar content.
- v. Considering the type of drink, design different threshold of tax exemption levels.
- vi. Increase tax on import of beverage concentrate.
- vii. Increase supplementary duty on import of beverage concentrate.
- viii. Examine whether a Tier based tax structure can be successfully implemented like many other countries, which may incentivize producers to lower the sugar content. The Tier based tax structure has successfully been implemented in countries where there are effective tracking, tracing, and monitoring facilities. In Bangladesh, this can be an option once the administrative capability is developed.

Conclusion

Continuous growth of SSB products at affordable price will encourage consumption among lower socioeconomic groups and youth leading to adverse health impact on future generations, especially poorer people. Imposing specific tax, adjusted to inflation and income growth annually, can be effective for SSB tax and price increases, thereby reducing consumption of SSB products. A complex tax structure with multiple tax rates may create an administration challenge for revenue generation due to widespread tax avoidance among producers and consumers. This in turn may limit the effect of tax increases on reducing SSB consumption. Bangladesh can potentially make major public health and revenue gains by adopting appropriate taxation on SSBs.

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