



Parliamentary
Budget Office

Policy costing

20% tax on sugar sweetened beverages	
Person/party requesting the costing:	Dr Mike Freeland MP, Australian Labor Party
Date costing completed:	27 March 2024
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential - <i>Authorised for public release on 24 June 2024</i> <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal would apply a 20% tax on all sugar-sweetened beverages (SSB).</p> <p>Sugar-sweetened beverages include all non-alcoholic water-based beverages with added sugar and include soft drinks, cordial, energy drinks, sports drinks, fruit drinks and flavoured mineral waters.</p> <p>The request also sought distributional analysis of the impact.</p> <p>The proposal would commence from 1 July 2025.</p>	

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around \$1.4 billion over the 2023-24 Budget forward estimates period (see Table 1). This reflects an increase in tax revenue partially offset by departmental costs to administer the tax.

The proposal would have an impact beyond the 2023-24 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2033-34 is provided at Attachment A.

Distributional analysis relating to expenditure on sugar-sweetened beverages (SSBs) is included in Attachment B.

The financial implications are uncertain and sensitive to forecast SSB sales, and the behavioural response of customers and manufacturers to the price increase.

Table 1: 20% tax on sugar sweetened beverages – Financial implications (\$m)^{(a)(b)}

	2023-24	2024-25	2025-26	2026-27	Total to 2026-27
Fiscal balance	-	-	682.1	704.8	1,386.9
Underlying cash balance	-	-	682.1	704.8	1,386.9

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The tax is levied on the Goods and Services Tax (GST)-inclusive price of SSBs at the point of retail sale.
- SSB sales would be approximately \$4.4 billion in 2025-26 and grow by 2% annually.
 - This is informed by a 2023 IBISWorld analysis that estimates a small decline in real sales of SSBs of around -0.5% per annum, which is more than offset by price inflation resulting in an estimated nominal growth of 2%.
- Consumers are assumed to respond to the tax by lowering their demand. The PBO has assumed that a 20% increase in price (due to the tax) would reduce demand by approximately 20%.
 - This is informed by weighting the price elasticities for different beverages by available data on the volume of the respective beverage types.
- Due to the decrease in demand, the proposal is expected to have an impact on the amount of GST collected. This is included as a separate line item in Attachment A.
- Departmental costs are based on policies with a similar degree of administrative complexity.
- Flow on impacts to the Consumer Price Index (CPI) or consequential CPI-related impacts on transfer payments are not considered.

Methodology

The PBO used the following methodology to estimate the financial impacts of the tax:

- Total baseline SSB sales were estimated as per *Key Assumptions*.
- The reduction in consumption due to the tax was estimated based on price elasticities.
- The decline in GST revenue was estimated by multiplying the decline in sales by the GST rate.
- The revenue from the SSB tax was estimated by multiplying total sales (adjusted for the reduction in consumption) by the SSB tax rate.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

¹ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Data sources

Australian Medical Association (2021) [A tax on sugar sweetened beverages](#), accessed 13 March 2024.

Capps and Hanselman (2012), 'A Pilot Study of the Market for Energy Drinks', *Journal of Food Distribution Research*

Cawley and Frisvold (2015), 'The Incidence of Taxes on Sugar-Sweetened Beverages: The Case of Berkeley, California', *National Bureau of Economic Research Working Paper*

IBISWorld (2023) [Australian soft drink market valuation](#), accessed 13 March 2024.

Sharma et al (2014), 'The Effects of Taxing Sugar-Sweetened Beverages Across Different Income Groups', *Health Economics*

Attachment A – 20% tax on sugar sweetened beverages – financial implications

Table A1: 20% tax on sugar sweetened beverages – Fiscal and underlying cash balances (\$m)^(a)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Revenue													
Tax revenue													
Administered tax													
<i>Sugar tax revenue</i>	-	-	700.0	714.0	728.0	743.0	758.0	773.0	788.0	804.0	820.0	1,414.0	6,828.0
<i>GST revenue</i>	-	-	-21.3	-21.7	-22.1	-22.6	-23.0	-23.5	-24.0	-24.4	-24.9	-43.0	-207.5
Total – revenue	-	-	678.7	692.3	705.9	720.4	735.0	749.5	764.0	779.6	795.1	1,371.0	6,620.5
Expenses													
Administered													
<i>GST expense</i>	-	-	21.3	21.7	22.1	22.6	23.0	23.5	24.0	24.4	24.9	43.0	207.5
Departmental													
<i>Tax implementation</i>	-	-	-17.9	-9.2	-9.4	-9.6	-9.9	-10.1	-10.4	-10.6	-10.9	-27.1	-98.0
Total – expenses	-	-	3.4	12.5	12.7	13.0	13.1	13.4	13.6	13.8	14.0	15.9	109.5
Total (excluding PDI)	-	-	682.1	704.8	718.6	733.4	748.1	762.9	777.6	793.4	809.1	1,386.9	6,730.0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A2: 20% tax on sugar sweetened beverages – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
<i>Fiscal balance</i>	-	-	16.0	49.0	85.0	124.0	164.0	208.0	254.0	303.0	356.0	65.0	1,559.0
<i>Underlying cash balance</i>	-	-	13.0	43.0	79.0	117.0	157.0	200.0	246.0	294.0	346.0	56.0	1,495.0

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary².
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.
- Indicates nil.

² [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)

Attachment B – 20% on sugar sweetened beverages – distributional analysis

The below figures (tables and associated graphs) reflect the baseline spending on various types of sugar sweetened beverages as reported by the latest ABS Household Expenditure Survey in 2015-16. However, the Australian Medical Association has highlighted that a significant portion of SSB consumption is through convenience store/take-away purchases which are not captured as accurately in the ABS dataset. As such, depending on the distribution of convenience purchases, the total impacts of the tax may be distributed differently.

Figure B1: Proportion of household gross income spent on SSBs by income quintile, 2016

Income quintile	Lowest	Second	Third	Fourth	Highest
Soft drinks	0.373%	0.298%	0.266%	0.164%	0.101%
Energy drinks	0.050%	0.038%	0.037%	0.022%	0.018%
Fruit juice	0.213%	0.159%	0.140%	0.112%	0.068%
Sports drinks	0.024%	0.023%	0.017%	0.017%	0.010%
Total	0.659%	0.519%	0.460%	0.315%	0.197%

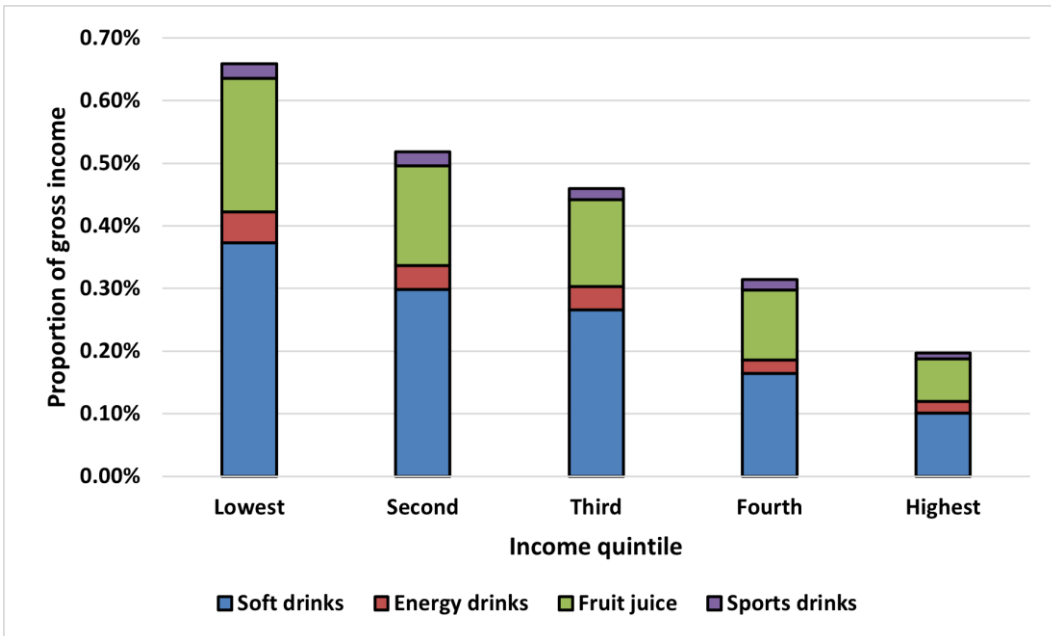


Figure B2: Proportion of household spending on SSBs by income quintile, 2016

Income quintile	Lowest	Second	Third	Fourth	Highest
Soft drinks	0.274%	0.309%	0.331%	0.243%	0.193%
Energy drinks	0.036%	0.040%	0.045%	0.032%	0.035%
Fruit juice	0.157%	0.165%	0.173%	0.165%	0.130%
Sports drinks					
Total	0.484%	0.537%	0.571%	0.466%	0.377%

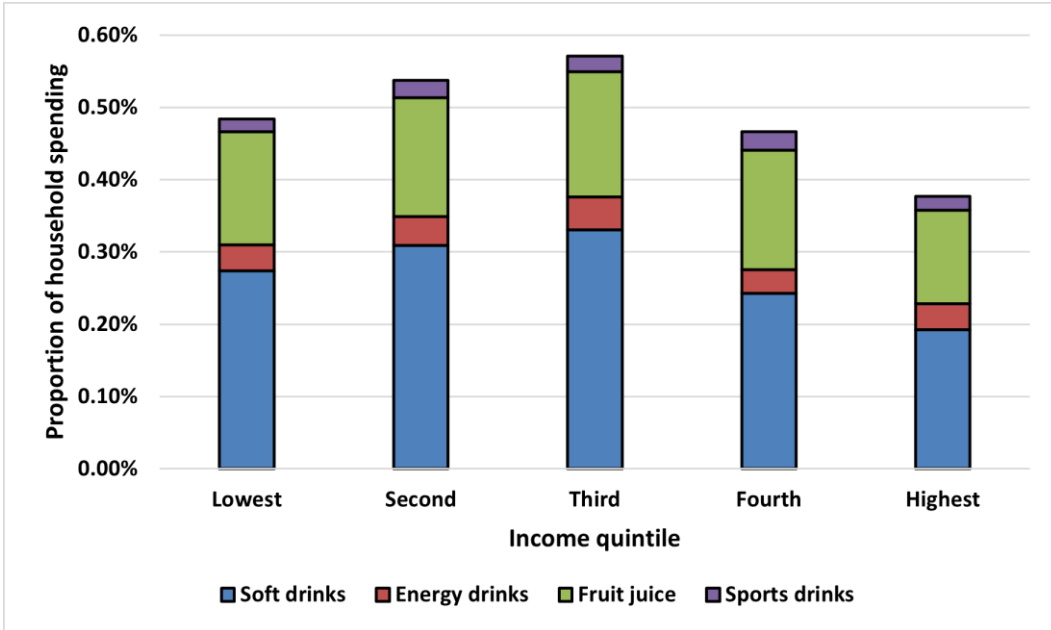


Figure B3: Proportion of household gross income spent on SSBs by State and Territory, 2016

Income quintile	NSW	Vic	Qld	SA	WA	Tas.	NT	ACT
Soft drinks	0.166%	0.178%	0.179%	0.209%	0.141%	0.236%	0.146%	0.143%
Energy drinks	0.029%	0.019%	0.030%	0.024%	0.022%	0.050%	0.035%	0.029%
Fruit juice	0.103%	0.106%	0.100%	0.108%	0.105%	0.105%	0.095%	0.104%
Sports drinks	0.014%	0.015%	0.013%	0.013%	0.018%	0.020%	0.019%	0.015%
Total	0.312%	0.318%	0.322%	0.355%	0.285%	0.411%	0.295%	0.291%

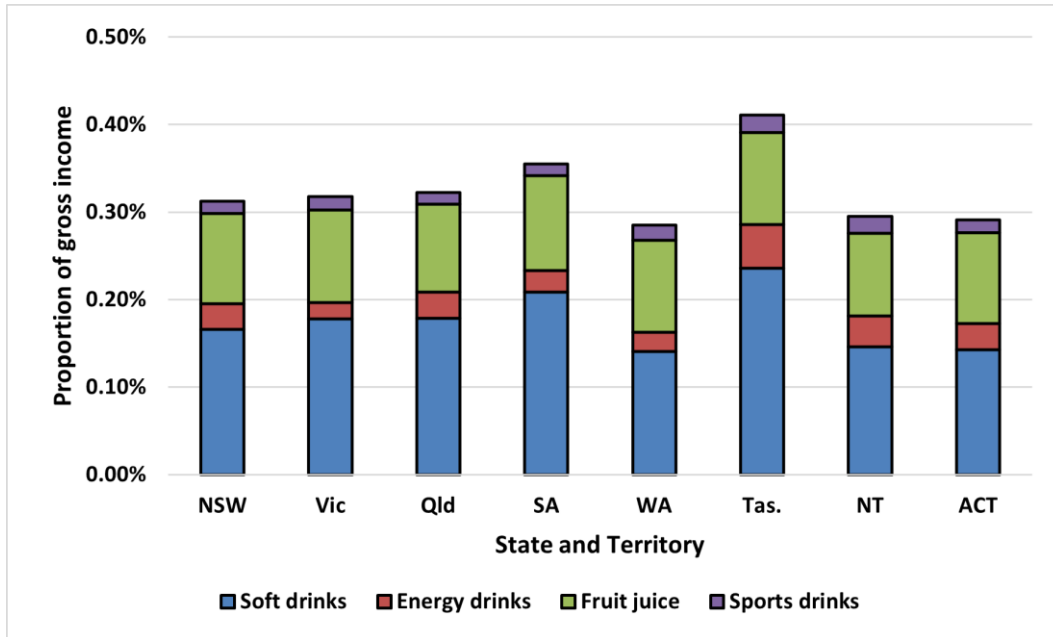


Figure B4: Proportion of household spending on SSBs by State and Territory, 2016

Income quintile	NSW	Vic	Qld	SA	WA	Tas.	NT	ACT
Soft drinks	0.246%	0.254%	0.261%	0.309%	0.220%	0.312%	0.224%	0.209%
Energy drinks	0.044%	0.027%	0.044%	0.036%	0.035%	0.065%	0.054%	0.043%
Fruit juice	0.153%	0.151%	0.147%	0.160%	0.164%	0.139%	0.145%	0.152%
Sports drinks	0.020%	0.022%	0.019%	0.019%	0.027%	0.026%	0.029%	0.022%
Total	0.462%	0.454%	0.471%	0.525%	0.446%	0.542%	0.453%	0.426%

