



# Excise Tax on Sweetened Beverage

Workshop on Tax Policy for Domestic Resource Mobilization  
& Seminar on Property Taxation Reform  
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Sweetened  
Beverage Tax

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graph TD; A[Sweetened Beverage Tax] --> B[Generate revenues]; A --> C[Address public health concern];
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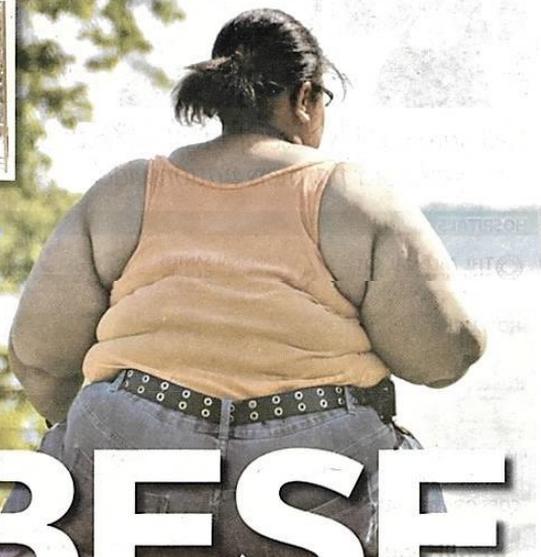
Generate  
revenues

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July 20-26, 2017



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# OBESE FILIPINOS NOW BALLOONING

→ 'HEALTH SUPERSTAR': GRAPE SEED EXTRACT ON HEALTH AND BEAUTY

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# OBESE FILIPINOS NOW BALLOONING

By Henrylito D. Tacio

THE Philippines is not only facing a ballooning population but also its people, figuratively speaking, according to a new report.

"Among the six countries studied, the Philippines has the second-lowest obesity and overweight prevalence at 5.1 percent and 23.6 percent, respectively. But despite low prevalence rates, obesity has a strong impact in the Philippines due to the large number of obese persons in the country—18 million Filipinos are obese and overweight," the report said. The newly released report, "Tackling obesity in Asean: Prevalence, impact and guidance on interventions", was commissioned by Asia Roundtable on Food Innovation for Improved Nutrition (ARoFIN) and produced by The Economist Intelligence Unit (EIU).

Aside from the Philippines, other members of the Asean included in the study were Indonesia, Malaysia, Singapore, Thailand and Vietnam. The report calls for "more concerted efforts by health authorities to tackle the problem of obesity so as to avoid strains on health-care systems."

Last year, obesity cost the Philippines between \$500 million and \$1 billion, or equivalent to between 4 percent and 8 percent of its health-care spending. "This makes the country the fourth-highest spender for obesity-related problems," the report said. Indonesia is the highest spender at \$2 billion to \$4 billion followed by Malaysia at \$1 billion to \$2 billion and then Singapore at \$400 million to \$1 billion.

"These costs are due to a spike in incidence of related noncommunicable diseases (NCDs) such as Type 2 diabetes, cancer, cardiovascular diseases and stroke, as well as an increased rate of absenteeism from work arising from illness and poor health," the report said.

Apart from costs, obesity-related problems have far-reaching implications. Obesity reduces life spans by a weighted average of between 4 and 9 years across the six countries, the study found out.

"The Philippines is the worst-

affected in terms of reduction of productive years among obese males—a significant eight to 12 years," the report said. "This is followed by Malaysia at between six and 11 years, and Indonesia at between six and 10 years."

On the brighter side: "The Philippines is the least-affected in terms of reduction of productive years among obese females—at between 0.3 and five years lost," the report said.

Currently, the Philippines has an estimated 7 million children who still experience hunger and malnutrition.

As such, the Philippines remains very much focused on battling its long-standing problem of malnutrition, while at the same time bearing the burden of increasing rates of obesity.

While the nation recently launched the Philippine Plan of Action for Nutrition 2017-2022, with obesity and overweight as one of the pillars, the report states that obesity is still not a high priority despite it being recognised as an issue.

Other key obesity drivers in the Philippines include a lack of exercise and low dietary quality. "Many adults are not physically active, and children lack places to play in," the report stated.

A recent study by the University of the Philippines found that young Filipinos are at a greater risk of NCDs, due to the consumption of food that is energy-dense and nutrient-poor, exacerbated by growing urbanization and increased incomes.

"Evidence shows that overweight and obese children are likely to stay obese into adulthood and more likely to develop noncommunicable diseases, like diabetes and cardiovascular diseases, at a younger age," the United Nations Children's Fund commented some years back.

"People who were obese as children are more likely to be obese as adults," explains The Merck Manual of Medical Information, "largely



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because when weight is gained during infancy and early childhood, new fat cells form. People who become obese during childhood may have up to five times more fat cells than people who maintained a normal weight."

The world is noticing it.

"We're in the midst of an obesity epidemic," declares Dr. John Foreyt, one of the world-renowned authorities on obesity. "We have to start in the young and develop healthy lifestyle habits, particularly in our dietary preferences, to prevent becoming obese..."

For most people, the condition of being overweight is easy to recognize. But medically, a distinction is made between being overweight and being obese. The body mass index (BMI) is used to define these conditions. BMI is weight (in kilograms) divided by height (in meters squared). Overweight is defined as a BMI of 25 to 29.9, and obesity is defined as a BMI of 30 or more.

"Body composition—the percentage of fat and muscle in the body—is also considered when obesity is defined," says the Merck

manual. "Women who have more than 30-percent body fat or men who have more than 25-percent body fat are considered obese."

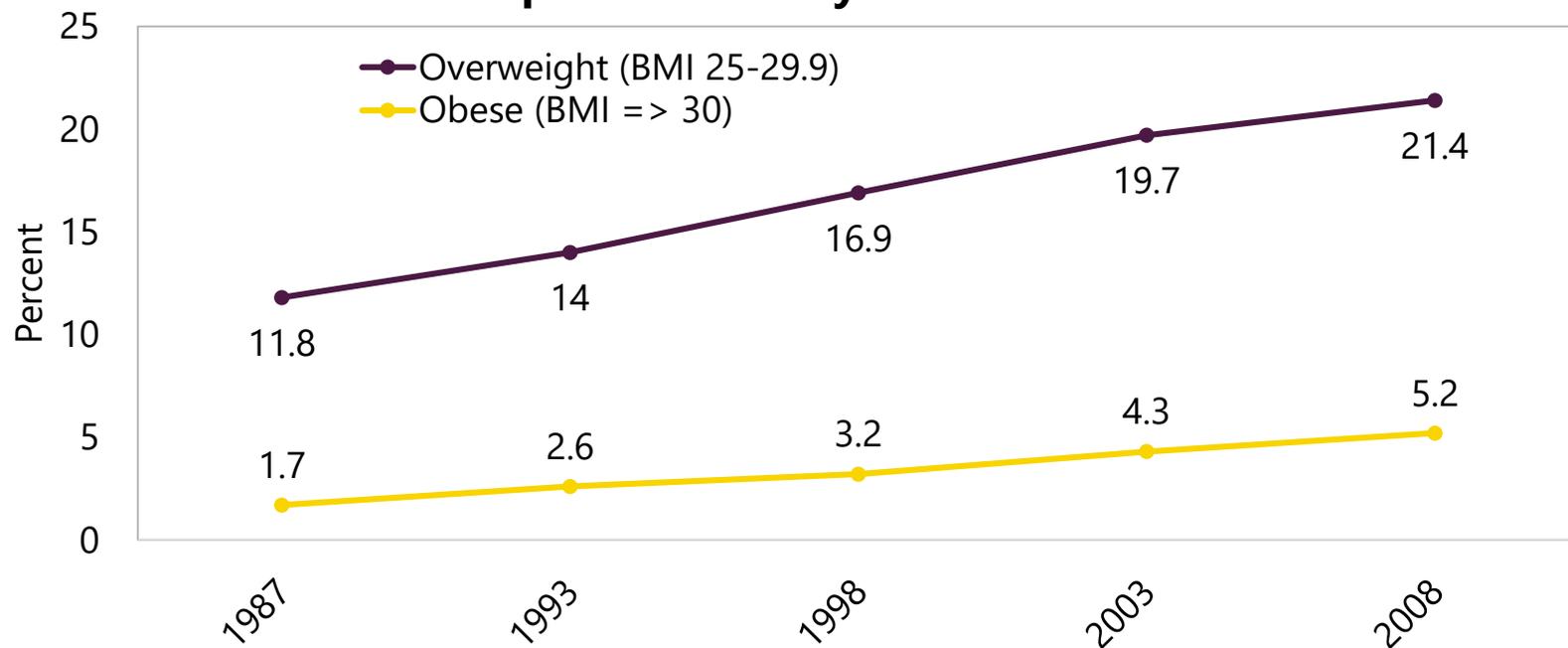
Obesity comes from the Latin word *obesitas*, which means "stout, fat, or plump." During the Middle Ages and the Renaissance, obesity was often seen as a sign of wealth, and was relatively common among the elite.

It was the Greeks who first recognized obesity as a medical disorder. Hippocrates wrote: "Corpulence is not only a disease itself, but the harbinger of others." The Indian surgeon Sushruta (6th century BCE) related obesity to diabetes and heart disorders.

Throughout history, many cultures have viewed obesity as the result of a character flaw. The fat character in Greek comedy was a glutton and figure of mockery. During Christian times food was viewed as a gateway to the sins of sloth and lust. In modern Western culture, excess weight is often regarded as unattractive, and obesity is commonly associated with various negative stereotypes.

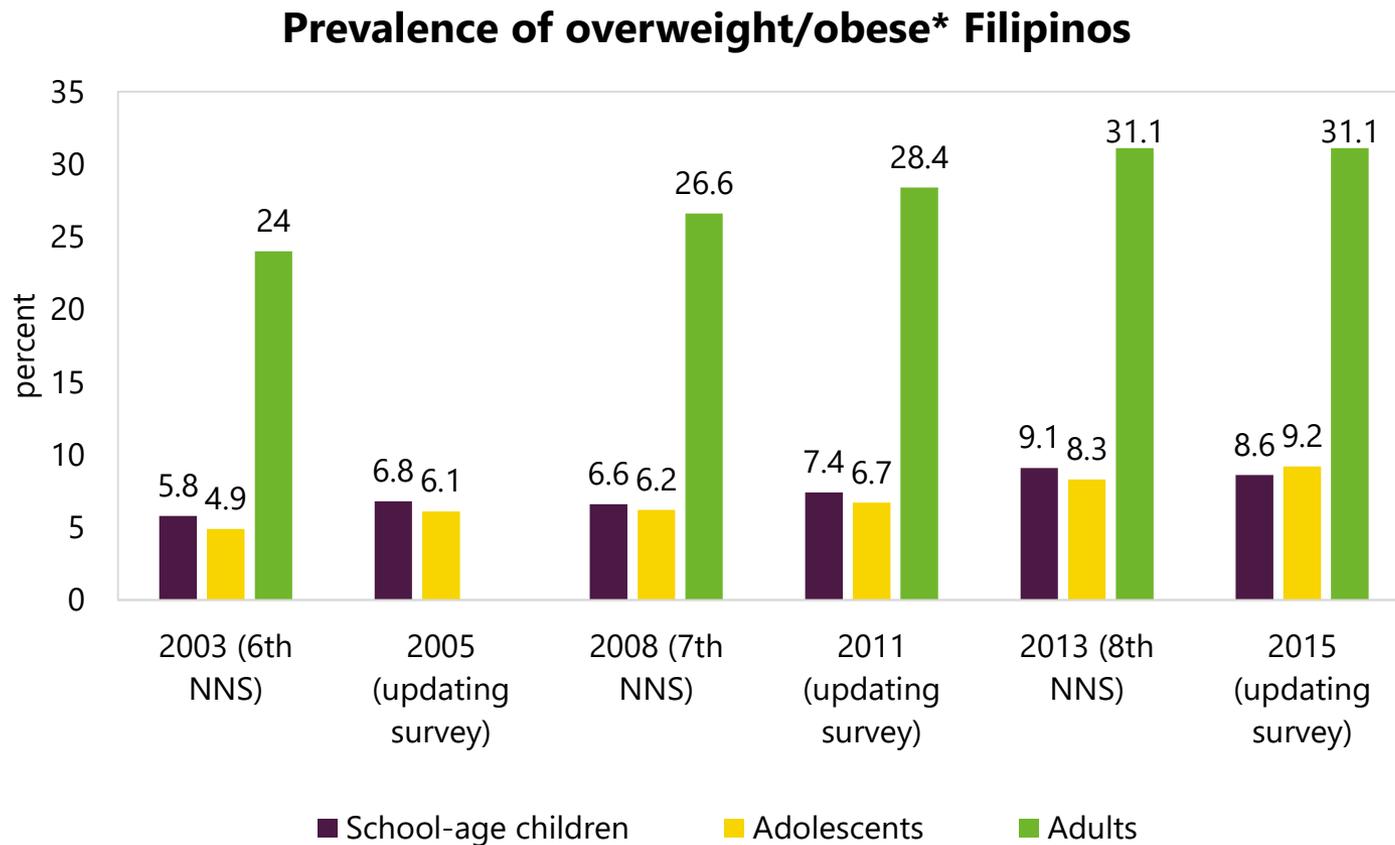
# There are more overweight and obese adult Filipinos.

**Prevalence of overweight and obesity among Filipino adults 20 years and older**



Source: Philippine Association for the Study of Overweight and Obesity (PASOO); FNRI and National Nutrition Health Survey

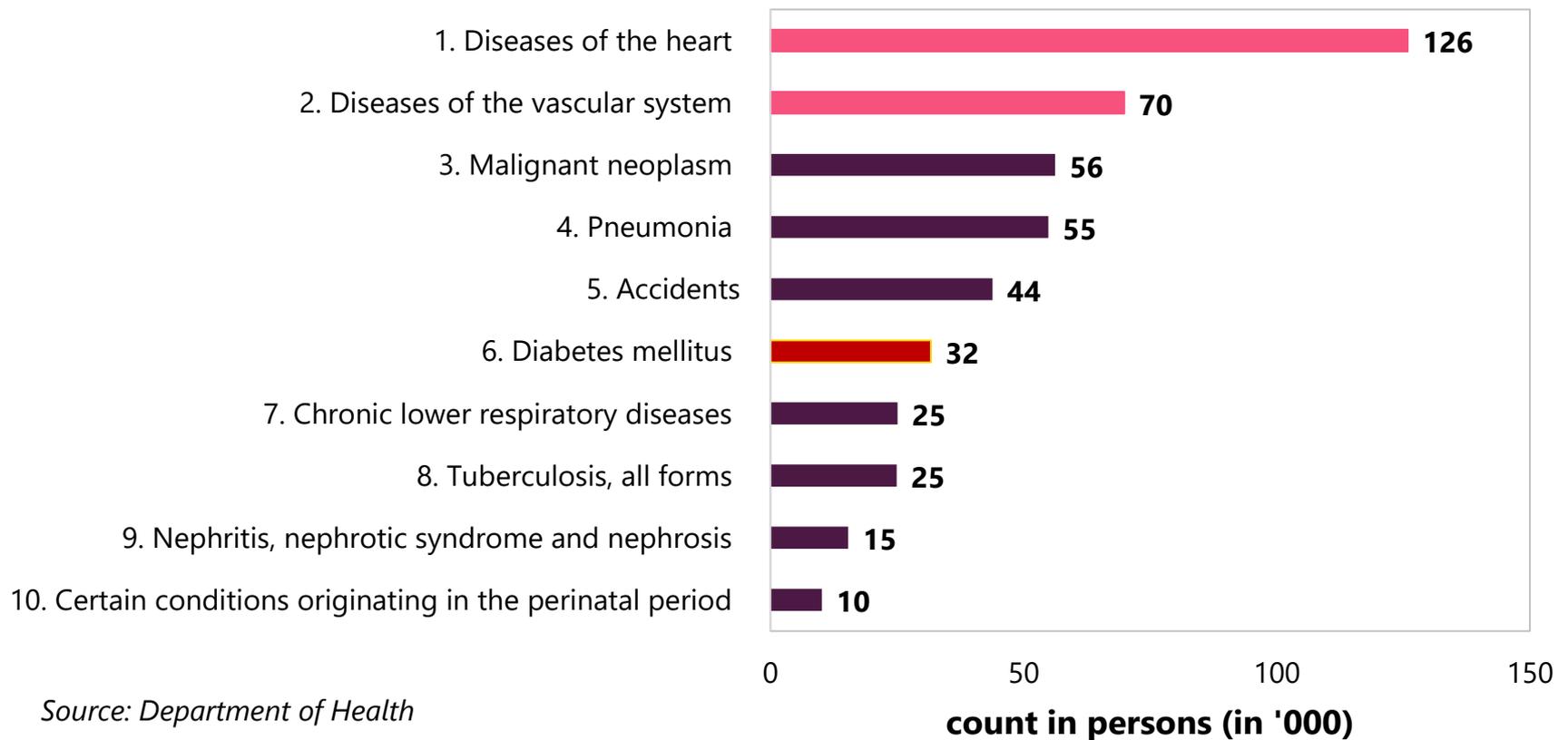
# There are more overweight and obese adult Filipinos.



Source: National Nutrition Survey conducted by FNRI

# Diabetes is a major contributor to the leading cause of death and disability in the Philippines.

## Top 10 leading causes of mortality: Philippines, 2014



# Diabetes is a major contributor to the leading cause of death and disability in the Philippines.

| Cause  | Number        | Rate (per 100,000 population) |
|--|---------------|-------------------------------|
| 1. Diseases of the heart                                   | 125,906       | 126.1                         |
| 2. Diseases of the vascular system                         | 69,913        | 70                            |
| 3. Malignant neoplasm                                      | 56,219        | 56.3                          |
| 4. Pneumonia   | 54,877        | 54.9                          |
| 5. Accidents   | 43,853        | 43.9                          |
| <b>6. Diabetes mellitus</b>                                | <b>31,687</b> | <b>31.7</b>                   |
| 7. Chronic lower respiratory diseases                      | 25,114        | 25.1                          |
| 8. Tuberculosis, all forms                                 | 24,929        | 25                            |
| 9. Nephritis, nephrotic syndrome and nephrosis             | 15,359        | 15.4                          |
| 10. Certain conditions originating in the perinatal period | 10,174        | 10.2                          |

Source: Department of Health (2014)

In 2015, there were around **3.6 million cases** of diabetes in the Philippines\*

Source: *International Diabetes Foundation*



# Health Cost of Diabetes

- Monthly maintenance is PHP5,000 or PHP60,000 per year for those taking medicines. This is not affordable for 80 percent of the population. If 5 million are taking medicines, this costs us 300 billion pesos per year.
- Direct cost related to obesity **0.06 to 0.5 percent of GDP** and total cost from **1.5 to 9.9 percent of total healthcare expenditure** in other countries. We have yet to do this.
- **US:** Obese people spend 30 percent more than normal people n health care.
- **Japan:** 9.8 and 22 percent more health spending for overweight and obese respectively.

# Sweetened Beverage Consumption

# Trends in SB Consumption

- Philippines ranked 11th worldwide in the consumption of soft drinks. In 2009, Filipinos consumed around 1.6 billion liters or an average of 17.8 liters per capita. (*World Health Organization*).
- FNRI list of most consumed products with sugar: 3-in-1 coffee, sugar brown and white, powdered milk, *pandesal* bread, soft drink, and chocolate flavoured drinks .

# The poor spend around 4% of their income on Sweetened Beverages

Average income, expenditure, and SSB expenditure per income decile (unadjusted)

| Income decile  | Total income (PHP) | Total expenditure (PHP) | SSB expenditure (PHP) | Share of SSB exp. to total income (percent) | Share of SSB exp. to total exp. (percent) |
|----------------|--------------------|-------------------------|-----------------------|---|---|
| 1              | 55,489             | 56,976                  | 2,299                 | 4.1   | 4.0                                       |
| 2              | 87,841             | 85,781                  | 3,711                 | 4.2   | 4.3                                       |
| 3              | 111,800            | 104,970                 | 4,864                 | 4.4   | 4.6                                       |
| 4              | 135,731            | 124,655                 | 5,859                 | 4.3   | 4.7                                       |
| 5              | 163,435            | 147,290                 | 6,779                 | 4.1   | 4.6                                       |
| 6              | 199,148            | 174,528                 | 8,179                 | 4.1   | 4.7                                       |
| 7              | 248,691            | 213,466                 | 9,664                 | 3.9   | 4.5                                       |
| 8              | 319,221            | 265,497                 | 11,715                | 3.7   | 4.4                                       |
| 9              | 439,779            | 350,851                 | 13,824                | 3.1   | 3.9                                       |
| 10             | 908,654            | 624,251                 | 18,937                | 2.1   | 3.0                                       |
| <b>Average</b> | 266,962            | 214,816                 | 8,583                 | 3.2   | 4.0                                       |

Sources: PSA and DOF staff estimates

Note: Sugar sweetened beverages include softdrinks, fruit juices, and sweetened milk, among others.

# Sweetened Beverage Excise Tax

# Rationale of the Reform

1. The excise tax on sweetened beverage (SB) is a health tax to help address diabetes and obesity given the high incidence of obesity and fast-growing incidence of diabetes.
2. The SB excise tax is part of a package of the tax reform program for more inclusive growth and a healthy Philippines. The bigger package has both tax and non-tax components.
3. The SB excise tax, as a health measure, encourages individuals to make healthy choices to ensure a more productive population that can contribute to the economy.

# Key Messages

## 1. Why an SB excise tax?

- Discourage consumption.
- Encourage consumption of healthier products.
- Raise public awareness of harms.
- Incentive for industry to develop healthier products.
- Raise revenues for health and education.
- Note that the regressivity argument is not valid for a non-essential or non-good.

# SB Excise Tax Structure

# Sweetened Beverage Tax

**Php 6.00**  
per liter volume



Purely-Caloric or Non-Caloric Sweeteners-Sweetened Beverage

**Php 12.00**  
per liter volume



High-Fructose Corn Syrup-Sweetened Beverage

# Sweetened Beverage Tax

## Exempt



Beverages sweetened by coconut sap  
or purely steviol glycosides

# Sweetened Beverage

Refer to non-alcoholic beverages of any constitution (liquid, powder, or concentrates) that are pre-packaged and sealed in accordance with the Food and Drug Administration (FDA) standards, that contain caloric and/or non-caloric sweeteners added by the manufacturers.



# Sweetened Beverage



Sweetened Juice Drinks



Sweetened Tea



All Carbonated Drinks



Flavored Water



Energy Drink



Cereal/Grain Drinks



Other Powdered Drinks



Sweetened Non-Alcoholic Drinks

# Exclusion from the SB excise tax



**PLAIN MILK  
& MILK DRINK  
PRODUCTS**  
*without added  
sugar*



**ALL MILK PRODUCTS**  
*including infant formula  
and milk alternatives  
(soy milk, almond milk,  
flavored milk such as  
chocolate milk)*



**MEDICALLY INDICATED  
BEVERAGES**  
*Meal replacement  
therapies*



**100% NATURAL  
FRUIT JUICES**



**100% NATURAL  
VEGETABLE JUICES**



**UNSWEETENED  
TEA**



**3in 1 COFFEE,  
GROUND  
COFFEE**

# Estimated revenue collection (in billion pesos)

|              | 2018 | 2019 | 2020 | 2021 | 2022 | TOTAL     |
|--------------|------|------|------|------|------|-----------|
| Excise Tax   | 48.6 | 52.0 | 54.9 | 58.1 | 61.4 | 275.1     |
| VAT          | 5.8  | 6.2  | 6.6  | 7.0  | 7.4  | 33.0      |
| <b>TOTAL</b> | 54.5 | 58.2 | 61.5 | 65.1 | 68.8 | Php 308.1 |

# Implementing a volume-based SB tax

| Pros  | Cons  |
|---|---|
| <ul style="list-style-type: none"><li>• It is simple, transparent, and easy to administer.</li><li>• It is fair and neutral with respect to volume.</li><li>• Almost all countries that impose tax on SSBs have single rate applied on all forms.</li><li>• Tax burden increases with quantity consume, therefore it is progressive.</li><li>• Differentiating the tax structure to accommodate product forms leads to unequal tax burden in the long-run. For instance, applying a lower effective tax rate to powdered forms of SSBs will shift consumption to those forms relative to ready-to-drink forms of the same volume.</li></ul> | <p>May not directly address the health objectives</p> |

# Price Impact

**Manufacturer:**  
The Coca-Cola  
Company

**Product:**  
Coke regular  
(1,750mL)

**Sugar content: 175g or 110ml**  
**Sugar content per ml volume:**  
**6.3 percent**

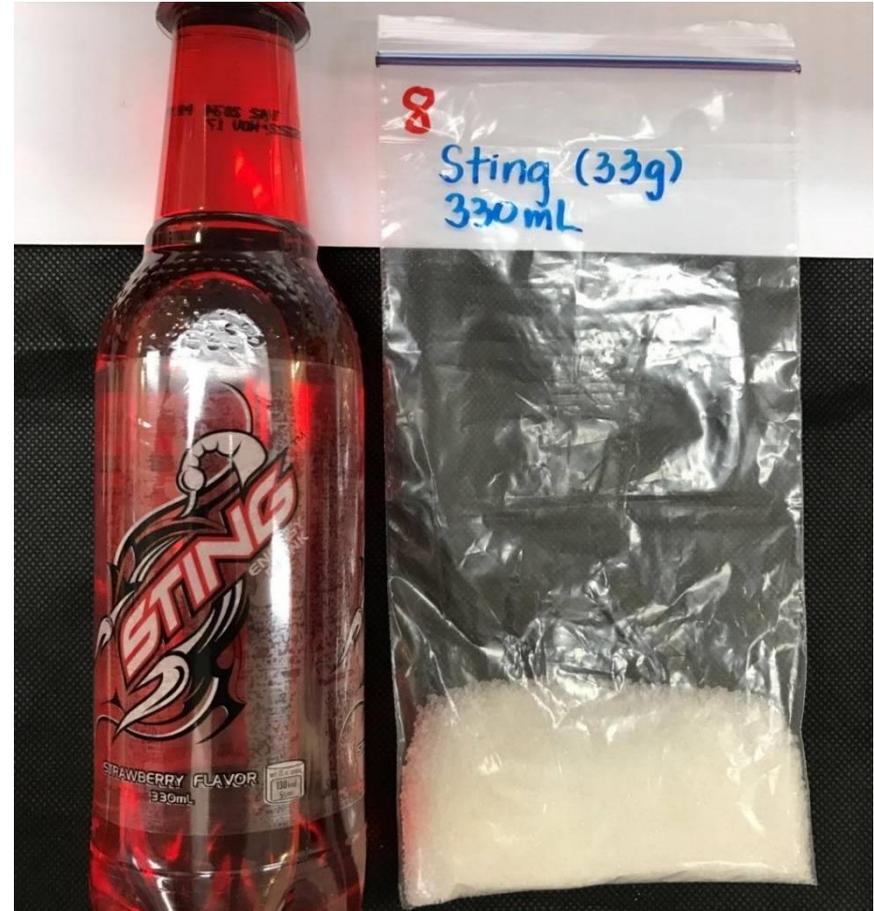


| Current price (PHP) | Estimated new price (PHP) | Percent increase |
|---------------------|---------------------------|------------------|
| 41.1                | 61.3                      | 49.1             |

**Manufacturer:**  
Pepsi-Cola Products  
Philippines

**Product:**  
Sting – Strawberry Flavor  
(330mL)

**Sugar content: 33g or 21ml**  
**Sugar content per ml volume:**  
**6.3 percent**



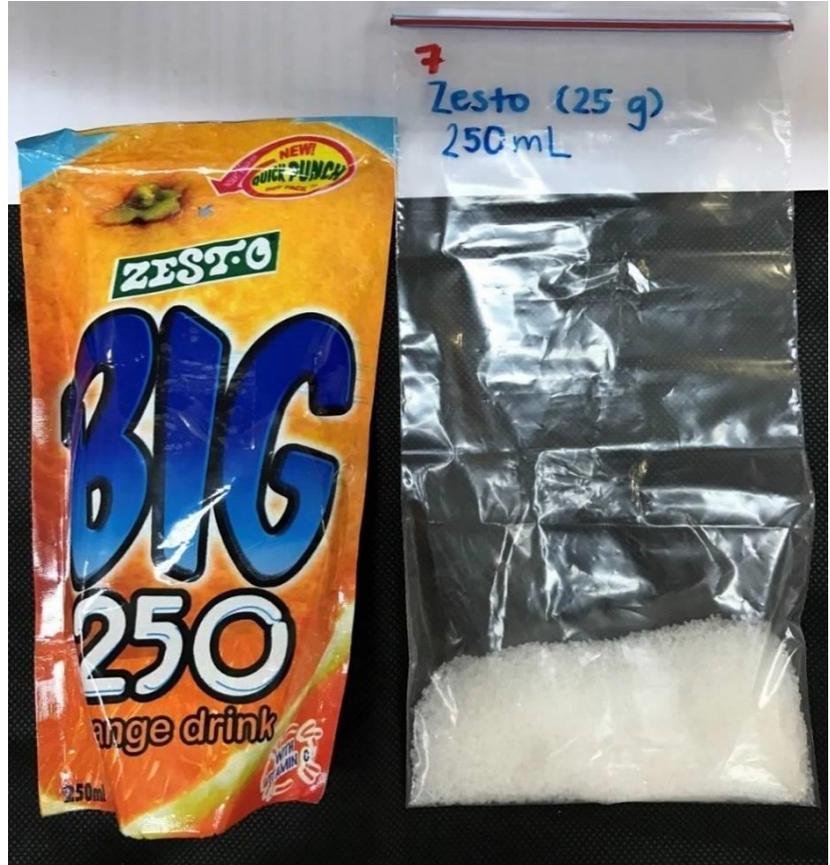
| Current price (PHP) | Estimated new price (PHP) | Percent increase |
|---------------------|---------------------------|------------------|
| 17.0                | 19.22                     | 13.0             |

**Manufacturer:**  
Zesto Corporation

**Product:**  
BIG 250 Orange Juice  
(250mL)

**Sugar content: 25g or 16ml**  
**Sugar content per ml volume:**  
**6.3 percent**

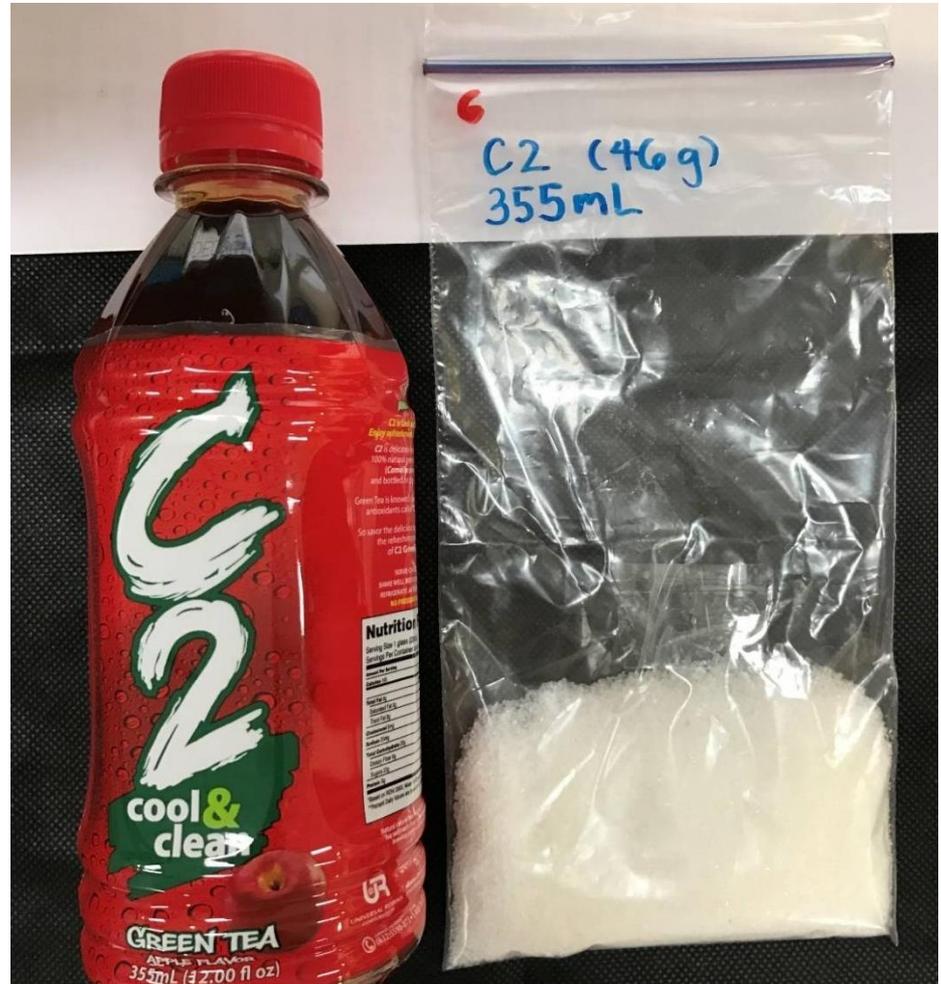
| Current price (PHP) | Estimated new price (PHP) | Percent increase |
|---------------------|---------------------------|------------------|
| 6.0                 | 9.4                       | 56.0             |



**Manufacturer:**  
Universal Robina Corp.

**Product:**  
C2 – Green Tea Apple  
Flavor (355mL)

**Sugar content: 46g or 29ml**  
**Sugar content per ml volume:**  
**8.2 percent**



| Current price (PHP) | Estimated new price (PHP) | Percent increase |
|---------------------|---------------------------|------------------|
| 15.8                | 18.2                      | 15.1             |

**Manufacturer:**  
Mondelez International

**Product:**  
Tang Orange (25g pack)

**Sugar content: 15g or 10ml**  
**Sugar content per ml volume:**  
**0.9 percent**

| Current price (PHP) | Estimated new price (PHP) | Percent increase |
|---------------------|---------------------------|------------------|
| 9.0                 | 15.7                      | 74.7             |



# Challenges in legislating the SBT

# Challenges

- Strong industry lobby.
- Taxing sugary beverages will not solve the obesity and diabetes problem.
- The sales of small store-owners will suffer.
- Claim: Lifestyle must be regulated, not taxed.
- Claim: The body needs sugar for energy.

# Tax administration and revenue performance (first two months of implementation)

# SBT Computation: Liquid Form

Dulce Manufacturing Corp. will remove from the place of production 100 cases of Super Cola using HFCS and non-caloric sweetener. Each case contains 6 bottles of 1.5 liters each.

|   |                   |
|---|-------------------|
| No. of Cases                                      | 100               |
| Multilied by No. of Bottles per Case              | x <u>6</u>        |
| Total no. bottles                                 | 600               |
| Multiplied by contents per bottle                 | x <u>1.5L</u>     |
| Total volume in Liters                            | 900L              |
| Mutiplied by Specific Tax Rate                    | x <u>P12.00</u>   |
| <b>Total Excise Tax to be paid before removal</b> | <b>P10,800.00</b> |



# SBT Computation: Powder Form

Sweety Import Corp. will remove from customs custody 50 cases of Four Seasons Powdered Juice using caloric and non-caloric sweetener containing 144 packs by 25 grams. Each 25grams pack can make 1 Liter (per serving suggestion appearing on the label).

|  |   |                   |
|--|---|-------------------|
| No. of Cases   |   | 50                |
| Multilied by No. of Packs per Case                   | x | <u>144</u>        |
| Total no. packs                                      |   | 7,200             |
| Multiplied by serving suggestion per liter in volume | x | <u>1L</u>         |
| Total volume in Liters                               |   | 7,200L            |
| Mutiplied by Specific Tax Rate                       | x | <u>P6.00</u>      |
| <b>Total Excise Tax to be paid before removal</b>    |   | <b>P43,200.00</b> |



# Regulatory Concerns

1. The transfer or removal raw materials and semi-processed goods are now monitored.
2. SBs consumed within the manufacturing plant are also taxable.
3. Manufacturers and importers are now required to secure a permit to engage in business as manufacturer or importer of sweetened beverages.
4. Tolling, bottling and other sub-contracting agreements by manufacturer or importer/owner of sweetened beverages with other persons or entities are to be registered accordingly.
5. Due to lack of revenue officers, the Bureau cannot monitor all places of production. In such cases, an advance production schedule is submitted.



# Administrative Requirements

1. Manufacturers and Importers are required:
  - a. To register of Existing and New Brands and its Variants subject to Excise Tax;
  - b. To apply for an Electronic Authority to Release Imported Goods (eATRIG) for Excise Tax Purposes;
  - c. Use of New BIRs Form on All Removals of Sweetened Beverages (BIR Form No. 2200-S); and
  - d. Secure a anufacturers' and importers' surety bond;
2. Storage of Tax-Paid Sweetened Beverages is no longer permitted;
3. The BIR shall have supervision and control of the manufacturing plant or place of production;



# Revenue Performance

As of February 19, 2018

| <b>COLLECTIONS (Locally Produced)</b> |                         |
|---------------------------------------|-------------------------|
| <b>January 2018</b>                   | <b>2,500,905,023.75</b> |
| <b>February 2018</b>                  | <b>1,203,297,580.49</b> |
| <b>TOTAL</b>                          | <b>3,704,202,604.24</b> |



**Thank you!**