



STRENGTHENING THE SOFT DRINKS INDUSTRY LEVY

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ICAEW welcomes the opportunity to comment on the Strengthening the Soft Drinks Industry Levy published by HM Revenue & Customs and HM Treasury on 28 April 2025, a copy of which is available from this [link](#).

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

This response of 21 July 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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KEY POINTS

1. ICAEW welcomes the opportunity to respond to this consultation. As a professional body committed to promoting best practice in tax design and administration, our comments focus on the principles outlined in our Ten Tenets for a Better Tax System (Appendix 1).
2. We note that the government is not seeking to revisit the fundamental design or scope of the soft drinks industry levy (SDIL), and that this consultation is focused on targeted changes to thresholds and exemptions. We also acknowledge the government's commitment, announced at Autumn Budget 2024, to uprate SDIL annually in line with CPI inflation from 2025–2029, adjusting rates to recover their real-terms value since 2018. Additionally, we note the decision not to consult on changes to the higher SDIL rate or introduce a third rate band at this time. Our comments are therefore made within this context.
3. We have not responded to individual consultation questions, as we believe soft drinks manufacturers are better placed to provide detailed feedback on the practicalities and feasibility of reformulation. Instead, we offer a high-level perspective on the design and behavioural effectiveness of the levy, grounded in tax policy principles.
4. Our comments focus on three key themes:
 - a. diminishing returns of repeated threshold changes;
 - b. unintended consequences of further tightening the regime; and
 - c. policy gaps.

DIMINISHING RETURNS FROM THRESHOLD ADJUSTMENTS

5. The success of the original SDIL was in part due to its clear design and strong incentive for substantial reformulation. However, remaining behavioural gains from moving the threshold(s) will be more difficult and costly to realise.
6. For example, in 2018, following the introduction of the SDIL, [Irn-Bru was reformulated](#), reducing its sugar content from 10.3g of sugar per 100ml to 4.7g – a 5.6g (or 54%) reduction in sugar. However, under current proposals, it would only need to remove a further >0.7g per 100ml to remain exempt. This is only an 8% reduction compared to pre-SDIL levels. Yet this final step is likely to be as challenging, if not more so, than the original reformulation.
7. This example illustrates a broader trend, the products that were easiest to reformulate have already done so. The next stage requires disproportionately more effort for smaller gains. Many drinks now sit just below the current 5g threshold, while very few, if any, sit between 3g and 4g. This suggests that 4g is not just an arbitrary target, but may be a technical floor below which manufacturers tend to substitute sugar (ie, zero sugar drinks with artificial sweeteners) rather than reduce it.
8. Furthermore, the highest sugar drinks will remain untouched. The top-selling soft drink in the UK, with over 10g of sugar per 100ml, will not be affected by the proposed changes. Without addressing the highest sugar products, the effectiveness of further threshold reductions is likely to be limited.

CONSEQUENCES OF FURTHER TIGHTENING THE TAX

9. Lowering the SDIL threshold from 5g to 4g per 100ml could lead to unintended and potentially counterproductive outcomes:
10. **Cliff edges:** once a manufacturer reformulates its products to sit just below the threshold, there is no further encouragement to continue reducing further the sugar content. The threshold would need to be lowered again to encourage further reductions, with diminishing behavioural impact and increasing cost, while damaging business's trust in a stable tax system.

11. **Reformulation reversal:** where further sugar reductions to keep a product out of scope of the tax are not viable, some producers may revert to older, higher-sugar recipes, and simply absorb the levy as a cost of doing business.
 - a. **Substitution risk:** the widespread reformulation of high-sugar beverages into 'zero sugar' variants has often relied on artificial sweeteners and other additives. While these products reduce sugar content, concerns remain about whether the overall health profile of such beverages is improved or whether, in fact, new health risks are introduced.
 - b. **Administrative complexity:** introducing a lactose allowance risks adding unnecessary complexity.

POLICY GAPS

12. While this consultation explicitly rules out changes to the fundamental design of the SDIL, we believe it is important to highlight areas where inconsistencies or policy gaps may hinder its long-term effectiveness. These observations are intended to support future strategic thinking, not to pre-empt decisions outside the current scope of the consultation.
13. **Milk-based drinks, fruit juices and smoothies:** we recognise that milk-based drinks are explicitly in scope of this consultation and note the proposed introduction of a lactose allowance. However, introducing such an allowance risks adding unnecessary complexity, particularly as unsweetened milk will generally contain less than the current threshold of 5g of sugar per 100ml. A simpler approach might be to retain the current threshold, which effectively excludes plain milk while capturing sweetened/flavoured variants. More broadly, if the government's position is that the health harms of added sugar outweigh any nutritional benefits of milk, this logic invites questions about other exempt categories with similarly high sugar content. Pure fruit juices and smoothies, which contain only naturally occurring sugars, remain outside the scope of SDIL, yet these drinks can contain as much or more sugar per serving than taxed products. If other nutritional benefits are no longer considered a sufficient basis for exemption, future policy may need to consider a more consistent treatment across these categories.
14. **On-premises drinks:** many of the highest-sugar drinks in the UK are sold in [cafes and fast-food outlets](#), often with sugar levels far exceeding those of pre-packaged soft drinks. These are not subject to SDIL. However, many of these businesses already fall under mandatory calorie labelling requirements, suggesting the infrastructure may be in place for targeted intervention if desired. A future SDIL-style regime could feasibly apply to larger chains.

CONCLUSION

15. While we understand the government's focus on targeted threshold adjustments within the existing SDIL framework, we encourage a broader, more strategic approach to improving public health outcomes. This could include exploring the treatment of currently exempt high-sugar products, such as fruit juices, smoothies, and on-premises drinks, to ensure consistency across the regime.
16. To maintain industry confidence and encourage continued reformulation, we recommend that any future changes to the SDIL are developed with clear strategic intent, underpinned by a comprehensive review of the levy's long-term effectiveness and behavioural impacts.
17. Providing stability and predictability in the tax system will help avoid unintended consequences, such as reformulation reversals, and ensure the levy remains an effective tool within a wider public health strategy.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).