

University of the Philippines Manila position statement on proposed House Bill No. 292, “An act imposing excise tax on sugar-sweetened beverages by inserting a new section 150-A in the National Internal Revenue Code of 1997, as amended”

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The Philippines, with a maximum personal income tax rate at 32%¹ and corporate income tax of 35%,¹ has one of the highest income tax rates among the Association of South East Asian (ASEAN) member states.² The new administration is now campaigning to lower the ceilings on capital and personal income tax, through a proposal originally passed in September 2016, and amended in January 2017, following public and private sectors opposition for its immediate imposition.³ In its Explanatory Note, House Bill No. 292, “An Act Imposing Excise Tax on Sugar Sweetened Beverages by Inserting a New Section 150-A in the National Internal Revenue Code of 1997, as Amended,” cites this as the reason for imposing an, “excise tax of ten pesos (Php 10.00) on sugar sweetened beverages, the rate of which shall be increased by four percent (4%) every year thereafter effective on January 1, 2017.”⁴ According to the proposed bill, “this measure is proposed to provide additional revenue collections for our country,” further claiming that, “this house bill is timely in its submission as one of the new administration’s policies to pursue reforms in income tax rates.”⁴

Excise tax on sugar-sweetened beverages is not new. Since the 1980s, several countries have implemented fiscal and regulatory measures on these beverages to increase revenue and reduce the demand for consumption of these types of beverages, and evaluations have confirmed a reduction in sales and intake of these products.⁵ One of the earliest measures undertaken was by Ireland in the 1980s for the purpose of obtaining additional revenues. The effect manifested an 11% decrease in consumption for every 10% increase in price.⁶ Since then, many countries have taxed sugar-sweetened beverages. Norway, one country which has

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joined the list recently, has seen the effects of a decrease in consumption of lemonade and regular soft drinks between 2001 and 2008 from 4.7 to 2.5 times per week and 2.3 to 1.6 times per week respectively.⁶ Another, Hungary, saw a drop in sales for soft drinks from 117 million liters sold in the last quarter of 2011 to 69 million liters sold in the first quarter of 2012.⁶ As these experiences have shown, demand for beverages have consistently been found to be price elastic, which in other words mean that a small change in price results in large changes in the quantity demanded.⁷

Likewise, in the Philippines, the purchasing decision for soft drinks is greatly affected by pricing. Despite the increasing disposable income, the level of demand among Philippine consumers for soft drinks has been influenced strongly by pricing. Nonetheless, the awareness of the industry of the growing price consciousness among consumers has led to the launching of carbohydrate sources, energy drinks, and products in cheaper yet smaller pack sizes.⁸ Apart from an expected increase in revenues generated from an excise tax on sugar-sweetened beverages, we thus would expect a decrease in consumption to a commodity that has been deemed as one of the largest contributors of excess empty calories in people's diet.⁹

Studies have shown that sugar-sweetened beverages increase the rate of obesity, metabolic syndrome, and type 2 diabetes.¹⁰ The mechanisms linking sugar-sweetened beverages to weight gain include low satiety associated with liquid calories, incomplete compensatory reduction in energy intake,¹¹ and lack of dietary compensation.¹² In the Philippines, the prevalence of obesity almost doubled from 16.6% in 1993 to 31.1% in 2014 for adults, below 2.0% from 1989 to 1998 to 4.9% in 2013 for preschool children, and 5.8% in 2003 to 8.3% in 2013 for 19 years age group.¹³ In addition, because of the associated weight gain and type 2 diabetes, investigations have supported the hypothesis that high consumption of sweetened beverages may increase the risk of biliary tree cancers, particularly gallbladder cancer.¹⁴

Aside from diseases associated with overweight, obesity, metabolic syndrome, gout, fatty liver disease, and heart diseases, sugar-sweetened beverages have likewise been associated with dental caries,^{15,16} with studies showing that consumption of these sugary drinks and food is the primary cause of tooth decay.¹⁷ This is likewise, very important as 87.4% of all Filipinos have dental caries, with the average number of Decayed, Missing, and Filled Teeth (DMFT) of 12 year old Filipinos being 3.35¹⁸ (WHO standard for DMFT: 3 and below).

Taking all of these together, the University of the Philippines Manila (UP Manila) recognizes the importance of lowering consumption of free sugar to less than 10% of daily energy intake, as suggested by the World Health Organization,¹⁹ in order to lower the risk for obesity, metabolic diseases, heart diseases, and dental carries. To discourage the purchase of sugar-sweetened beverages, the UP Manila, in general, supports House Bill No. 292 in

its pursuit of including an excise tax on sugar-sweetened beverages. However, upon undertaking a review of evidence on this subject and appraising historical data, we recommend the following amendments on House Bill No. 292:

1. Conduct further analysis on various means at approaching the tax scheme, and how these differences will affect the health of the Filipino people. The tax rate may for example apply a flat levy on all sugar-sweetened beverages wherein these beverages levy the same rate on a per volume basis regardless of the differences in sugar content. Another approach is to charge a tax for every gram of sugar. Finally, a threshold approach could also be utilized wherein there are provisions for an allowance for a minimum sugar content to be tax free, and only the added sugar context above this threshold is to be taxed.¹⁷ It is recommended therefore that further studies modeling the different impacts of varying levels of tax be undertaken. The National Public Health Institute of Mexico, for example, computed different mathematical models of the elasticity and regressive nature of a tax on sugar-sweetened beverages, and found 20% tax per liter of beverage would help decrease consumption from 163.3 liters to 120.9 liters per capita per year, which would represent a 26% reduction in annual consumption and raise nearly USD1.6 billion.⁵
2. Health advantages and disadvantages must be weighed and prioritized, and tax rates must be sufficiently high enough to discontinue the average Filipino from consuming more than 10% of their daily energy intake in the form of sugars. We believe that a 10 peso per liter flat tax maybe too crude in that different beverages would have different amounts of sugars in the same 1-liter volume. As one systemic analysis shows, the price increase required preventing further rise in the prevalence of overweight and obesity mostly requires at least a 20% increase.²⁰
3. The Explanatory Note should include a paragraph outlining the impact on health of imposing an excise tax on sugar-sweetened beverages. It should be emphasized that this bill is as much a health bill as it is a revenue bill.
4. The definition of sugar-sweetened beverages should be revisited to include all beverages that contain caloric sweeteners or added sugar or artificial/non-caloric sweetener. For example, "e.) Energy drinks: carbonated drinks that contain large amounts of caffeine, sugar, and other ingredients, such as vitamins, amino acids, and herbal stimulants," do not reflect energy drinks that are not carbonated which are available in the market.
5. Section 2. Specific Responsibility of the Food and Drug Administration should be revised to include directives to the Food and Drug Administration to not only "require manufacturers and importers to state on the label that caloric or non-caloric sweetener is added to the SSBs," but to also have them include on the label the type and amount of the added sweeteners.

6. Section 3. Health Promotion Fund, “b. Twenty percent (20%) shall accrue to the Department of Health for the provision of medicine and medical assistance for diabetes and other non-communicable diseases through provincial or district hospitals as well as for health and wellness promotion,” should be revised to, “Twenty percent (20%) shall accrue to the Department of Health for the provision for health promotion and community prevention of non-communicable disease and oral health, and for provision of medicine and medical assistance for diabetes, cancer, and other non-communicable diseases through provincial or district hospitals.”
7. The allocation stipulated, “fifty percent (50%) accruing to the General Fund”, should be revisited and lessened. Instead it is recommended that appropriate funds should be given to the Department of Social Welfare and Development to empower the agency to undertake oral health promotion in day care centers, and to the Department of Agriculture to provide sugarcane farmers other sources of livelihood.
8. Include provisions to fund and review local studies looking at the effects of sugar-sweetened beverages in the Philippines. Specifically, the studies should focus on the prevalence and impact of sugar-sweetened beverages on the Filipino’s health, particularly on non-communicable diseases and oral health. Further, a market analysis should also be done to investigate any detrimental effects this excise tax could generate for the local industry and consequently the Filipino farmers.

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