Strengthening the soft drinks industry levy: HMRC and HMT consultation

Indirect Tax



20 August 2025

The soft drinks industry levy consultation asked manufacturers and sector specialists to provide evidence on whether milk-based drinks with added sugar should become subject to the levy. The CIOT raise a point around the differences in two governmental social policies for tax that result in different taxation outcomes for the same product.

The soft drinks industry levy (SDIL), or ‘sugar tax’ as it has been known in the media, came into effect in April 2018. Its purpose was to incentivise producers of soft drinks to remove added sugar resulting in lower sugar or sugar free alternatives, thereby reducing the sugar consumption of the population that contributes to obesity and tooth decay, particularly in children. There were several exemptions from SDIL including drinks that were at least 75% milk. The current consultation (

tinyurl.com/hewmp6k7) considered whether this exemption should be removed.

We highlighted that in the VAT legislation, cold milk-based drinks, irrespective of added sugar content, and which are not supplied in the course of catering and consumed on-premises, are categorised as ‘food’ rather than ‘beverages’, and hence fall within the food zero-rating for VAT social policy purposes (the opening paragraph of Group 1, Schedule 8 to the VAT Act 1994, item (6) of the ‘items overriding the exceptions’, and note (6) of the same group refer).

This means that the VAT is not charged on the supply of cold milk-based drinks in these circumstances – they are not taxed. If the proposed removal of the exemption from SDIL for milk-based drinks with added sugar is taken forward, it will result in the taxation of the same product for social policy reasons relating to health.
We anticipate that having two tax outcomes, both ostensibly based on social policy reasons, for the same product may cause confusion, which can increase the likelihood of errors.

The full CIOT response can be found here: www.tax.org.uk/ref1509

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