USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary _ Public

Date: 11/15/2011

GAIN Report Number: H1103

Hungary

Post: Budapest

Chips Tax for a healthier diet

Report Categories:

Policy and Program Announcements

Market Development Reports

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Report Highlights:

Following the introduction of a new tax on ‘unhealthy’ foods in September, the Government of Hungary (GOH) is seeking to both generate revenue and promote healthier diets. Implemented on September 1, 2011, the Act on Public Health Tax, or more commonly, the “Chips Tax”, was expected to bring in HUF 20 billion (USD 95 million) in proceeds, which are earmarked for public health programs and higher salaries for doctors. The levy is imposed on high sugar content soft drinks, caffeine added energy drinks, high sugar candies and chocolate products, and some salty snacks and condiments. The OECD reported in 2005 that, at nearly 19%, Hungary had the world’s 8th highest obesity rate. However, revenue collection figures for the first month are less than expected and the tax may be having negative effects on investment and employment. Starting in January 2012, the GOH plans to increase the tax rates and expand the scope of the tax to include coffee, flavored beers, and low alcohol (“fizzy”) drinks.

General Information:

The CIII./2011 (July 19) Act on Public Health Tax, commonly known as the "Chips Tax", entered into force on September 1, 2011. The tax is imposed on:

- Soft drinks (HS 2009; 2202) with less than 25% fruit content if the product contains more than 8 gram sugar or above 10 milligrams caffeine (per 100 milliliter volume)
- Pre-packed candies (HS1704; 1905; 2105) with a high sugar content
- Chocolate products (HS 1806) with high sugar but low cocoa content may also be subject to the tax
- Salty snacks under HS 1905; 20052020; 2008 (excluding bread and bakery products) are covered by the new law if the salt content is above 1 gram per 100 grams
- Products under HS 2103 and 2104, other than baby food, instant soups, and sauces, also pay the duty if the salt content is higher than 5 grams per 100 grams of product or if seasonings are higher than 15 grams per 100 grams of product.

For products produced in Hungary, the tax is collected as part of general tax revenues from the manufacturer. In the case of imported foods, the first domestic seller pays the tax. Hungary's value added tax (VAT) rate on most products is 25%, among the highest in the world, and is scheduled to go to 27% starting in 2012. The 'Chips Tax' is in addition to a VAT rate on most foods of 25%. Some foods have lower rates (e.g., 18% for dairy, grain, flour, and starch based products, and 5% for medicines and medical herbs).

With the "Chips Tax" the GOH hopes to collect USD 24 million in 2011 and USD 95 million in 2012. However, companies paid just USD 2.7 million in "Chips Taxes" in September, according to the National Tax and Customs Office. The breakdown of the preliminary tax collection figures by product group is as follows:

Pre-packed candies and chocolate	USD 1.1 million
Salty snacks	USD 0.58 million
Soft drinks	USD 0.57 million
Energy drinks	USD 0.17 million
Seasonings	USD 0.26 million

Tax authorities stressed, however, that distributors and retailers accumulated high stocks of taxable commodities prior to implementation of the new tax and cited this as a reason why first month revenues were weak.

Draft amendments increasing the 'Chips Tax' have been also put forth. According to unofficial publications, starting January 1, 2012, the levy on soft drinks could rise from the current HUF 5/liter (US cent 2.3 per liter) to HUF 7 (US cent 3.3). The levy on salty snacks would rise from US cent 95/kilogram to USD 1.19/kilogram. The tax on energy drinks, USD 1.19/liter would remain unchanged. If implemented, this would translate into a 25-50 percent tax increase starting in January, 2012. The rate for new commodities, such as flavored beers and alcoholic refreshments, would be cents 9.5/liter, while coffee would be charged USD 1.19/kilogram.

Associations representing food and beverage producers have warned the government that the levy may result in further food inflation and this, along with the rise of VAT from 25 to 27 percent, may have a negative impact on demand. The director of the Hungarian Sweets Producers Association stressed that companies continuously develop new formulations in order to offer healthier foods to consumers. The sweets industry, which will bear a majority of the tax burden, is dominated by small and medium-sized firms. These companies supply mainly the domestic market and are directly exposed to any changes in demand caused by the tax.

To some extent, companies may change recipes or make other accommodations to minimize the tax burden on their products. However, there are indicators that the tax is causing some economic harm. Unilever is reportedly postponing a food seasonings production investment in Hungary and a German snack manufacturer has postponed its popcorn and snack food investment. Among Hungarian firms, a leading confectionary and cookie producer reportedly lay off 62 employees and an energy drink producer has filed a lawsuit against the new taxes.