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Cut to the Chase

Sin Tax

WHAT are 'Sin Taxes'?

- 'Sin' taxes are basically excise tax imposed to discourage consumers from using goods or services such as tobacco, alcohol and soft drinks that are seen as undesirable or detrimental to society. Sin taxes are intended to serve two objectives in the context of GCC.
- To reduce the rise of lifestyle diseases and
- To boost state revenue following the collapse of oil prices three years ago.

WHEN will it take effect in GCC?

- Saudi Arabia and UAE have already introduced sin tax from 11th June and 1st October 2017 respectively. Bahrain, Kuwait, Qatar and Oman are expected to introduce it in 2018.

WHY is it growing in relevance in the GCC?

- Amidst an ongoing health crisis in the Gulf region that has seen cases of diabetes, obesity, and heart disease soar, the government has sought to reduce the consumption of harmful products through this excise tax on sugary drinks and tobacco. Beyond the fact that these taxes will raise money for the government to spend on public services, improving peoples' health may actually save the UAE billions in the long term.

HOW large will be the impact of sin tax?

- The cost of purchasing a 20 cigarette packet will rise from around USD 2.7 to USD 5.5. The cost will vary depending on the brand but the price for all brands will double. The price of sodas is expected to increase from USD 0.5 to USD 0.8.
- According to UAE government estimates, the tax is forecast to generate around USD 1.9 billion in annual revenues for the Federal Budget representing 1.7% of the estimated revenue in 2018. Out of this, cigarette alone is expected to generate a revenue of USD 544.5Mn.
- Whereas Saudi Arabia is expected to raise between USD2.1 billion to USD2.7 billion annually from the tax representing 1% to 1.4% of the estimated revenue for 2018. It will comprise a 50 percent levy on soft drinks and 100 percent on tobacco and energy drinks.

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