

# HEALTH TAXES: A PRIMER





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*Health taxes: a primer (a WHO policy brief)*

*WHO/UHC/HGF/Policy brief 19.7*

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*Layout and design by Studio FFFOG.*

*Printed in Switzerland.*

*Financial support was provided by the United Kingdom's Department for International Development (Making Country Health Systems Stronger programme).*

# HEALTH TAXES

## KEY MESSAGES

- Health taxes are imposed on products that have a negative public health impact (e.g. taxes on tobacco, alcohol, sugar-sweetened beverages, fossil fuels).
- These taxes result in healthier populations and generate revenues for the budget even in the presence of illicit trade/evasion.
- These are progressive measures which benefit low-income populations relatively more, once health care costs and health burden are taken into account.
- WHO has endorsed the implementation of taxes on sugar-sweetened beverages, alcohol, and tobacco.
- According to WHO, taxes on sugar-sweetened beverages are cost-effective measures which can help curb obesity, type 2 diabetes and tooth decay. Evidence shows that a tax on sugary drinks that increases prices by 20% can reduce consumption by around 20%.
- Based on WHO analysis, increasing excise taxes on tobacco and alcohol are best buys (most cost-effective and feasible for implementation).
- The World Bank has found that fiscal policy instruments (such as excise taxes on certain fuel types) can reduce pollution and deliver health benefits at the least cost to the economy. These measures are also simpler to administer and cheaper to collect than income taxes or VAT<sup>1</sup>.

## WHY HEALTH TAXES?

Health taxes are cost-effective measures which result in:

- healthier lives
- healthier population
- wealthier treasury



## HEALTH TAXES AS TOOLS TO ATTAIN THE SDGS

Health taxes can:

- significantly reduce the NCD burden (Goal 3)
- greatly benefit vulnerable populations which bear larger health burdens (Goals 1,5,10)
- boost economic development through a healthier workforce (Goal 8)



<sup>1</sup>Presentation by Grzegorz Peszko, Lead Economist Environment and Natural Resources Global Practice, The World Bank.

## HEALTHIER LIVES

### SUGARY DRINKS

Taxing sugary drinks can lower consumption and encourage reformulation. It can reduce obesity, type 2 diabetes and tooth decay, especially for lower-income, less-educated and younger populations.

- Mexico's 10% tax on sugar-sweetened beverages resulted in a 5.5% decrease in sales by the end of the first year, and a 9.7% drop in sales in the second year, with the largest decrease amongst the most socioeconomically disadvantaged households—those also disproportionately affected by diet-related conditions such as type 2 diabetes and obesity.<sup>2</sup>
- In Chile, a newly-introduced SSB tax was able to reduce the monthly purchased volume of the higher taxed, sugary soft drinks by 21.6%.<sup>3</sup>
- Within three years after imposition of SSB tax in Berkeley, SSB consumption decreased by 52%, and water consumption increased by 29%.<sup>4</sup>
- The announcement of the imposition of an SSB tax urged manufacturers in Thailand, the United Kingdom, Portugal, Malaysia<sup>5</sup> and South Africa to reduce the sugar content of their products.

<sup>2</sup> Sánchez-Romero LM, Penko J, Coxson PG, Fernández A, Mason A, Moran AE, et al. (2016) Projected Impact of Mexico's Sugar-Sweetened Beverage Tax Policy on Diabetes and Cardiovascular Disease: A Modeling Study. *PLoS Med* 13(11): e1002158. <https://doi.org/10.1371/journal.pmed.1002158>

Nakamura R, Mirelman AJ, Cuadrado C, Silva-Illanes N, Dunstan J, et al. (2018) Evaluating the 2014 sugar-sweetened beverage tax in Chile: An observational study in urban areas. *PLOS Medicine* 15(7): e1002596. <https://doi.org/10.1371/journal.pmed.1002596>

<sup>4</sup> Matthew M. Lee, Jennifer Falbe, Dean Schillinger, Sanjay Basu, Charles E. McCulloch, and Kristine A. Madsen, 2019: Sugar-Sweetened Beverage Consumption 3 Years After the Berkeley, California, Sugar-Sweetened Beverage Tax *American Journal of Public Health* 109, 637-639, <https://doi.org/10.2105/AJPH.2019.304971>

<sup>5</sup> Euromonitor data

<sup>6</sup> Chaloupka, FJ, Powell LM, *Using Fiscal Policy to Promote Health: Taxing Tobacco, Alcohol, and Sugary Beverages* (March 2018) available at <https://www.bbhuh.io/dotorg/sites/2/2019/04/Using-Fiscal-Policy-to-Promote-Health-Taxing-Tobacco-Alcohol-and-Sugary-Beverages.pdf>



#### SWEET SUCCESS OF SUGARY DRINK TAX IN THE UK

**Our Sugar Tax is even more effective than hoped. Expected receipts halved because "producers are reformulating their drinks sooner and more aggressively than previously assumed". That means less sugar and better health. Progressive policy in action.**

**George Osborne,**  
former Chancellor of the Exchequer,  
United Kingdom



#### SOUTH AFRICAN SUGARY DRINK TAX IS A WIN-WIN

**South Africa introduced a tax on sugary beverages called the Health Promotion Levy from 01 April 2018 and it is based on the sugar content of the beverages. The implementation of the tax has created greater level of public awareness about the negative health consequences of sugar consumption and incentivised the industry to start reformulating their products. The tax has raised 3.2 billion Rands in revenue in its first year in operation.**

**Mpho Legote,**  
Director: VAT, Excise Duties & Sub-National Taxes, Economic Tax Analysis, Tax and Financial Sector Policy, National Treasury,  
South Africa

## ALCOHOL

Studies show that increasing the price of alcohol through higher taxes can reduce alcohol consumption and its related harms, and prevent drinking initiation.

Related harms<sup>6</sup>:

- motor vehicle crashes and fatalities;
- deaths from liver cirrhosis,
- alcohol dependence
- other diseases caused by excessive drinking
- incidence of sexually transmitted diseases
- crime and violence, including homicides,
- rape, robbery, child abuse and spousal abuse;
- workplace accidents

In 2001, China imposed an additional volume-based tariff on top of the existing alcohol tax which resulted in a sharp decline in alcohol consumption. Five years later, the Chinese lowered the tax on spirits, which resulted in a steep rise in alcohol consumption.<sup>7</sup>

The 1984 alcohol tax cut in China, Hong Kong SAR coincided with a massive surge in imports as well as a significant increase in acute alcohol related mortality in men. However, the contrary was observed after the 1994 alcohol tax increase: imports dropped, and there was a marked decrease in chronic, acute and all alcohol-related mortality for both sexes.<sup>8</sup>



**By now the evidence is overwhelming that alcohol taxes constitute an alcohol policy "trifecta": they reduce alcohol problems, save on health care, and generate public revenues. It is difficult to understand why policymakers and government officials ignore such an obvious "win-win-win" policy option.**

**Thomas F. Babor,**  
Professor of Community  
Medicine and Public Health,  
University of Connecticut School of  
Medicine, Farmington, USA

<sup>7</sup> Tang Y-L, Xiang X-J, Wang X-Y, Cubells JF, Babor TF, Hao W. Alcohol and alcohol-related harm in China: policy changes needed. *Bull World Health Organ* 2013; 91: 270-76.

<sup>8</sup> Chung RY, Kim JH, Yip BH, Wong SYS, Wong MCS, Chung VCH, et al. (2014) Alcohol Tax Policy and Related Mortality. An Age-Period-Cohort Analysis of a Rapidly Developed Chinese Population, 1981-2010. *PLoS ONE* 9(8): e99906. <https://doi.org/10.1371/journal.pone.0099906>



**TOBACCO TAXATION SUCCESS STORY: COLOMBIA**

In a 2016 fiscal reform, Colombia increased by 200% its excise taxes on tobacco products (to US\$ 0.71 per 20-cigarette pack in 2018 from US\$ 0.23 in 2016) with a 4% real increase per year after 2019. As a result, by 2018 cigarette consumption of had fallen by 34%, while tax revenues—earmarked for the health sector—had doubled.

Part of the success is related to a 2015 anti-smuggling law, that strengthened the criminal code and made the transportation, warehousing and sale of contraband products a criminal offense with the same penalties as money laundering.

These reforms have been a win-win for Colombia: Lower tobacco consumption is saving lives and more fiscal revenues are contributing to the funding of a universal health coverage system. More importantly, the **long-standing argument that higher tobacco taxes would result in greater contraband, with a negative effect on revenues was proven wrong**. However, tobacco products in Colombia still have lower prices than in many other countries in the Americas, suggesting that further measures are needed.

**Mauricio Cardenas,**  
Former Finance Minister of Colombia,  
(2012-2018)  
Visiting Professor at Columbia University  
and Member of the Bloomberg Task Force  
on Fiscal Policy for Health

**TOBACCO**

In high-income countries a 10% increase in the price of cigarettes may be expected to decrease tobacco consumption by 4%, while in low-middle income countries, a 10% increase in price may be expected to decrease consumption by 5%. Reduced consumption has a powerful impact on subsequent tobacco-related sickness and death within several years. Higher tobacco prices also reduce smoking initiation among young people and so help stop them from becoming addicted to tobacco in the first place.



**IMPACT OF TOBACCO TAXATION IN THE RUSSIAN FEDERATION (2009-2016)<sup>11</sup>**

9-fold increase in price within 7 years

21.5% relative decline in tobacco use prevalence

Tobacco excise revenue increased from 80 billion roubles in 2009 to 483 billion roubles in 2016, or 6-fold in nominal terms. In real (inflation-adjusted) terms, the revenue increased 3.5-fold in 7 years.

**TAXES ON FOSSIL FUEL**

- Fossil fuels, especially coal, are severely undertaxed.
- Reforming subsidies to fossil fuels and applying appropriate taxation can reduce deaths from air pollution by more than 50% globally.<sup>13</sup>



<sup>9</sup> U.S. National Cancer Institute and World Health Organization. *The Economics of Tobacco and Tobacco Control*. National Cancer Institute Tobacco Control Monograph 21. NIH Publication No. 16-CA-8029A. Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016.

<sup>10</sup> <https://openknowledge.worldbank.org/handle/10986/28494>

<sup>11</sup> <http://www.euro.who.int/en/health-topics/disease-prevention/tobacco/news/news/2017/06/a-tobacco-tax-success-story-in-the-russian-federation>

<sup>12</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/29497/WPS8369.pdf?sequence=4&isAllowed=y>

<sup>13</sup> To the extent that it refers to local air pollutants such particulate matter, sulphur dioxide or carbon monoxide, etc

## HEALTHIER POPULATION

Any reductions in employment<sup>14</sup> related to producing and selling unhealthy products is likely to be offset by job gains when:

- people who reduce consumption of unhealthy products spend their money on other goods and services.
- the government uses tax revenues to buy goods and services



### HEALTH IS WEALTH: THE PHILIPPINE PERSPECTIVE

*"There are always questions on revenue, but the first and primary concern is health. If demand goes down, then revenues may take a hit, but the increase in rates in the future as well as lower health costs due do less smokers will compensate for that.*

*This is an extreme example, if there are no smokers then we do not have revenues from cigarette tax. But we also do not have to cover for health expenses of those getting sick due to smoking. If that's the case then we're happy,"*

**Kim Jacinto- Henares,**  
Former Commissioner of Internal Revenue,  
Philippines (2012-2016)

## WEALTHIER TREASURY

Health taxes can potentially generate stable, predictable revenues in short to medium term, and reduce health costs in the long term.



### REVENUE IMPACT OF THE PUBLIC HEALTH PRODUCT TAX IN HUNGARY

*Hungary imposed a Public Health Product Tax (PHPT) on food products containing unhealthy levels of sugar, salt and other ingredients. It aimed to reduce consumption, promote healthy eating and create an additional mechanism for financing public health services. In 3 years, HUF 61.3 billion (€200 million) have been generated, corresponding to the planned revenue<sup>15</sup>.*

<sup>14</sup> Frank Chaloupka, Presentation at WHO strategy meeting on the use of fiscal policies for health, (2017).

<sup>15</sup> WHO EURO, Good Practice Brief: Public Health Product Tax in Hungary available at: [http://www.euro.who.int/\\_data/assets/pdf\\_file/0004/287095/Good-practice-brief-public-health-product-tax-in-hungary.pdf](http://www.euro.who.int/_data/assets/pdf_file/0004/287095/Good-practice-brief-public-health-product-tax-in-hungary.pdf).

## DESIGNING EFFECTIVE HEALTH TAXES

Of the different types of taxes, excise taxes are the most important for promoting health because they change the cost to consumers of the taxed products relative to other goods.<sup>16</sup>

**Sugary drinks:** Fiscal policies that lead to at least a 20% increase in the retail price of sugary drinks would result in significant reductions in consumption of such products.<sup>17</sup>

**Alcohol:** Specific taxes are more effective than ad valorem because it reduces the opportunities for industry to manipulate consumer behavior and the likelihood that consumers will simply substitute cheaper products for more expensive ones. Furthermore, specific taxes on alcohol content (instead of per bottle or drink volume) are even more effective because they lead to lower consumption, less initiation among the young, and encourage industry to offer lower alcohol content beverages.

**Tobacco:** WHO recommends that countries apply a sufficiently high level of tobacco taxes to discourage consumption, with periodic increases to decrease affordability. The best practices for tobacco taxation include the adoption of a relatively simple tax system that applies equivalent specific taxes to all tobacco products.<sup>18</sup>

## COMMON ARGUMENTS AGAINST HEALTH TAXES

### TAX EVASION AND ILLICIT TRADE

Tax avoidance and evasion offset the impacts of health taxes, but there are still significant public health and revenue benefits even in presence of avoidance/evasion. Strength of governance is a more important determinant of illicit trade than taxes and prices.

**Sugary drinks:** The profitability of smuggling sugary drinks is relatively low compared to smuggling tobacco or alcohol. Thus, there is likely to be little tax avoidance and evasion in response to a sugary drinks tax.

**Alcohol:** Opportunities for tax avoidance tend to increase if the tax structure is too complex; simplifying the structure of alcohol excise taxation will help reduce these opportunities and will facilitate monitoring of the costs per unit of tax revenue raised.

**Tobacco:** Experiences from around the world show that even in the presence of illicit trade, tax increases still lead to higher tax revenues and real reductions in tobacco use. The methods for controlling illicit trade in cigarettes are well known and endorsed in the International Protocol on illicit trade in tobacco.

### INTERNATIONAL TRADE AGREEMENTS

WTO agreements recognise health as a legitimate policy goal. Thus, these instruments allow countries to introduce health-related policy measures provided they are deemed necessary to protect human or environmental health and safety and are not introduced to act as a barrier to trade.

### REGRESSIVITY

A regressive tax is a tax that takes a larger percentage of income from low-income earners than from high-income earners, and affect people with low incomes more severely than people with high incomes.

<sup>16</sup> Task Force on Fiscal Policy for Health (2019). *Health Taxes to Save Lives: Employing Effective Excise Taxes on Tobacco, Alcohol, and Sugary Beverages*. Chairs: Michael R. Bloomberg and Lawrence H. Summers. New York: Bloomberg Philanthropies. Available at: <https://www.bloomberg.org/program/public-health/task-force-fiscal-policy-health/>

<sup>17</sup> Fiscal policies for diet and prevention of noncommunicable diseases: technical meeting report, 5-6 May 2015, Geneva, Switzerland

<sup>18</sup> Manual on tobacco tax administration 2010, Geneva: WHO; 2010



## ARE HEALTH TAXES REGRESSIVE?

- These can seem regressive if you look at tax paid and income only.
- However, this is offset by the health benefits and the reduction in health care costs so that the net impact is progressive.



### GETTING STARTED

1. See how health taxes fits into a country's SDG plan.
2. See how health taxes fit into the political agendas of major political parties.
3. Unite a broad coalition.
4. Build political capital for health taxes (health, finance, civil society, etc).
5. Frame the issue as a health measure / health financing measure.
6. Guard against industry interference.



### HEALTH SELLS: PACKAGING TOBACCO AND ALCOHOL TAXES AS HEALTH MEASURES CRITICAL IN GAINING PUBLIC SUPPORT IN THE PHILIPPINES

"This was probably the most important role I played: to make it very clear to everybody to forget about [the sin tax law] being a tax measure and focus instead on it being a health measure."

**Dr Enrique Ona.**

Former Department of Health Secretary, Philippines (2010-2014)



### TAILORING MESSAGES FOR YOUR AUDIENCES: 2014 ANALYSIS OF SUGARY DRINKS TAX MESSAGING SHOWS INTERESTING RESULTS

When we talk to conservative legislators, it's about how much revenue can be generated and how it can help create deficit reduction. When we talk to more liberal legislators... we also talk about the human suffering that can be prevented. When we are addressing people who might be worried about the regressive nature of the tax, we talk about...what the industry does to [disadvantaged] communities, how they are disproportionately hit by diabetes.

**Jou J, Niederdeppe J, Barry CL, Gollust SE.**

Strategic messaging to promote taxation of sugar-sweetened beverages: lessons from recent political campaigns. *Am J Public Health.* 2014;104(5):847-853. doi:10.2105/AJPH.2013.301679







