
Filling the Coffers Post-COVID through Health Taxes

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Joint Learning Network

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What are health taxes?



- 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 challenging tax administration and low capacity environments.
- Health-related taxes or pro-health taxes can be defined much more broadly:
 - Environmental taxes as pollution can damage health
 - Social security contributions (SSC) levied in relation to health



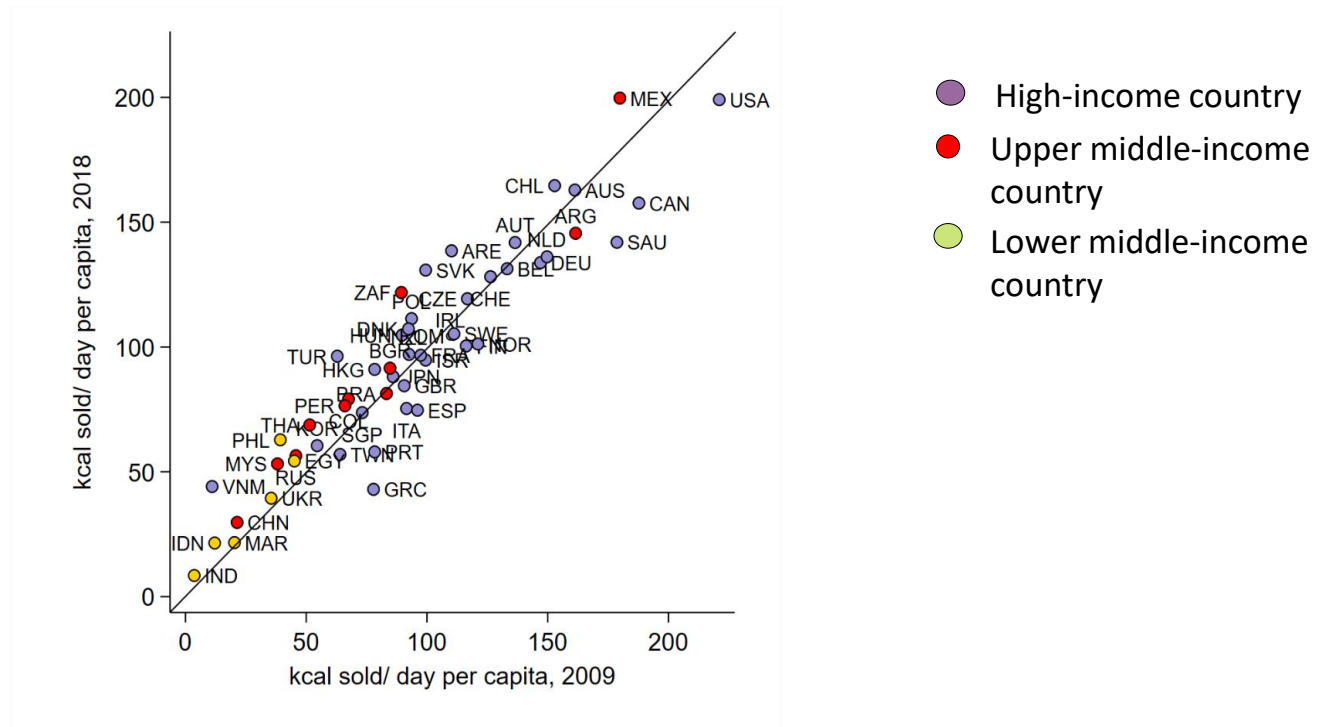
What's the link between taxes and health?

- Tax revenues above 15 percent of a country's gross domestic product (GDP) are a key ingredient for economic growth and, ultimately, poverty reduction. About 2/3 of developing countries are below this ratio.
- Covid-19 crisis is further exacerbating inadequate tax revenues, expect to see lower tax revenue-to-GDP ratios across the world.
- Another key risk: at least in short-term, countries may shift focus from SDGs to just staying afloat fiscally.
- We know that achievement of Universal Health Coverage (UHC) implies significantly reducing out-of-pocket payments and guaranteeing social protection; studies show that and this is highly correlated with country's capacity to raise general revenue.
- Four pathways between taxes and health outcomes (and SDGs in general):
 - taxes generate the funds that finance health expenditures;
 - taxation affects overall equity and economic growth;
 - taxes influence people's behavior and choices;
 - fair and equitable taxation promotes taxpayer trust in government and strengthens social contracts that underpin development.



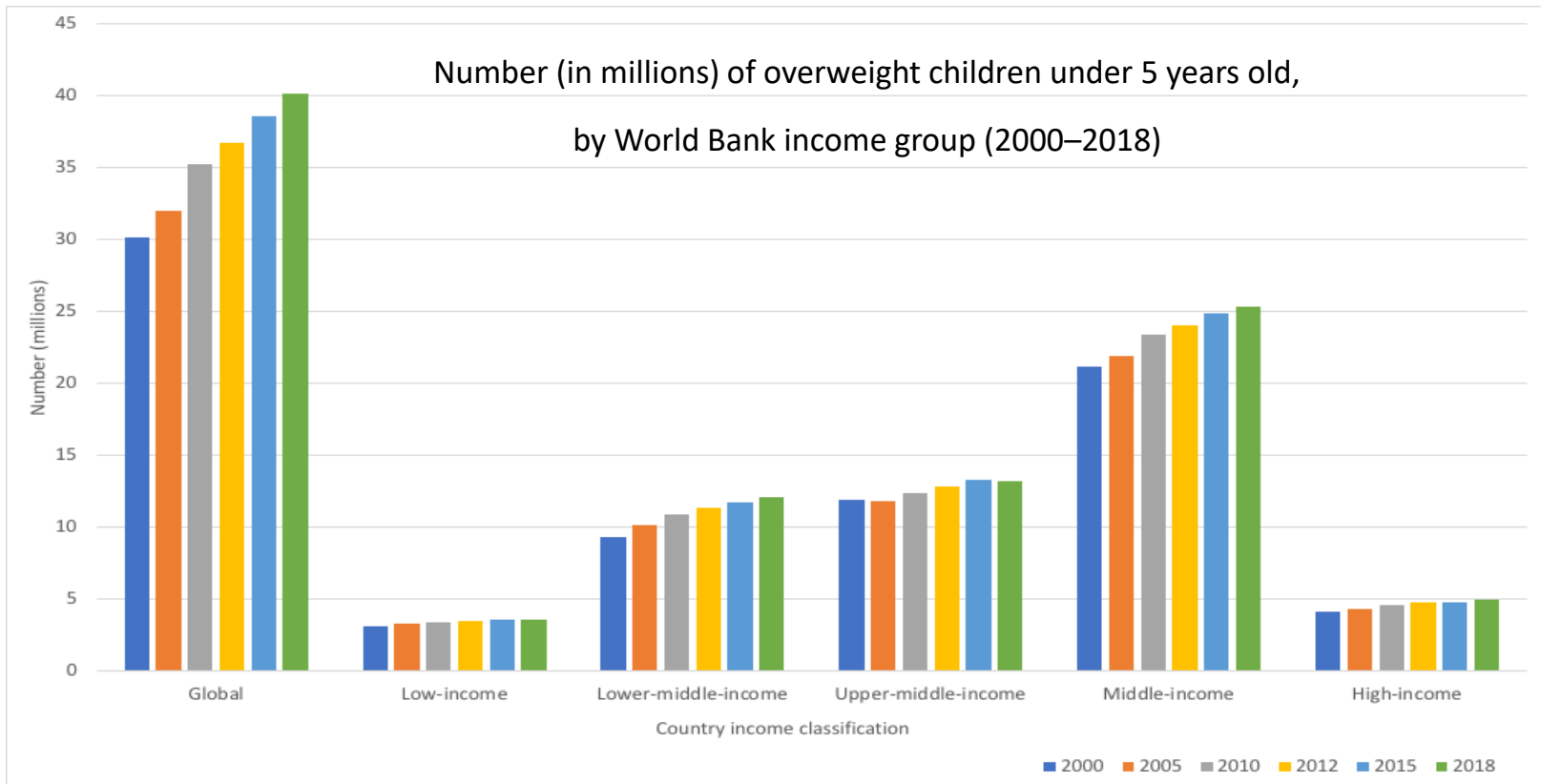
Consumption of these products is increasing in many countries...

Calories sold per capita per day from sugary drinks in 2018 versus 2009, by World Bank income group



Source: World Bank. 2020. Taxes on Sugar-Sweetened Beverages: Summary of International Evidence and Experiences. World Bank.

...which prevents return on investments into human capital



Source: UNICEF, WHO, and World Bank 2019

Health taxes are a bold and effective policy intervention to correct market failures...

- **Externalities:** tobacco, alcohol, and sugary products impose high external costs on society that are not reflected in the prices charged
- **Internalities:** discounting of future consequences due to time-inconsistent preferences, habit strength, addictiveness of nicotine and sugar
- **Insufficient information:** lack of awareness of risks, pervasive marketing, and industry-influenced research distorting decision-making



...with substantial revenue and health impact

Bloomberg-Summers Task Force on Fiscal Policy for Health estimated the impact of health tax increases that would result in a 20% and 50% increase in prices over a 50 year period:

“Countries can save millions of lives if they take action. Despite the clear and growing body of evidence, industry opposition to smart health policies will continue to mislead the public about the harmful effects of their products. That makes it all the more important for the international community to support countries in adopting effective, evidence-based health taxes that will save lives.”

MIKE BLOOMBERG

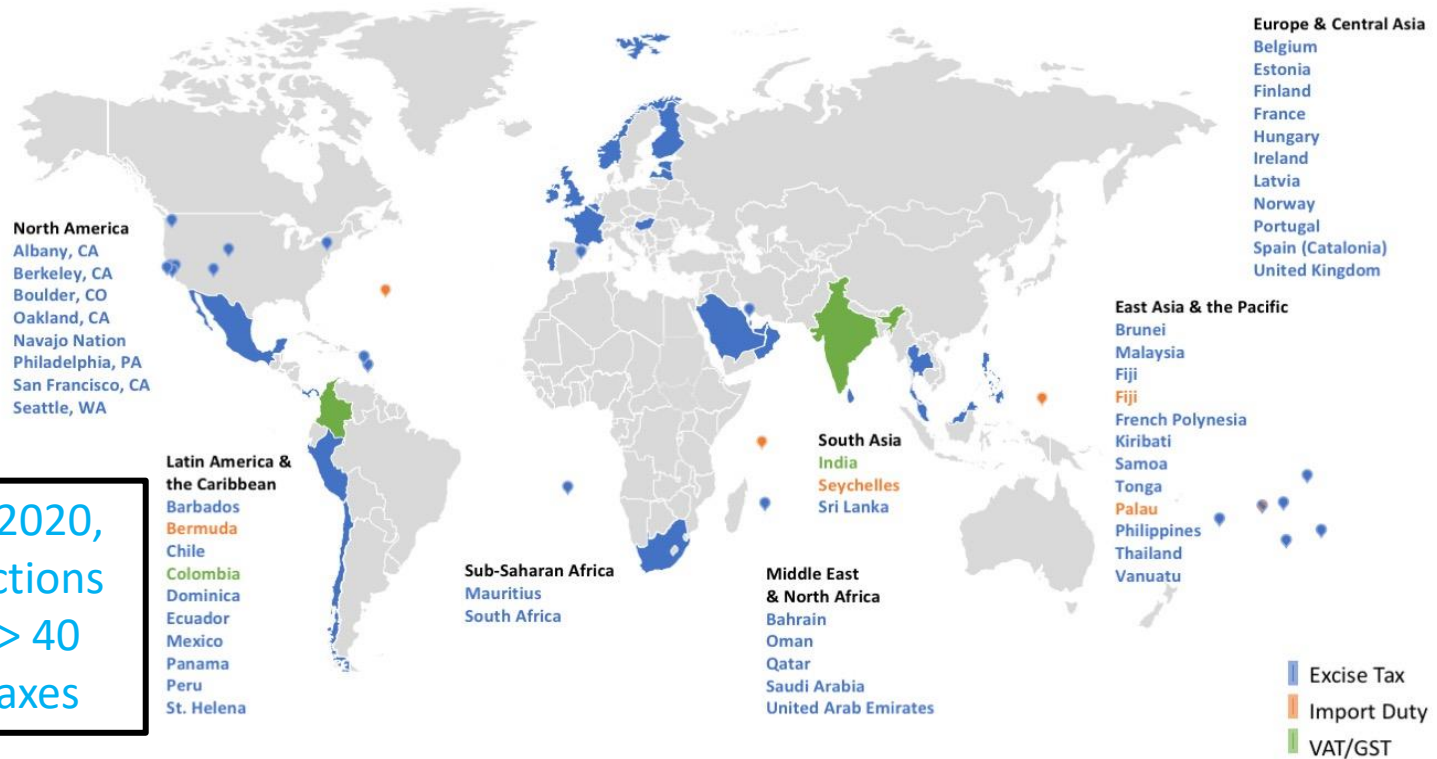
	2018 US\$ billions of excise tax revenue		Years of life gained (1000s)		Value for money: years of life/revenue	
	20% increase	50% increase	20% increase	50% increase	20% increase	50% increase
Tobacco	1,987	3,625	160,724	401,836	80,888	110,851
Alcohol	9,428	17,778	227,421	546,745	24,122	30,754
SSB	724	952	24,355	59,762	33,640	62,775

Source: Summan et al., 2020



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Many governments are taking advantage of this opportunity to fill their coffers...

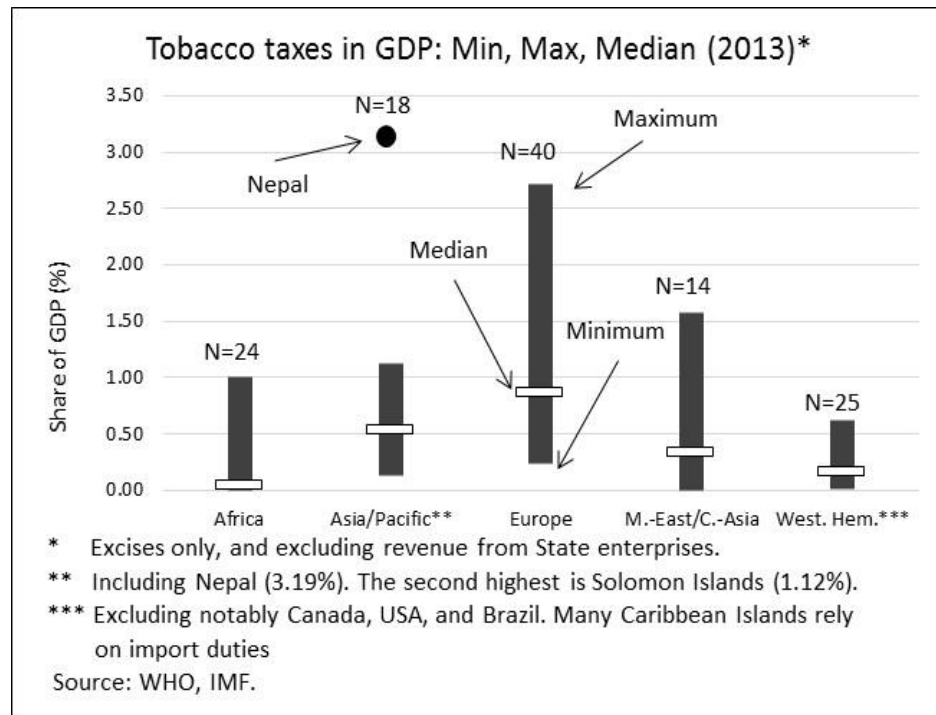


In January 2020,
>50 jurisdictions
including > 40
national taxes

Source: World Bank. 2020. Taxes on Sugar-Sweetened Beverages: Summary of International Evidence and Experiences. World Bank.

..with potential for more revenue generation

- Main taxes are: CIT, PIT, VAT, customs duties, fuel excises
- For LICs and MICs, health taxes can represent a larger share of revenues given lower tax-to-GDP ratios.
- Calculation of health tax potential needs to take into account administrative capacity and local conditions



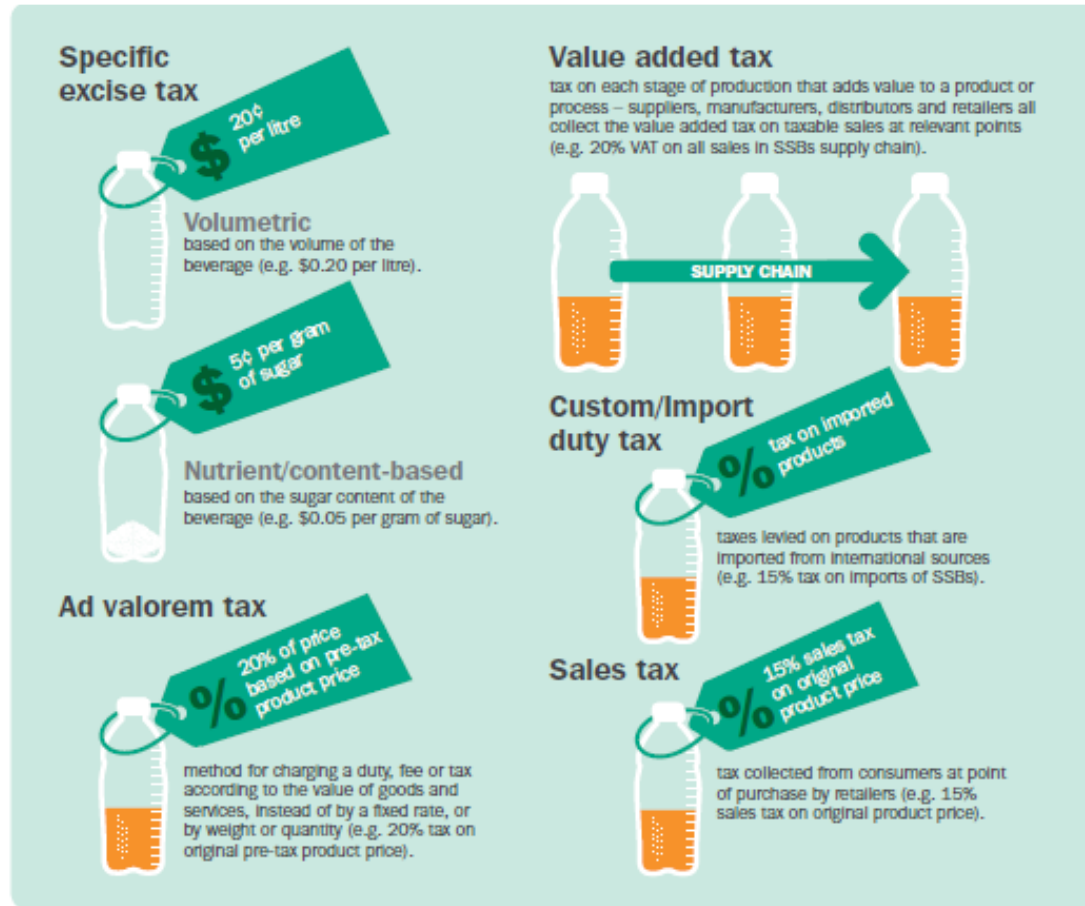
Source: Patrick Petit, Senior economist, IMF, ppt from the Collaborative on Domestic Resource Mobilization Under JLN's Revisiting Health Financing Technical Initiative Meeting, April 16-17, 2018

With COVID-19, the time is health taxes is now

- Urgent need for revenue generation: [*Global Economic Prospects*](#) report estimates a 5.2% contraction in global GDP in 2020. Tax revenues will decline faster than GDP.
- Fiscal space and human capital investment: As fiscal space shrinks, risk is investment in human capital will decline. In the coming months, countries will have to make difficult expenditure choices as they seek to restore fiscal space.
- Consumption of these products or associated conditions are independent risk factors for COVID-19, e.g. smoking and obesity
- Health taxes which improve health outcomes and help raise revenue in short term could decrease health system impact of future waves



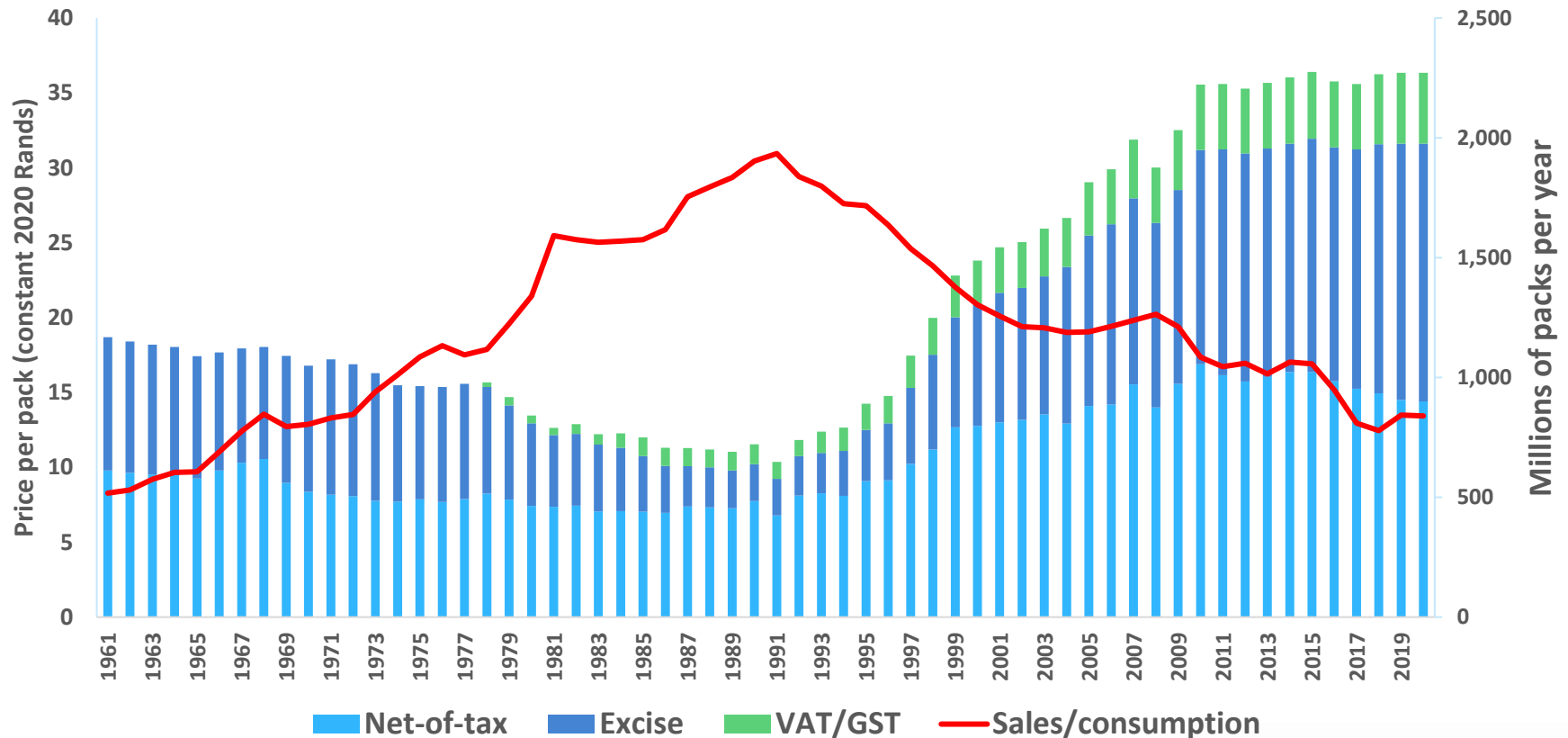
Health taxes can be designed in a number of ways...



Source: World Cancer Research Fund International (2018). Building momentum: lessons on implementing a robust sugar sweetened beverage tax

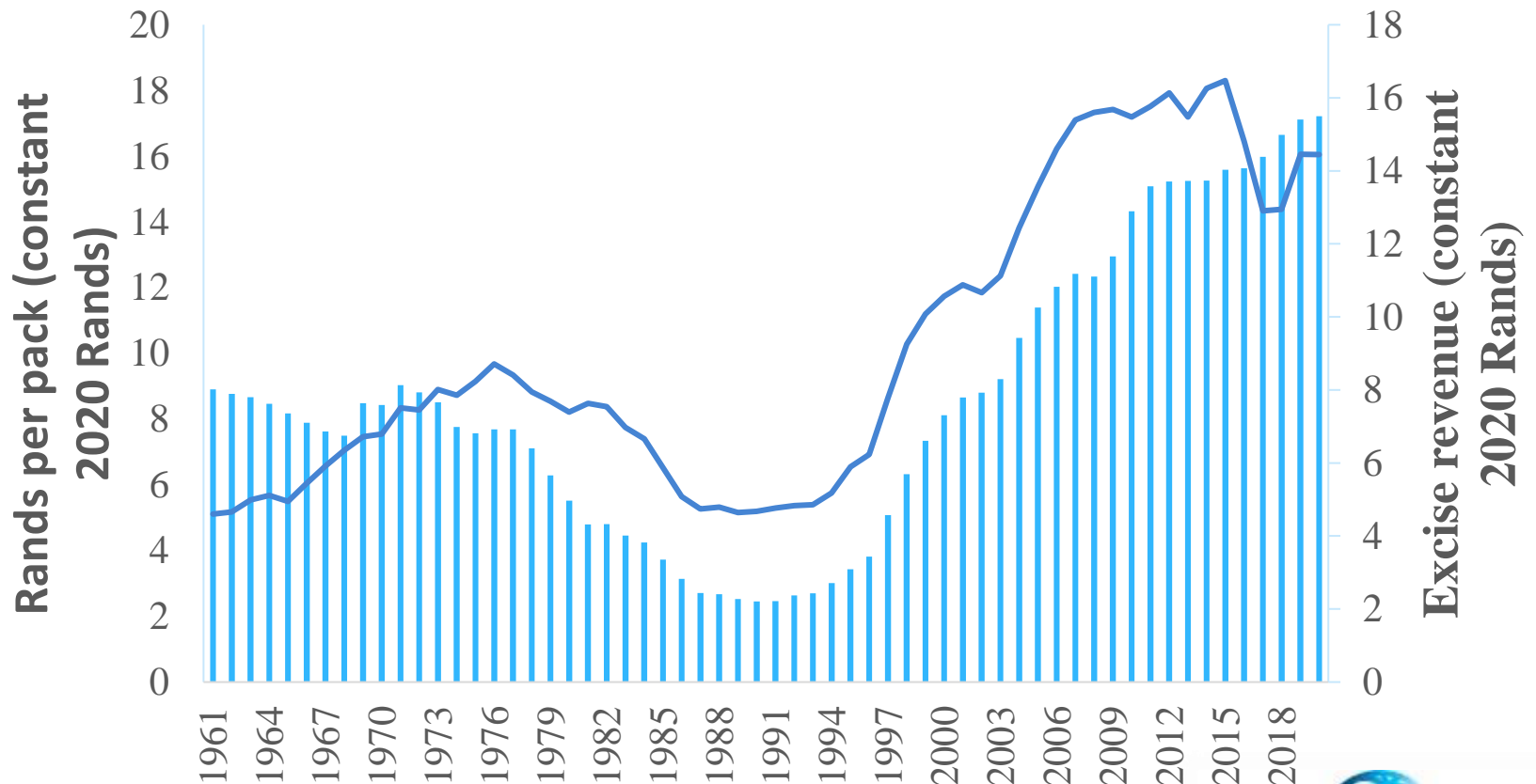
...that are effective at reducing consumption...

South Africa: price per cigarette pack (decomposed) and total cigarette sales, 1961-2020



Notes: VAT = Value Added Tax, GST = Goods and Services Tax. Source: University of Cape Town

South Africa: excise tax per pack and excise tax revenue, 1961-2020



...and generating revenue

South Africa excise tax revenues, 2020/21

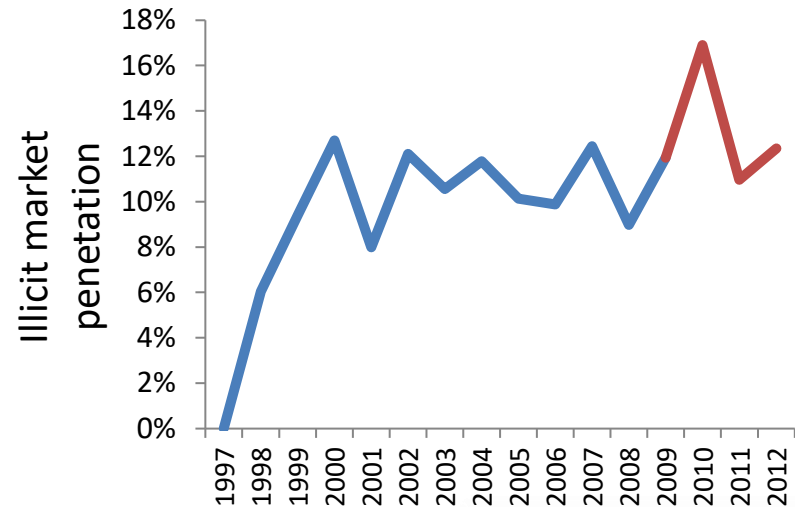
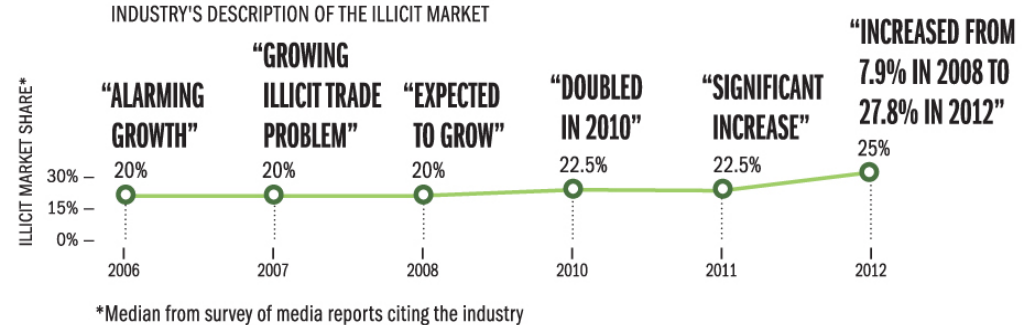
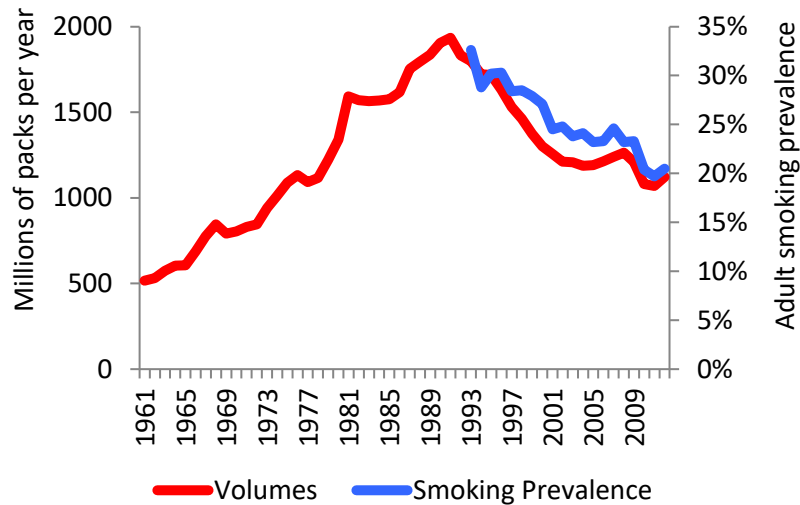
	Excise revenue (billions Rands)		US\$ (billions)	% of general tax revenue
Beer	16.5	31.1	1.8	2.3%
Wine	5.3			
Spirits	9.3			
Cigarettes	14.5	14.9	0.9	1.1%
Other tobacco	0.4			
SSBs	-	2.9	0.2	0.2%
Liquid fuels	-	84.4	4.9	6.2%
Plastic bags	-	0.6	0.0	0.0%

Source: National Treasury, Budget Review (2020)

Won't health taxes encourage illicit trade?

Example: South Africa

- Industry overstates estimates of illicit trade compared to independent studies
- Creates a narrative that it is growing at an alarming rate or a result of the recent tax increase

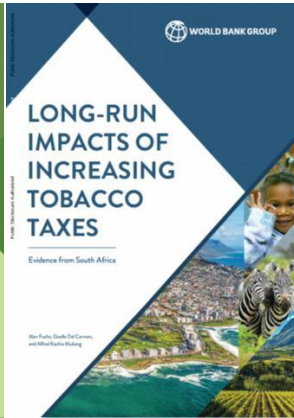
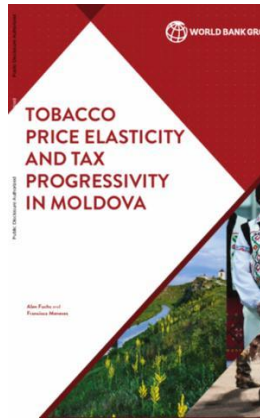
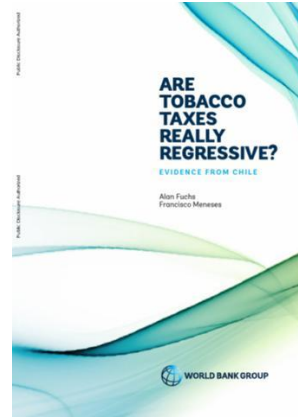
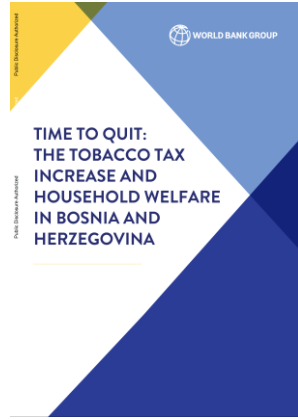
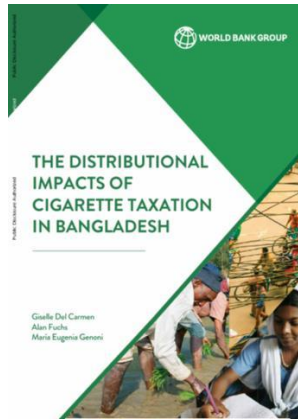


Source: University of Cape Town; Blecher (2010), Tobacco Atlas (2015)



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Don't health taxes hit the poorest hardest? (i.e. regressive)



When medical expenses and gains in working life are taken into account, health taxes are generally progressive in the long-term

25% tobacco price increase

		Deciles									
		1	2	3	4	5	6	7	8	9	10
South Africa	Complete pass-through	-0.25%	-0.29%	-0.22%	-0.32%	-0.33%	-0.37%	-0.40%	-0.40%	-0.27%	-0.15%
	Considering price elasticity	-0.14%	-0.19%	-0.15%	-0.20%	-0.19%	-0.30%	-0.28%	-0.30%	-0.22%	-0.11%
	Reduction in Medical expenses	0.91%	0.57%	0.41%	0.43%	0.36%	0.16%	0.16%	0.09%	0.03%	0.01%
	Gains in years of working life	0.13%	0.13%	0.13%	0.18%	0.21%	0.12%	0.17%	0.16%	0.08%	0.14%
	Net effect	0.91%	0.51%	0.39%	0.42%	0.37%	-0.01%	0.05%	-0.04%	-0.11%	0.04%

Source: Estimates based on countries' national socio-economic surveys. Fuchs, Alan; González Icaza, Fernanda; Paz, Daniela. 2019. Distributional Effects of Tobacco Taxation : A Comparative Analysis. Policy Research Working Paper; No. 8805. World Bank, Washington, DC.

Note: Table assumes a 25% price increase, and medium-bound elasticities. Deciles were created using per capita household expenditure.

Other common arguments against health taxes

Health taxes....

- cost jobs, harm businesses, and slow the economy
- encourage illicit trade
- harm a country's Doing Business rating
- are discriminatory
- are unconstitutional or illegal

See: World Bank. HNP Knowledge Brief. Countering Common Arguments Against Taxes on Sugary Drinks. June 2020



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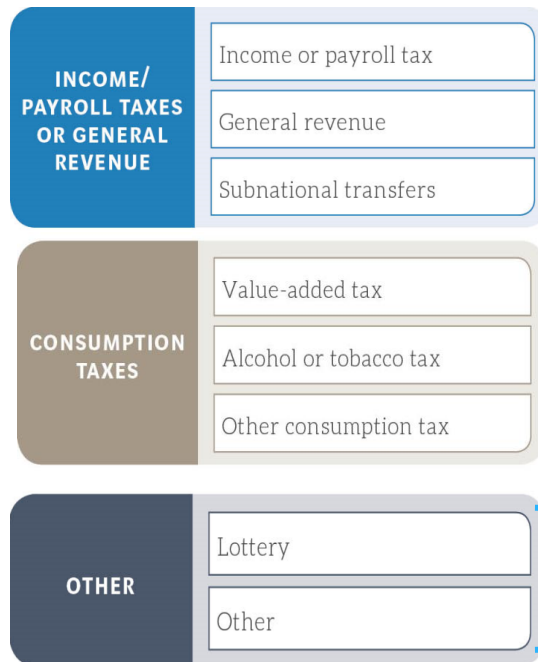
Does earmarking make health taxes more effective?

- **Earmarking:** dedicating the proceeds of a tax to a specific expenditure
 - Hard earmarking: uses a formal process that more or less bypasses the budget
 - Soft earmarking: does NOT use a formal process and proceeds from the tax thus transit through the central treasury account and are fully subject to annual parliamentary review
- In practice we see a wide range of practices from very soft to very hard



How is earmarking applied?

Types of earmarked sources



Examples

60+ countries: Most prevalent form, often used to fund social health insurance

35 countries: tobacco tax revenues

9 countries: alcohol revenues

e.g. Gabon, Bolivia, Bhutan

Earmarking revenue from health taxes will reduce fiscal flexibility, but soft earmarking may support political economy

- There is no guarantee that earmarking will increase financing: prospect of short-term increase in fiscal space for health but issues arise with fungibility in the longer-term
- Most effective when earmarking practices are closer to standard budget processes
- Soft earmarking can help with:
 - consensus building among citizenry,
 - citizen interest/engagement in budget process, budget transparency



The time for health taxes is now

- COVID-19 has created an urgency and a policy window
 - Significantly reduced fiscal space going into COVID-19
 - Countries will have to mobilize an effective fiscal response
- Wealth of evidence and transferable lessons across health taxes
 - Building on many years of research and implementation of tobacco taxes
 - New frontiers
- Partner support is aligned
 - Including WB, WHO, Accelerator for Sustainable Health Financing
 - Including fiscal policy experts

For more information, see the JLN Health Taxes Knowledge Package

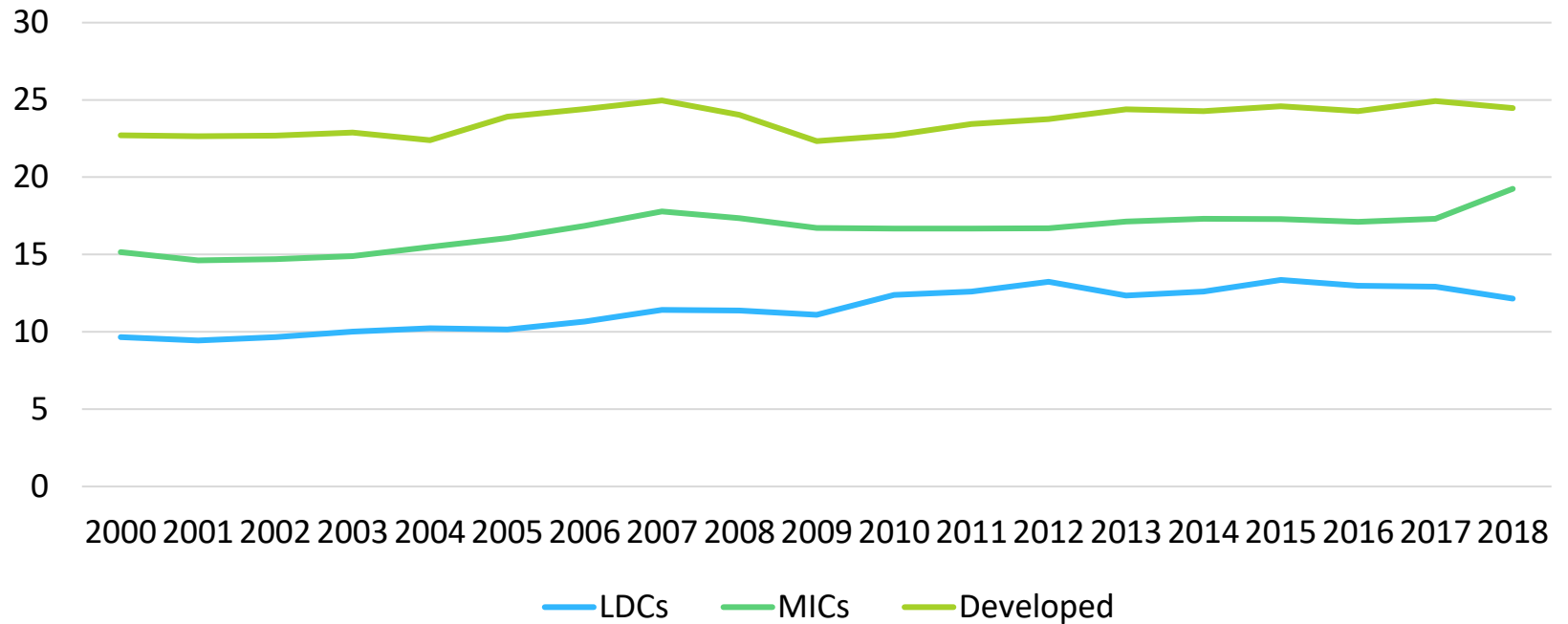


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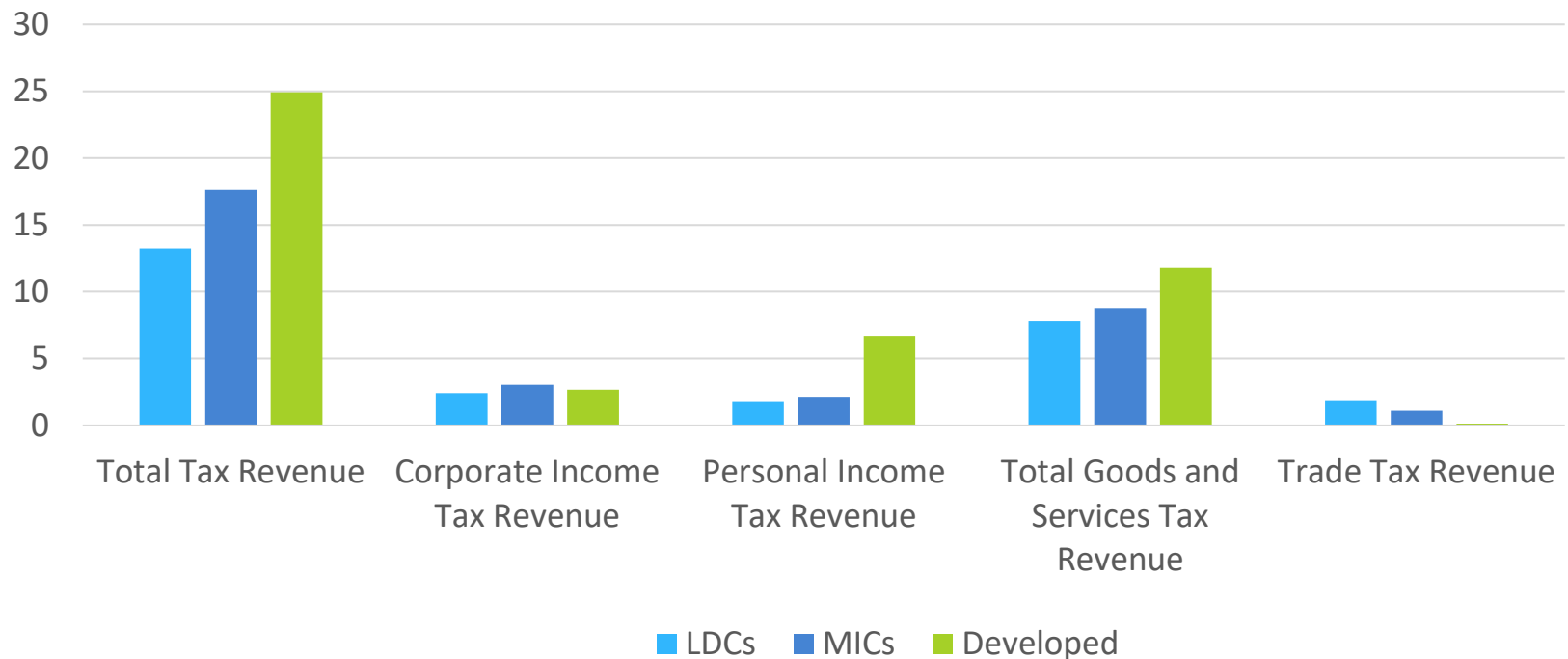
Thank You!



Median Tax Revenue by Country Group, 2000-2018 (Percentage of GDP)

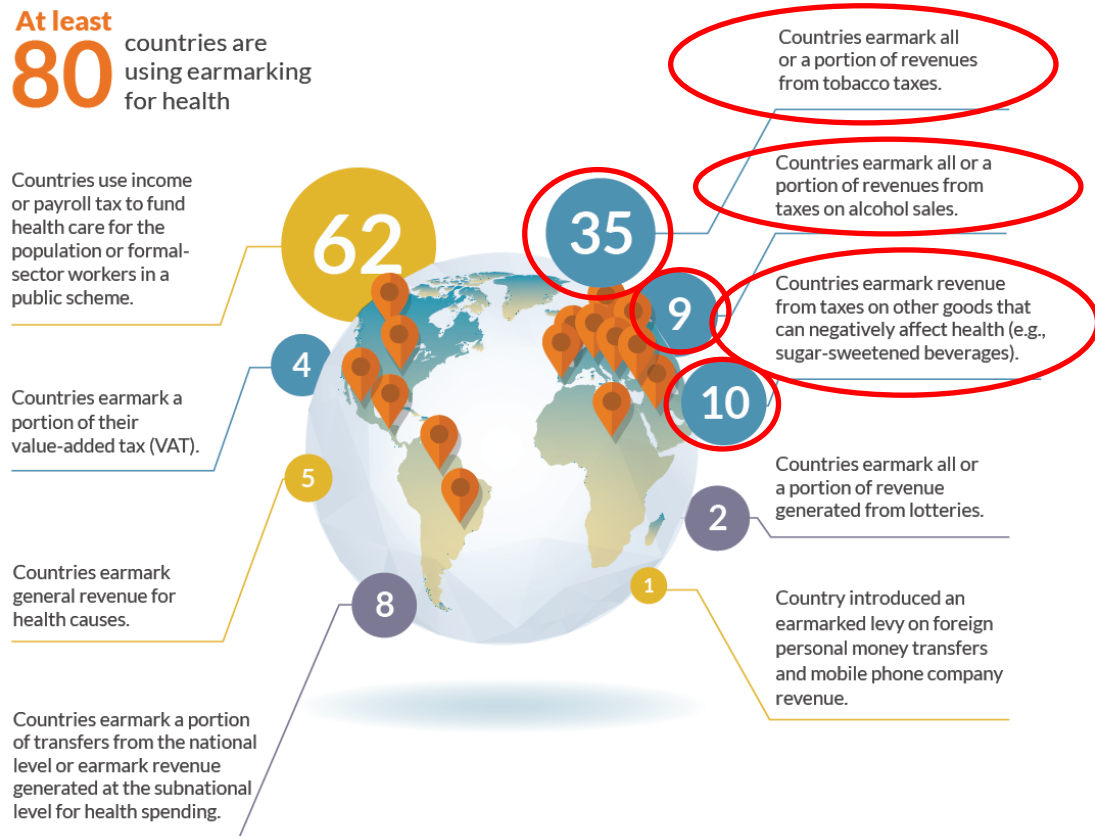


Median Tax Revenue by Type of Tax, 2017, Percentage of GDP



How countries use earmarking for health

At least **80** countries are using earmarking for health



Cashin C, Sparkes S, Bloom D. Earmarking revenues for health: in theory and in practice. Geneva: World Health Organization, 2017.

