

FILLING THE COFFERS POST-COVID THROUGH PRO-HEALTH TAXES



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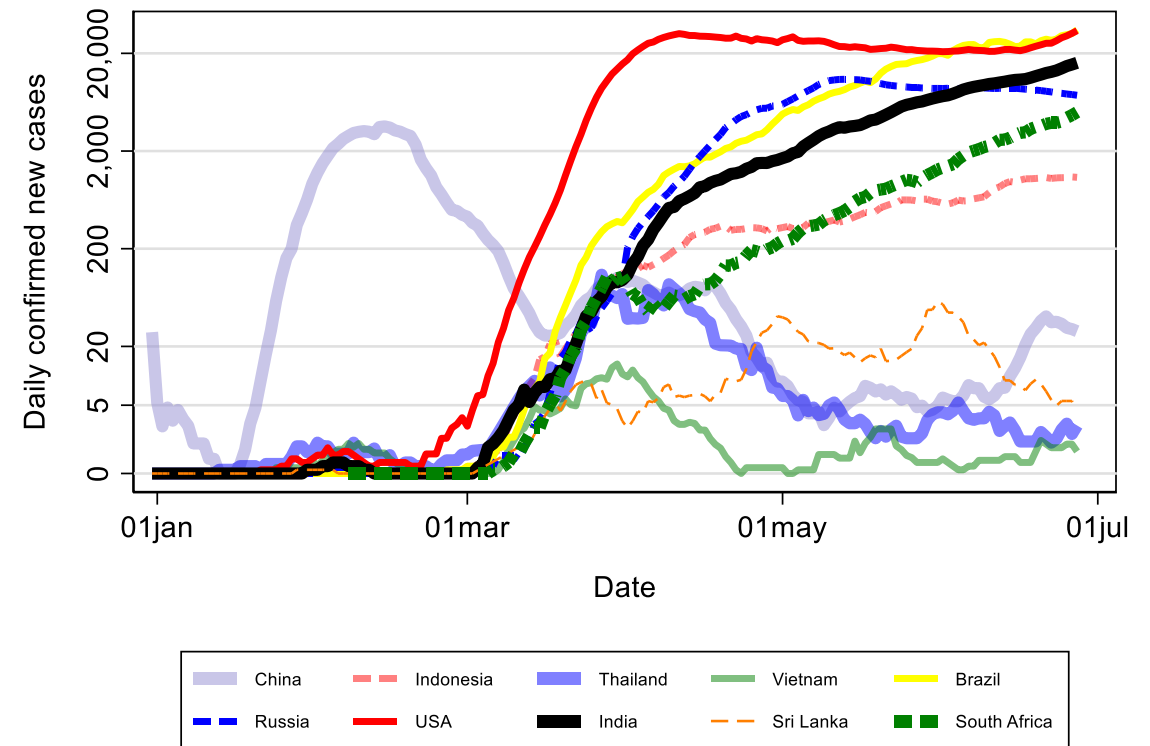
India: Country profile

Demography	
Population (in billion)	1.2
Decadal growth rate	17.7 %
Population density:per sq.km	382
Sex ratio	943
Population <35 years	67%
Literacy	73%
Economy	
Size (2019): US\$ trillion	2.9
Annual average growth rate	7.5%
Fiscal deficit as % of GDP (2019-20)	3.4%
Health	
IMR (2018)	32
MMR (2014-16)	130
TFR (2016)	2.3

- India is the **2nd most populous country** in the world after China
- Socio-demographic indicators **mask variations** across state, geography (rural and urban) and gender
- Per capita GDP projected to decline by **-6%**, one of the largest contractions the country has ever seen, and **-11%** compared to trend growth rates over 2009-2019.
- Revenue contraction also expected (**~2%** of GDP) as well as a rise in the overall deficit
- India's health system has made **significant progress** on many indicators
- But there are **large, persistent health gaps** among states
- Low levels of **public financing for health** and high levels of **out-of-pocket (OOP) financing** for health

COVID-19 in India: Current Situation

- Globally, pandemic has peaked in many countries and the **locus is shifting to South Asia** and Latin America.
- **India** has now overtaken Russia to have the third highest number of daily cases in the world (behind Brazil and USA).
- Incidence was **localized** to large extent in urban densely-populated clusters: Delhi, Mumbai, Chennai but is **spreading to rural areas**.
- Almost **16,500 deaths** in total due to COVID-19 in India to date. Per capita rates low in India.
- Transmission has **picked up** since the lockdown – one of the most stringent globally – was relaxed.



Source: Our World in Data
Note: y-scale in logs

Has COVID-19 stalled or fast-tracked reform processes?

- Country has witnessed significant reforms in the last 5 years:
 - Introduction of **Good and Service Taxes**
 - Transfer of all central funds through the **state treasuries**, instead of direct transfers to societies
 - **Increased tax devolution** to states (32% to 42%) providing greater flexibility to states
- Though COVID may have disrupted the economy, reforms are likely to continue:
 - Reforms in the economy, renewed focus on **local manufacturing** and production, **liquidity** support to industries, special packages for **micro, small and medium enterprises**
 - Commitments to **upscale public investments in health**, specially in secondary level hospitals, infectious disease management and pandemic preparedness, and public health laboratories
 - Unprecedented measures to shore **additional revenues** to account of shortfalls

Pro-health taxes prior to COVID - an overview

- **Health and education cess of 4%** is levied on individual income tax
 - Until 2016-17- 3% education cess was levied to which 1% cess was added for mobilizing additional resources for health and the ambit was widened to include health
 - The education and health cess and GST **is levied and collected centrally** by the Government of India
 - Actual collection is 2018-19 under this head was INR 43,315 crores (~ US \$ 6200 m)
- In 2016 **Kerala** was the first state in India to introduce **fat tax of 14.5%** on junk food
- **Different tax rates:**
 - GST on **caffeinated beverages** was increased from 18% to 25% + 12% cess in the 37th GST Council meeting in 2019
 - **Tobacco products:** 28% + up to 290% cess depending on the product
 - **Alcohol:** not brought under GST, but VAT and excise duty is applicable
 - **Sugary drinks:** 28%
- Taxes on **alcohol** are collected by **state governments** – this constitutes a large share of indirect taxes of the state

Increase in taxes on liquor post COVID - a snapshot

Almost 16 states have significantly increased taxes and excise duty on liquor to mobilize additional revenues.

States	Taxes
Andhra Pradesh	~ 75% hike in excise duty on alcohol: targeting additional revenue of US \$ 1285 m per annum
Arunachal Pradesh	25% increased cess on liquor: Estimated additional revenue of US\$ 120 m per annum
Assam	25% increased cess on liquor: Estimated additional revenue of US\$140 m per annum
Delhi	Special Corona Fee of 70% on MRP of liquor – mobilised approximately US\$ 30 m until the first week of June 2020. Later withdrawn. Instead VAT increased from 20% to 25%
Karnataka	6% hike on excise duty announced in the 2020-21 budget. In addition 11% COVID-19 fees has been levied.
Meghalaya	25% increased cess on liquor: Estimated additional revenue of US\$ 19 m per annum
Odisha	50% Special COVID-19 fee on MRP for the year 2020-21
Punjab	Additional excise duty of 20 cents to 70 cents depending on liquor brand – with a target of collecting additional INR 21m
Rajasthan	35% hike in excise duty on IMFL, 40 per cent on other liquor categories
Tamil Nadu	15% hike in excise duty on IMFL, with a target of collecting additional US\$ 357 m
Uttar Pradesh	14-70 cents on MRP, hoping to generate additional amount of US 336 m
Uttarakhand	Price of liquor increased by 30 cents to US\$ 3 per bottle

THANK YOU