



JOINT  
LEARNING  
NETWORK  
For Universal Health Coverage

Webinar Series Synthesis Report

# Filling the Coffers Post-COVID through Pro-Health Taxes

IN PARTNERSHIP WITH



# Filling the Coffers Post-COVID through Pro-Health Taxes

---

The COVID-19 pandemic has brought a glaring focus on the interdependency between health and economic security. Globally, countries are both mobilizing domestic resources and increasing their reliability on external financing to mitigate the economic shocks resulting from the pandemic. The health sector in many low and middle income countries is facing a disproportionate impact of the pandemic induced economic crisis due to decreasing tax revenues and increasing debt obligations; cumulatively adding to the fiscal pressure on public health expenditure. It is hence imperative for countries to explore designing different financing arrangements that can have multiple impacts on both revenue raising and social welfare, with particular relevance to pro-health taxes or health taxes as a policy instrument to fill revenue gaps.

In this webinar, international experts explored the potential of health taxes as a fiscal measure in meeting shortfalls in government revenues for financing health, as well as the secondary benefits that can arise from having these measures in place. Government experts from finance and health shared their experiences of champions and opponents of implementing Health taxes in their country. The event is second in a series co-hosted by The World Bank and The Global Fund. It is preceded by the “Economic Impact of the COVID-19 Pandemic: Implications for DRM for health” held in June 2020 on Fiscal and Monetary Policies in the COVID-19 Response: Exploring the effects on Health Financing.

## Lessons and Key Takeaways

- The COVID-19 pandemic has both a broad economic and health impact
- Globally, increasing fiscal pressures on governments due to decrease in public revenues, and offsets with deficit financing will increase debt obligations and further spur economic crisis and fiscal tightening
- Potential for more revenue generation from increases in tobacco and alcohol taxes, as well as novel (mainly excise) taxes such as on sugary drinks, plastic bags and fossil fuels.
- There are clear linkages between health taxation, increased government revenues and health outcomes
- Political economy factors are important in mobilizing health taxes
- Health taxes are proven to be net progressive, and illicit trade arguments are often overstated
- Soft earmarking is more beneficial than hard earmarking because it is closer to standard budgetary processes
- However, more health taxes don't necessarily mean more revenue for health

## Future Discussion

- How to structure earmarks with a focus on soft earmarking and designing appropriate tax structures and frameworks suitable for country specific conditions
- Enabling collaboration between Ministry of Health and Ministry of Finance in a fiscal constrained environment

Webinar recording can be accessed [here](#) | Background Materials can be accessed [here](#)

### Opening Remarks

- Dr. Ajay Tandon, Lead Economist, World Bank
- Dr. Somil Nagpal, Senior Health Specialist, World Bank

### Overview Presentation

- Dr. Michael Borowitz, Chief Economist, The Global Fund
- Dr. Kate Mandeville, Senior Health Specialist, World Bank
- Ms. Ceren Ozer, Senior Governance Specialist, World Bank
- Dr. Evan Blecher, Economist, World Health Organization

### Country Discussants

- Mexico - Dr. Adolfo Martinez Valle, Professor and researcher at the Policy, Population and Health Research Center of the National Autonomous University of Mexico and the Convener of the Joint Learning Network
- Philippines - Dr. Eduardo P. Banzon, Principal Health Specialist, Asian Development Bank
- India - Ms. Sheena Chhabra, Senior Health Specialist, World Bank

### Commentary

Dr. Meera Shekar, Global Lead on Nutrition, World Bank

### Closing Remarks

Dr. Toomas Palu, Adviser on Global Health Coordination, World Bank



## DISCUSSION

Sugar, rum and tobacco, are commodities which are no where necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation. ....”

Adam Smith an Inquiry into the Nature and Causes of The Wealth of Nations, Book V, Chapter III, pages 474-476, 1776; edited by Edwin Canaan, 1976 (emphasis added)

Even before the pandemic, general government revenues were relatively low in many low and middle-income countries. Tax revenue collection rates are especially low, often far below the 15% of GDP benchmark that has been identified as necessary for sustainable growth and development across countries. Shortfalls in revenue collection are due to challenges in collection of both ‘direct’ taxes (e.g., taxes on income and profits) as well as ‘indirect’ taxes (e.g., taxes on consumption of goods and services). Improving tax revenue collection can occur on a number of fronts, including efficient design and implementation of value-added taxes, improving property taxation, and increasing the base for taxing income from firms and individuals. It is also an opportune time for countries to consider significantly ramping up ‘pro-health taxes or health taxes’. “Health taxes”, sometimes known as sin taxes, are taxes imposed on products that have a negative public health impact, such as taxes on tobacco, alcohol, sugar-sweetened beverages- and can even extend to environmental taxes on pollution that damage health (fossil fuels) or social security contributions that are levied in relation to health. The primary objective of introducing a health tax is to improve population health through reduced consumption of unhealthy products. The secondary objective to raise overall government revenues, Importantly, a health tax does not necessitate that related revenue is earmarked for the health sector.

The economic justification of health taxes or taxing unhealthy products such as alcohol, tobacco and sugar sweetened beverages (SSBs) is well established, and includes the market failures inherent in their consumption, including externalities (e.g. healthcare costs to society), internalities (individuals’ discounting of later costs), and information asymmetry (lack of awareness of risks, pervasive marketing, and industry-influenced research distorting decision-making) Their contribution to the disease burden on account of growing consumption particularly in low- and middle-income countries is a strong rationale behind health taxes. In addition, the pursuit of Universal Health Coverage (UHC) involves significantly reducing out-of-pocket payments and guaranteeing financial and social protection; and is fundamentally based on the country’s capacity to raise general revenue.

Health taxes are garnering significant support in the international community as an untapped potential for plugging revenue shortfall in the times of serious fiscal crunch caused due to COVID-19 economic crisis. The main arguments raised by the global panelists in the webinar were to make a strong case for utilizing health taxes as an effective policy instrument to overcome market failures. It was also discussed that health taxes can promote healthy behaviour and generate significant revenues in challenging tax administrations, low capacity and current cash strapped environments. The Bloomberg – Summers Task Force for Fiscal policy on Health estimated the impact of a 20% and 50% increase in health taxes as below (See table 1):

Table 1: The Bloomberg – Summers Task Force for Fiscal policy

	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
<b>Tobacco</b>	1,987	3,625	160,724	401,836	80,888	110,851
<b>Alcohol</b>	9,428	17,778	227,421	546,745	24,122	30,754
<b>SSB</b>	724	952	24,355	59,762	33,640	62,775

The South African experience was raised by presenters to demonstrate that health taxes are a noteworthy contributor to government revenue: Excise tax revenues from alcohol, tobacco products SSB's accounted for 3.6% of total government revenue in 2020/2021. Estimates of potential revenue are projected to be larger in low income countries, and countries can experiment with various tax designs such as specific taxes, ad valorem taxes, or some combination of the two (mixed or hybrid systems). The effectiveness of the tax design is largely dependent on the accountability and transparency of the tax administration agency as well as their technical and human capacity to implement. The presenters also made a very strong case for soft earmarking revenue proceeds from health taxes as opposed to hard earmarking that potentially reduces fiscal flexibility since it follows 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. Although, earmarking revenue from health taxes reduces fiscal flexibility, but soft earmarking may support political economy by supporting consensus building among citizenry and promoting citizen engagement in the budget process hence improving transparency and flexibility.

The panelists also countered arguments that implementing health taxes encourage illicit trade and are regressive. There is significant evidence that when medical expenses and gains in working life are taken into account, health taxes are generally progressive in the long-term, hence rendering the arguments against health taxes unsubstantiated.

The webinar greatly benefitted from the country experiences of **Mexico, Philippines and India** where the discussants shared experiences of champions and opponents in the implementation of health taxes in their countries.

The **Mexican** congress passed legislation imposing taxes on SSBs and energy-dense foods of low nutritional value to counter the looming health crisis due to increasing obesity levels in the population as well as generate tax revenues in parallel. These taxes have been successful in increasing revenues and reducing consumption by raising the price of the products taxed. Although traditionally, there has been strong political will to allocate more resources to health including higher earmarked taxes, the recent pandemic makes it highly unlikely for the Mexican congress to reverse the downward trend in health taxes that has been seen in the past 2 years.

Table 2: Health Taxes Implemented in Mexico

Current health taxes implemented: three examples					
Product	IEPS*(special Consumption Tax)	Expected revenues (US\$ billions)	Effects on Consumption	Earmarked for health	Annual consumption rates (<15 years of age)
Beverage with alcohol 14% - more than 20%	25-50% of retail price	NA	NA	General government health spending	4.4 liters per capita
Cigarettes, cigars and other tobacco (2010)	69% of retail price	2.5	-4.66%	General government health spending	7.7 cigarettes (daily)
Sugar-sweetened beverages (2014)	10% of retail price	1.3	-0.89%	Revenue generating purposes rather than for health	163 liters per capita

\* IEPS: Special tax for production and services

The **Philippines Sin Tax Law (STL)** of 2012 raised and simplified tobacco and alcohol excises, increasing government revenues, and helped the Philippines move towards UHC. The initial legislation allowed for an 80% allocation of incremental STL revenue to National Health Insurance Program and the remaining towards medical assistance and Health Facilities Enhancement Program (HFEP), which funds additional infrastructure investments in underserved areas. However, although recent revised legislations (TRAIN law) allowed for an increase in tax revenues, it has become difficult to track the increased incremental sin tax revenue and its allocation to the health sector. Going forward, open and systematic monitoring will be critical to the success of the STL and ensuring its effective implementation.

Table 3: Health taxes Legislation in Philippines

**Incremental Revenues for UHC and Health**

**Republic Act 10351**

Sec. 8 (C): "After deducting the allocations under Republic Act Nos. 7171 and 8240, ...

Eighty percent (80%) of the remaining balance for:

- **Universal health care (UHC) under the National Health Insurance Program (NHIP)**
- Attainment of the Millennium Development Goals
- Health awareness programs

Twenty percent (20%) for:

- Medical assistance
- **Health Enhancement Facilities Program (HEFP)** funds health facility construction and renovations, and medical equipment

**Republic Act 10963**

Not more than **seventy percent (70%)** to fund:

- Infrastructure projects such as, but not limited to, the Build, Build, Build Program
- Military infrastructure
- **Sports facilities for public schools**
- **potable drinking water supply in all public places...**

**Part of the remaining thirty percent (30%)** may fund social mitigating measures and investments in **health, targeted nutrition**, and anti-hunger programs for mothers, infants, and young children, among others.

Although there are state variations, the COVID-19 pandemic has to large extent fast-tracked the **Indian** government's commitment towards fiscal reforms with regards to the health sector particularly the Goods and service tax (GST) that channels central funds through state treasuries, allowing for greater flexibility in the state role in allocation of funds for health care. This is significant since health is a state subject in the federal context. The health and education cess tax revenue that is 4% of individual income tax was approximately US \$ 6200 million in 2018-19. India has been ambitious with its health taxes on caffeinated beverages, tobacco products, alcohol and sugary drinks by imposing high tax structure on such products. Interestingly, the state of Kerala has also imposed 14.5% tax on junk food. Since alcohol taxes constitute a significant proportion of indirect state tax revenue, almost 16 states have notably increased the existing taxes and excise duty on liquor to mobilize additional Covid revenue with Andhra Pradesh state hiking 75% excise duty on alcohol.

*Table 4: State-wise post COVID Pro-Health Taxes*

#### **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 maximum retail price (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

The table below summarizes the efforts of the countries efforts in the implementation of health taxes, the revenue raised and the impact of the revenue on public spending for health, if any.

*Table 5: Overview of DRM Efforts by Country*

Country	DRM Effort	Impacts of revenue on target	Impacts on public spending for health	References [LINK/QR CODE]
Mexico	Special Consumption Tax earmarked for central government health spending imposed on beverages, tobacco (2010) and SSB (2014)	Increase in revenue collection for the government	Currently, revenue collected from these taxes is not set aside for any particular type of expenditure.	World Bank Discussion Paper 2016
Philippines	Sin Tax Law, 100% incremental alcohol tax revenue and 85% incremental tobacco tax revenue (2012)  RA 10963 or The Tax Reform for Acceleration and Inclusion (TRAIN law) (passed 2018)	80% of incremental revenues goes to premium for poor and 20% to DOH. Increased DOH budget fourfold from 2012-2018  Under the new TRAIN law not more than seventy percent (70%) to fund infrastructure projects and part of the remaining thirty percent (30%) may fund social mitigating measures and investments in health, targeted nutrition, and anti-hunger programs for mothers, infants, and young children, among others.	Sustained reprioritization: Public spending per capita increased from US\$20 per 2012 to US\$41 in 2016	WHO Earmarking for Health, 2017  JLN blog post
India	Health and education cess of 4% is levied on individual income tax  Goods and Service Tax (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%	Health and education cess collection in 2018-19 was ~ US \$ 6200 m	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.  Unclear on the allocation of GST revenue from SSB, alcohol and tobacco	<a href="https://www.gst.gov.in/">https://www.gst.gov.in/</a>

In conclusion, what remains important is to ensure that any incremental revenues are directed towards improving human capital outcomes as far as possible. There is also tremendous scope for research and discussion amongst global counterparts in the health and finance departments regarding designing appropriate tax frameworks and structures suitable for country specific environments.





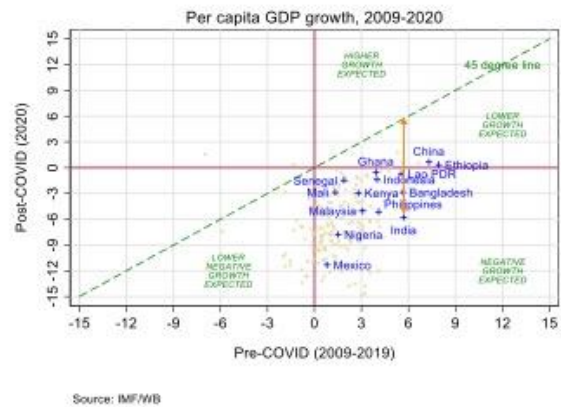
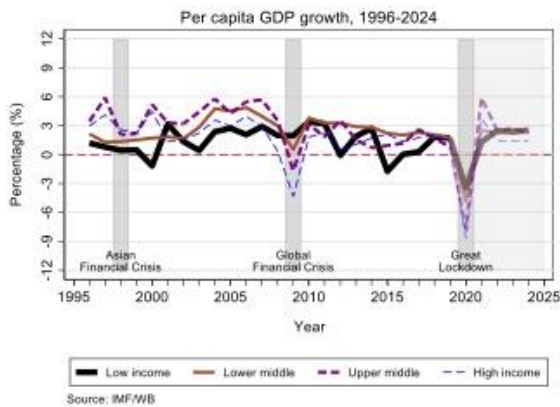
## Annex.1: Webinar Presentations

# Economic Impact of COVID-19 on Fiscal Space

Ajay Tandon  
 Lead Economist  
 Global Practice on Health, Population, Nutrition  
 World Bank  
 July 2020



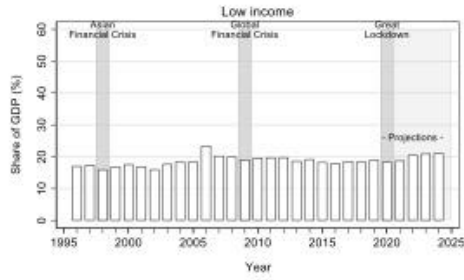
## Deep Global Economic Contraction is Occurring



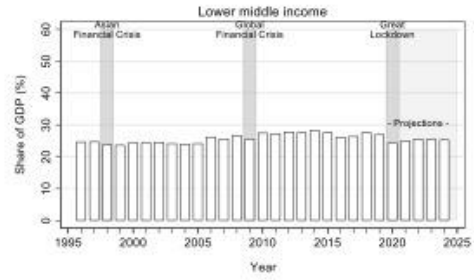
Unemployment and poverty rates expected to rise; sectors such as tourism, hospitality, trade may continue to be affected longer; adverse effect on household income, public revenues; income inequality expected to increase...non-COVID health service utilization also declining.



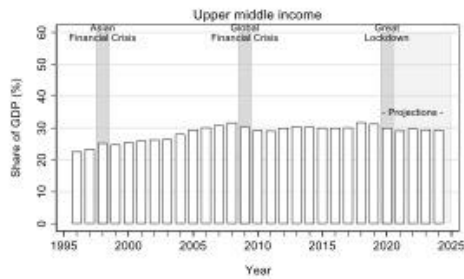
Projected Impact on Public Revenues



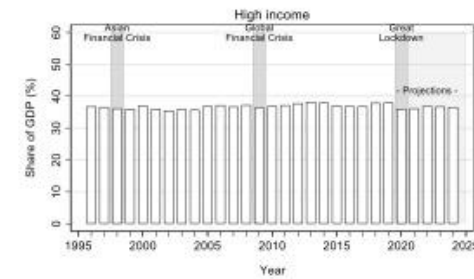
Source: IMF/WB



Source: IMF/WB

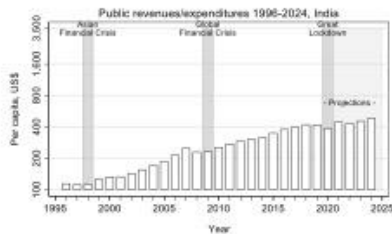


Source: IMF/WB

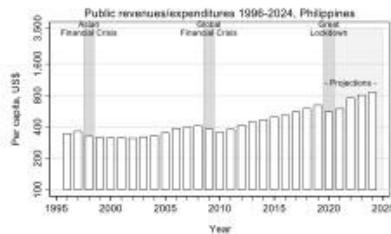


Source: IMF/WB

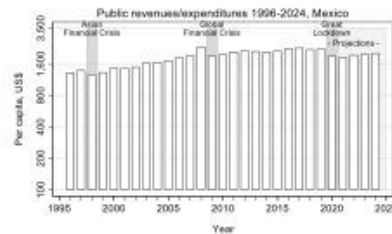
Projected Impact on Per Capita Public Revenues



Source: IMF/WB. Note: y-scale logged

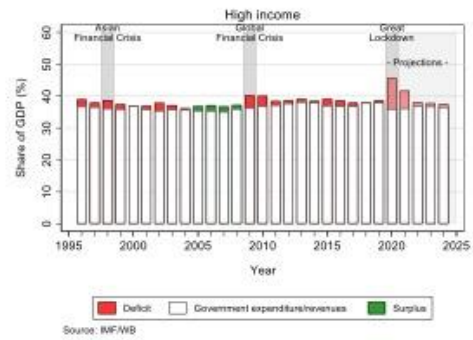
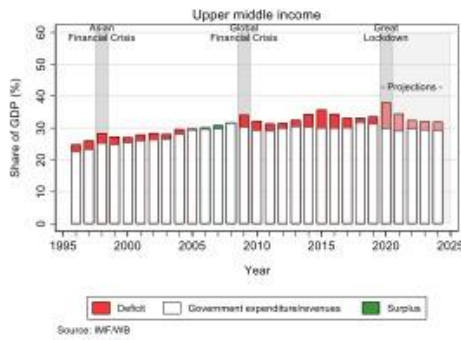
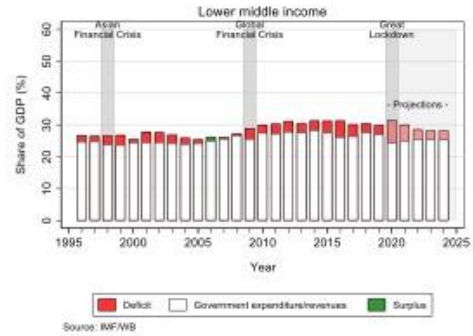
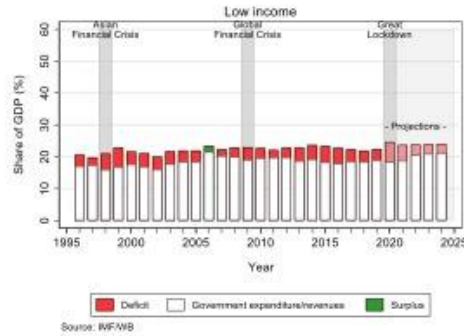


Source: IMF/WB. Note: y-scale logged

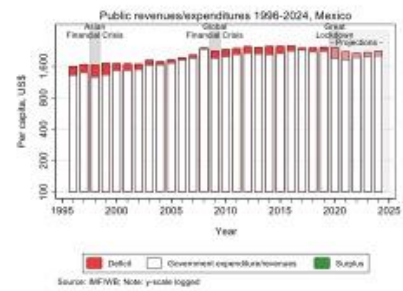
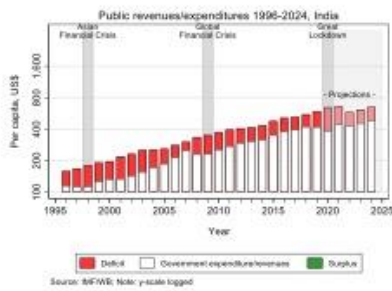


Source: IMF/WB. Note: y-scale logged

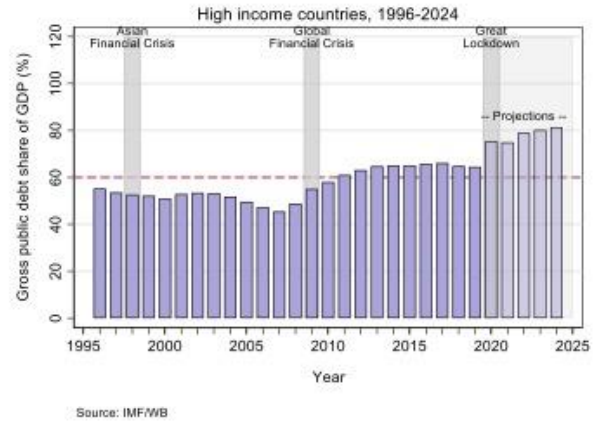
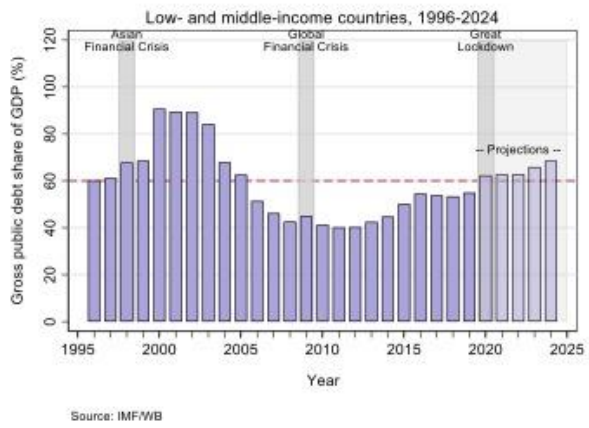
Projected Impact on Public Financing



Projected Impact on Per Capita Public Spending



## Public Debt Levels Expected to Increase



Public debt levels expected to cross **60%** of GDP in low- and middle-income countries, and **70%** of GDP in high-income countries



## Summary: A Crisis for Health Financing

A massive global economic contraction is occurring: causing a rise in unemployment, poverty, inequality as well as declining public revenues, remittances, and household incomes

Most countries have significantly increased borrowing to mitigate the effects of the crisis; as a result, rising debt levels will likely imply fiscal pressures for many years to come

Without pro-active reprioritization, public financing for health will stagnate/decline across many low- and middle-income countries, risking reversal of years of progress made towards UHC

Cutting unproductive spending, increasing public revenues (including via pro-health taxes), and debt relief measures will all be needed to be looked as possible options for fiscal space, including for health



# Filling the Coffers Post-COVID through Health Taxes

Ceren Ozer (World Bank), Kate Mandeville (World Bank), Evan Blecher (World Health Organization), Michael Borowitz (The Global Fund to Fight AIDS, Tuberculosis, and Malaria)

The Joint Learning Network

July 2, 2020



## 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



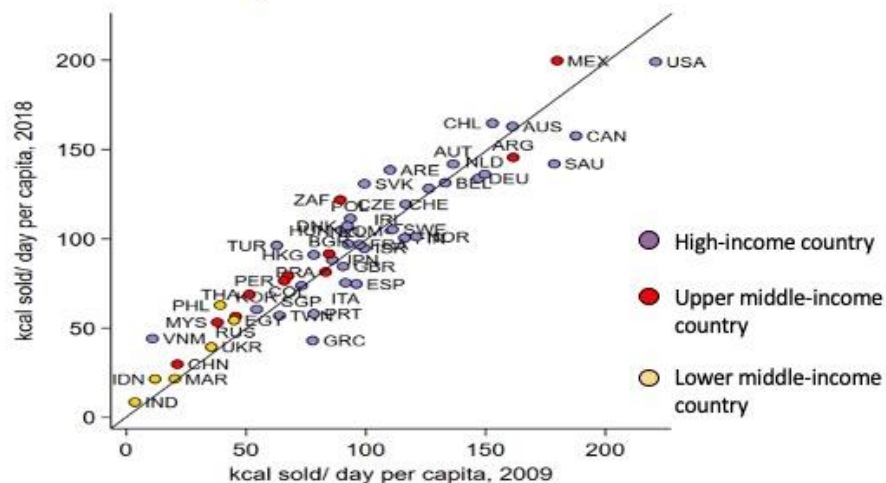
## What's the link between taxes and health?

- 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...

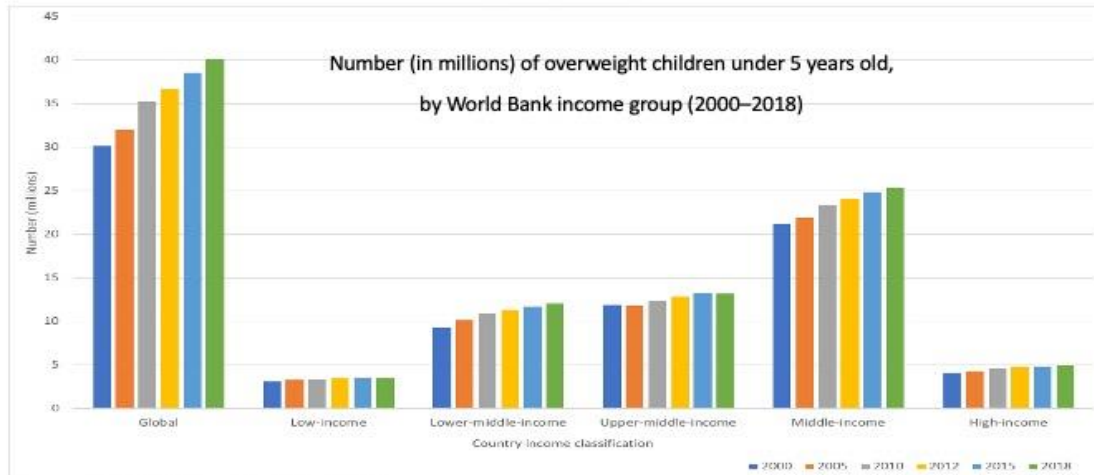
Calories sold per capita per day from sugary drinks in 2018 versus 2009, by World Bank income group



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



## 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.”*

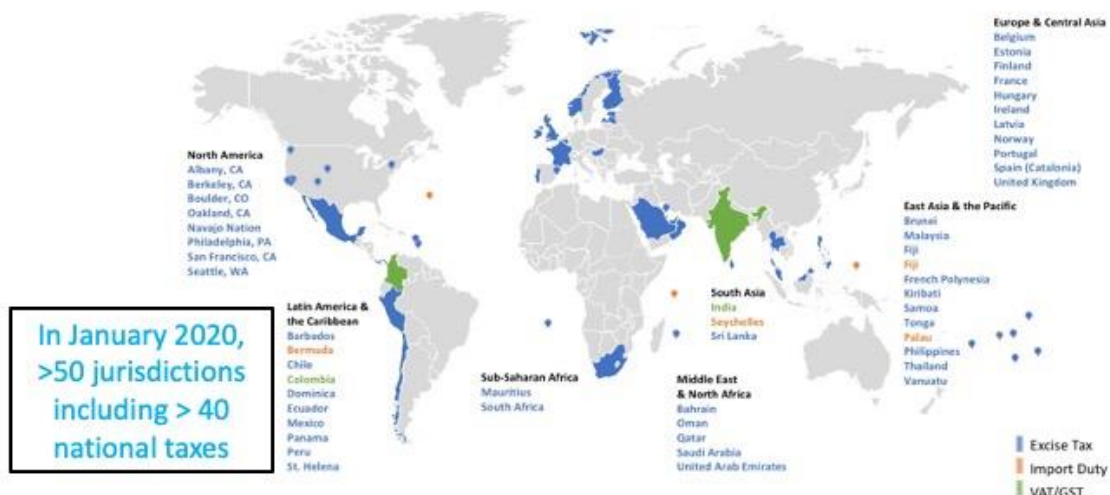
MIKE BLOOMBERG

	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
<b>Tobacco</b>	1,987	3,625	160,724	401,836	80,888	110,851
<b>Alcohol</b>	9,428	17,778	227,421	546,745	24,122	30,754
<b>SSB</b>	724	952	24,355	59,762	33,640	62,775

Source: Summan et al., 2020



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

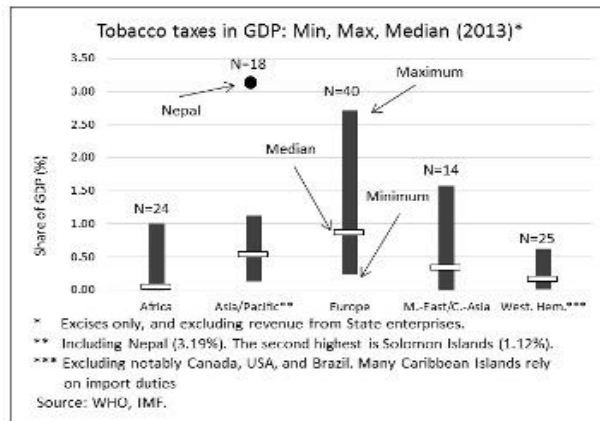


Source: World Bank. 2020. Taxes on Sugar-Sweetened Beverages: Summary of International Evidence and Experiences. World Bank.



## ..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

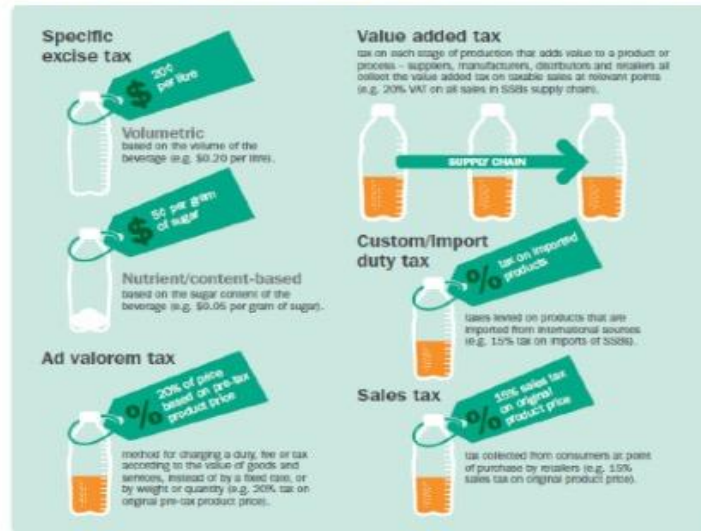


## With COVID-19, the time is health taxes is now

- 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...

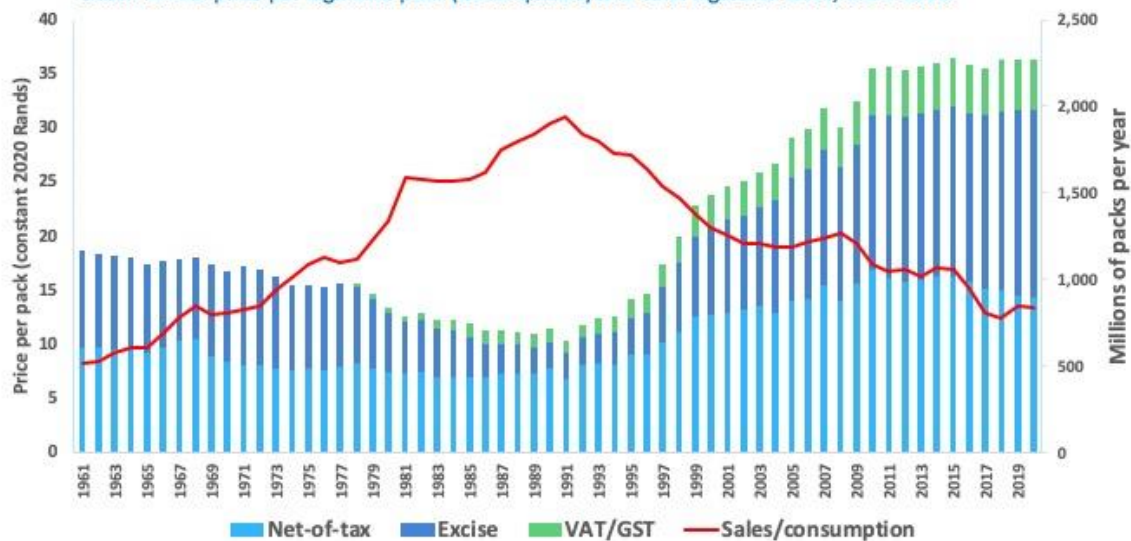


Source: World Cancer Research Fund International (2018). Building momentum: lessons on implementing a robust sugar sweetened beverage tax.



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

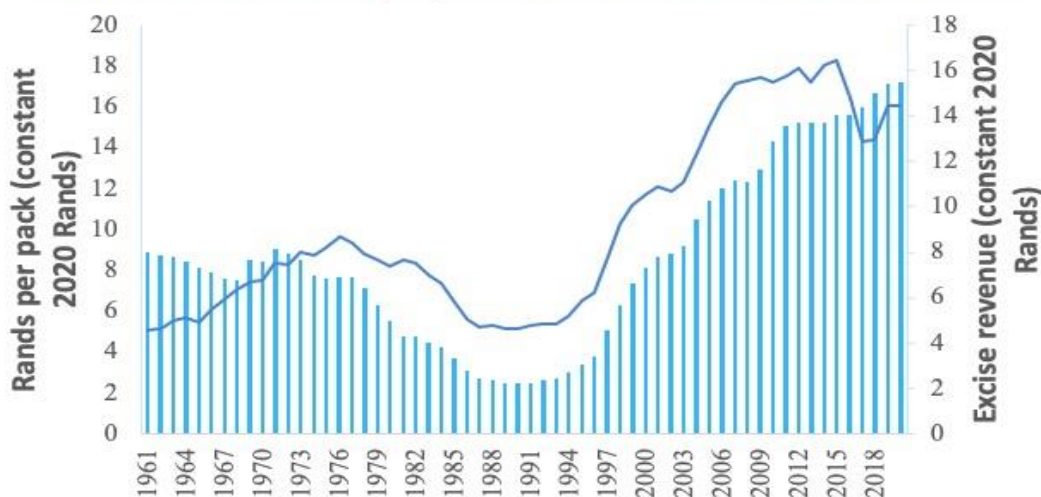
South Africa: price per cigarette pack (decomposed) and total cigarette sales, 1961-2020



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	1.8	2.3%
Wine	5.3		
Spirits	9.3		
Cigarettes	14.5	0.9	1.1%
Other tobacco	0.4		
SSBs	-	0.2	0.2%
Liquid fuels	-	4.9	6.2%
Plastic bags	-	0.0	0.0%

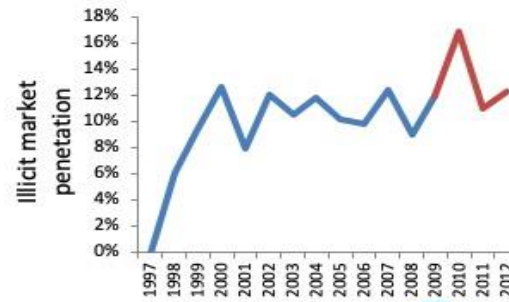
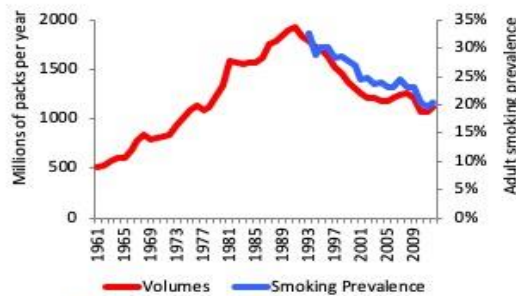
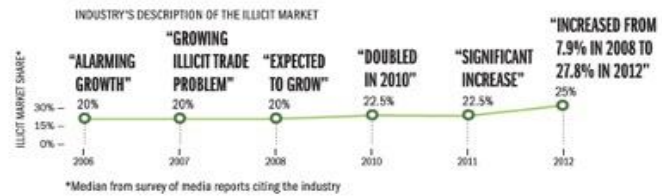
Source: National Treasury, Budget Review (2020)



## 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)



## 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%
	<b>Net effect</b>	<b>0.91%</b>	<b>0.51%</b>	<b>0.39%</b>	<b>0.42%</b>	<b>0.37%</b>	<b>-0.01%</b>	<b>0.05%</b>	<b>-0.04%</b>	<b>-0.11%</b>	<b>0.04%</b>

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

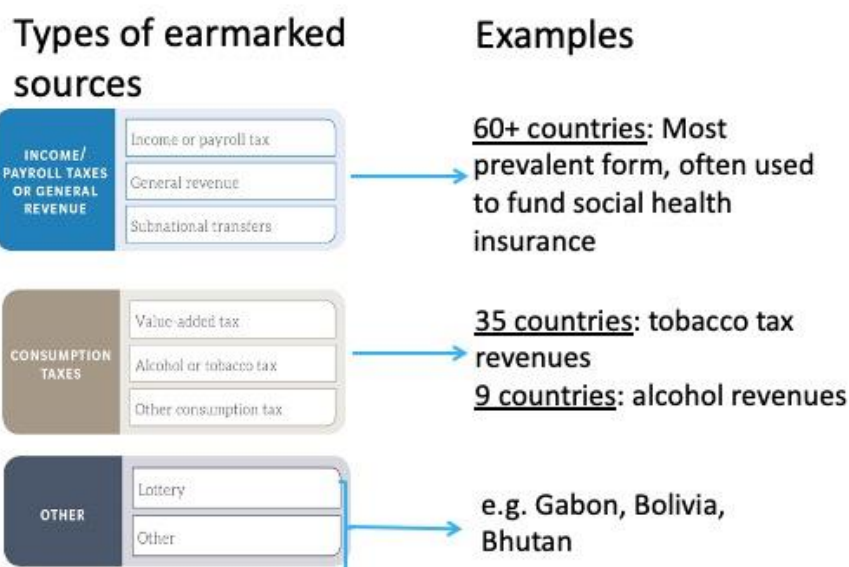


## Does earmarking make health taxes more effective?

- **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?



Source: Sparkes, Cashin and Bloom, WHO Symposium on Health Financing for UHC, 2017



---

## 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





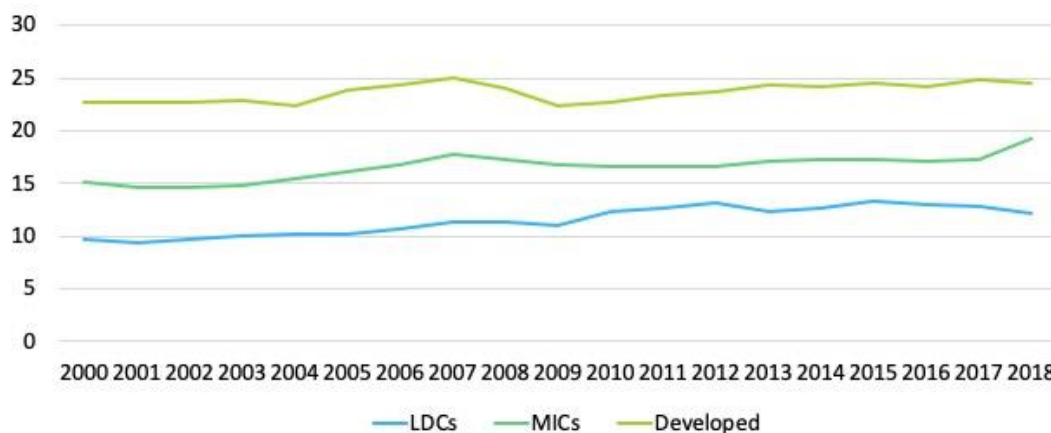
# Filling the Coffers Post-COVID through Health Taxes

## Thank You!

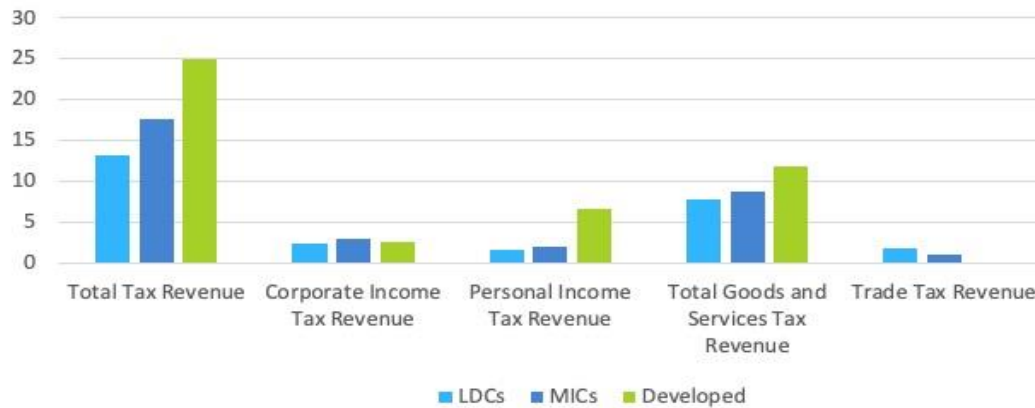
For more information, see the JLN Health Taxes Knowledge Package



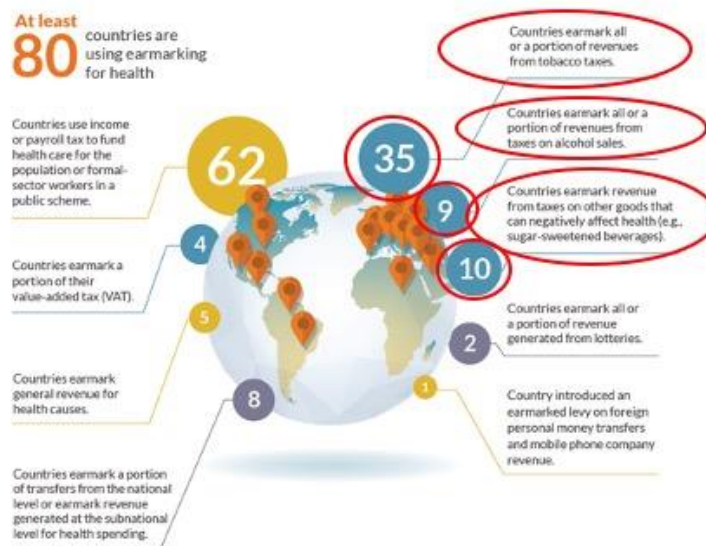
Median Tax Revenue by Country Group, 2000-2018 (Percentage of GDP)



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



## How countries use earmarking for health



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



Country Discussants:

Philippines

## Sin and sugar taxes for UHC

- **Republic Act (RA) 10351 (passed 2012)**
  - **Rationalized and increased** excise taxes for tobacco and alcohol products (fermented liquors, distilled spirits and wines)
- **RA 10963 or The Tax Reform for Acceleration and Inclusion (TRAIN law) ( passed 2018)**
  - Increased excise taxes on tobacco and alcohol products, and **sweetened beverages**
    - 0.12 USD Per liter for beverages sweetened with caloric or non-caloric sweeteners (except high fructose)
    - 0.24 USD per liter for beverages sweetened with high-fructose corn syrup.
- **RA11346 (passed in 2019)**
  - increased excise taxes on cigarettes, **vapes, and e-cigarettes**; and alcohol products
  - Continued the allocation of Universal Health Care (UHC) of RAs 10351 and 10963

1

## Incremental Revenues for UHC and Health

### Republic Act 10351

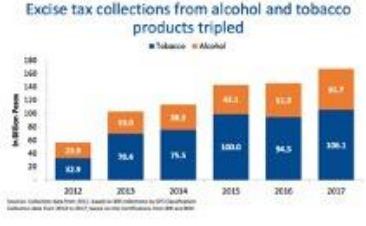
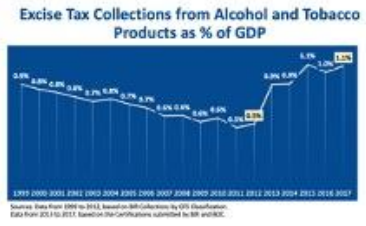
Sec. 8 (C): "After deducting the allocations under Republic Act Nos. 7171 and 8240, . . .

- **Eighty percent (80%)** of the remaining balance for:
  - **Universal health care (UHC) under the National Health Insurance Program (NHIP)**
  - Attainment of the millennium development goals
  - Health awareness programs
- **Twenty percent (20%)** for:
  - Medical assistance
  - **Health Enhancement Facilities Program (HEFP)**
    - funds health facility construction and renovations, and medical equipment

### Republic Act 10963

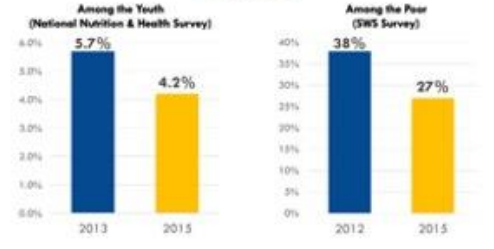
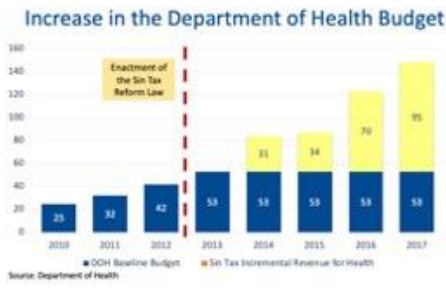
- Not more than **seventy percent (70%)** to fund:
  - Infrastructure projects such as, but not limited to, the Build, Build, Build Program...
  - Military infrastructure
  - **Sports facilities for public schools**
  - **potable drinking water supply in all public places..."**
- **Part of the remaining thirty percent (30%)** may fund social mitigating measures and investments in **health, targeted nutrition**, and anti-hunger programs for mothers, infants, and young children, among others.

2



Revenues collected from the excise tax on SSB have reached P26.6bn (US\$12.8bn) in 2018 and P14.9bn (US\$287.2mn) from January to June

Smoking prevalence among the young and poor decreased



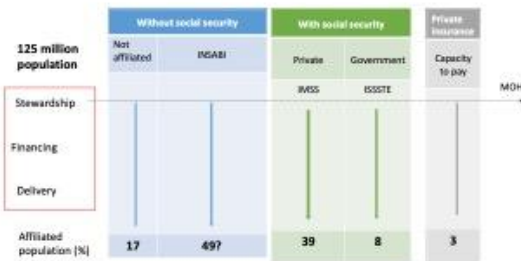
Mexico:

## COVID-19: An opportunity for implementing pro-health taxes in Mexico?

Dr. Adolfo Martínez Valle

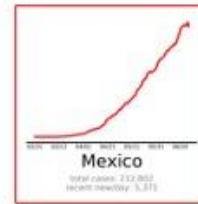
## Background: Mexico in a snapshot

### Fragmented and underfunded health care system



Key indicators	
Life expectancy	72.2 years
Overweight and obesity	72 %
Spending	1,138 US\$
Public as % of GDP	2.5
Out-of-pocket	43%

### COVID-19 pandemic



- Tax revenue collection rate is 14.6% GDP on average in the last decade
- Economic effects will lead to deep recession in 2020
- Nearly 21,000 US \$ income per capita
- Nearly half of population living in poverty will increase
- Government's delay in introducing social distancing & reluctance to provide fiscal stimulus will worsen the economic situation

## Current pro-health taxes implemented: three examples

\*IEPS: Special tax for production and services

Product	IEPS* (Special Consumption Tax)	Expected revenues (US\$ billions)	Effects on consumption	Earmarked for health	Annual consumption rates (<15 years of age)
Beverage with alcohol 14% - more than 20%	25-50% of retail price	NA	NA	General government health spending	4.4 liters per capita
Cigarettes, cigars and other tobacco (2010)	69% of retail price	2.5	-4.66%	General government health spending	7.7 cigarettes (daily)
Sugar-sweetened beverages (2014)	10% of retail price	1.3	-0.89%	Revenue generating purposes rather than for health	163 liters per capita

## COVID-19: a window of opportunity?

### Favor

- There is political will to allocate more resources for health through this type of taxes
- Other sources of revenues are not feasible after the COVID-19 impact on the economy
- Congress is currently discussing options, including higher earmarked taxes

### Against

- Although COVID-19 has risen the need to allocate more resources for an underfunded health system, the federal government has not reverted the downward trend in its two years in office
- Moreover, the federal government has other priorities

India:

## FILLING THE COFFERS POST-COVID THROUGH PRO-HEALTH TAXES



*Sheena Chhabra*  
*Senior Health Specialist*  
*Global Practice on Health, Population, Nutrition*  
*World Bank*

JLN for Universal Health  
 Thursday, July 2, 2020

## India: Country profile

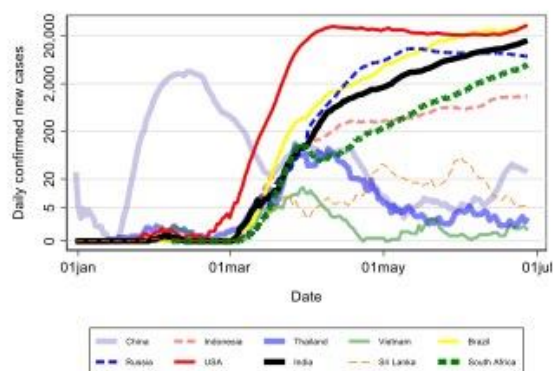
Demography	
Population (in billion)	1.2
Decadal growth rate	17.7 %
Population density:per sq.km	382
Sex ratio	943
Population <35 years	67%
Literacy	73%
Economy	
Size (2019): US\$ trillion	2.9
Annual average growth rate	7.5%
Fiscal deficit as % of GDP (2019-20)	3.4%
Health	
IMR (2018)	32
MMR (2014-16)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

Current tobacco use among adults: 28.6% (males: 42%, females: 14%); WHO: GATS 2016-17; Alcohol use (15-49 years): Men:29.2%; Women: 1.2 % NFHS-4 2015-16





## 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

## Annex.2: List of Participants

1. Abdoulaye Gueye
2. Aditi Nigam
3. Adolfo Martinez Valle
4. Agnes Munyua
5. Ajay Tandon
6. Ali Hamandi
7. Andrew Blazey
8. Angeli Vigo
9. Anne Musuva
10. Anthony Gomes
11. Atikah Adyas
12. Bev Johnston
13. Ceren Ozer
14. Danielle Elena Bloom
15. Ding
16. Ebum Okunuga
17. Eduardo Banzon
18. Edward Owino
19. Eka Yoshida
20. Ellen Van De Poel
21. Esther
22. Eugene Adu Afari
23. Evan Blecher
24. Francis Ukwuije
25. Geir Lie
26. Gioia de Melo
27. Hasbulla Thabrany
28. Hyeseung Wee
29. Ilker Dastan
30. Ingvar
31. Intan Syafinaz
32. Jahanzaib Sohail
33. Jo Birckmayer
34. Karima Saleh
35. Kate Mandeville
36. Khamiar Khajavi
37. Kumiko
38. Lauren Oliveira Hashiguchi
39. Leslie K. Elder
40. Manjiri Bhawalkar
41. Martin Mpungu Lutalo
42. Meera Shekar
43. Michael Borowitz
44. Modupe Ogundimu
45. Norman Maldonado
46. Nosheen Khawar
47. Nuri Ahmed
48. Pandu Harimurti
49. Patrick Hoang-Vu Eozenou
50. Peter Cowley
51. Rajeswaran Palanisamy
52. rjowalumbe
53. Rozenn Lementec
54. Rozita Halina
55. Samuel Kinyanjui
56. Sheena Chhabra
57. Somil Nagpal
58. Thomas Maina
59. Tomas Roubal
60. Toomas Palu
61. Valeria de Oliveira Cruz
62. Viengxay Viravong
63. Vrishali Shekhar
64. Y-ling Chi

The World Bank's support to the Joint Learning Network for UHC is made possible with financial contributions from the following partners:



BILL & MELINDA  
GATES *foundation*



THE  
ROCKEFELLER  
FOUNDATION

[JOINTLEARNINGNETWORK.ORG](http://JOINTLEARNINGNETWORK.ORG)



**JOINT  
LEARNING  
NETWORK**

For Universal Health Coverage