

Tax Policy Design

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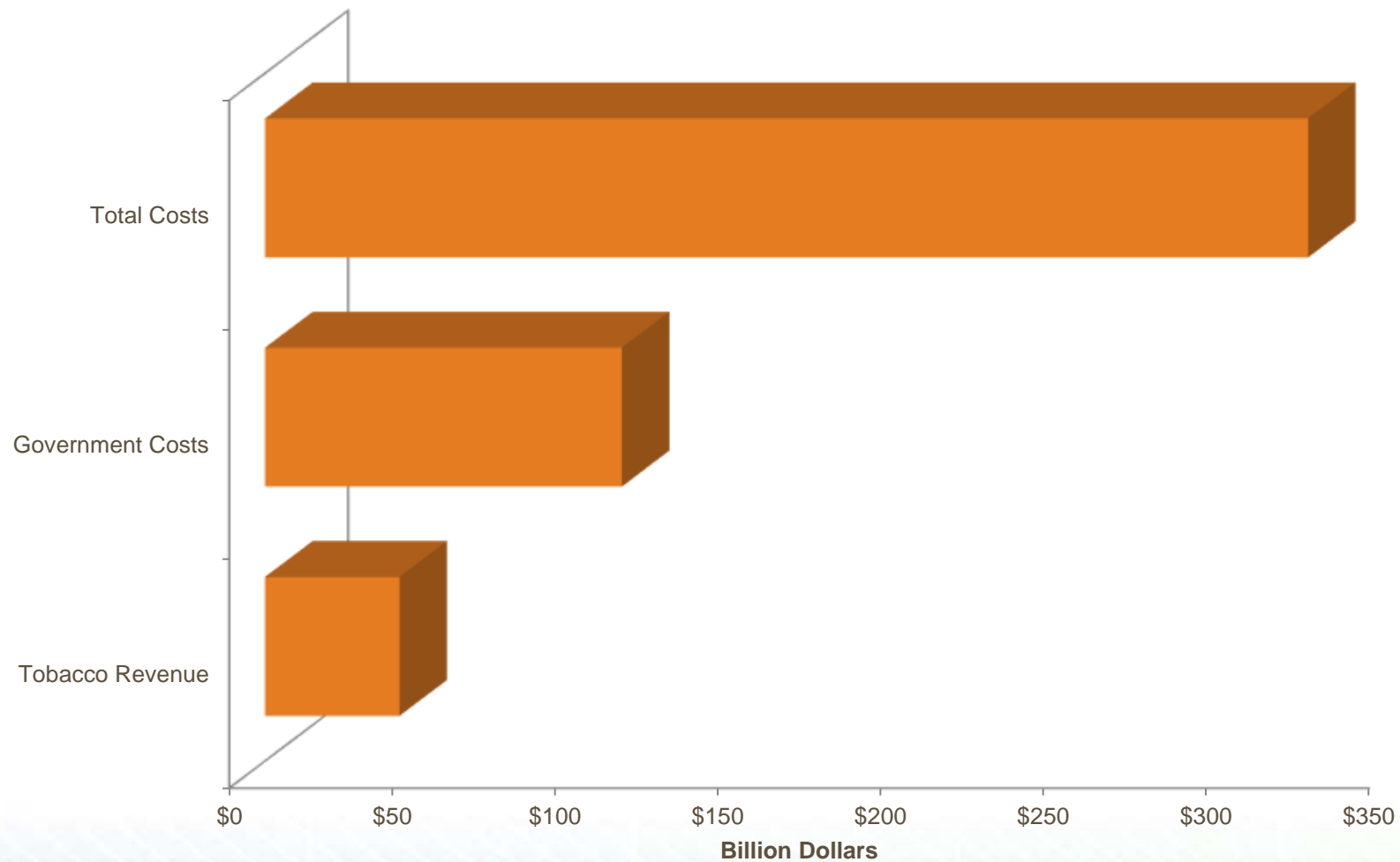
Health Taxes: Policy and Practice
Global Tax Umbrella Program
The World Bank
Washington, D.C.
November 7th, 2022

Types of Health Taxes

- Sales taxes/Value added taxes
- Import tariffs
- Excise Taxes
 - Excise taxes are of most interest given specificity to unhealthy products
 - “Pigouvian” taxes to account for externalities and internalities

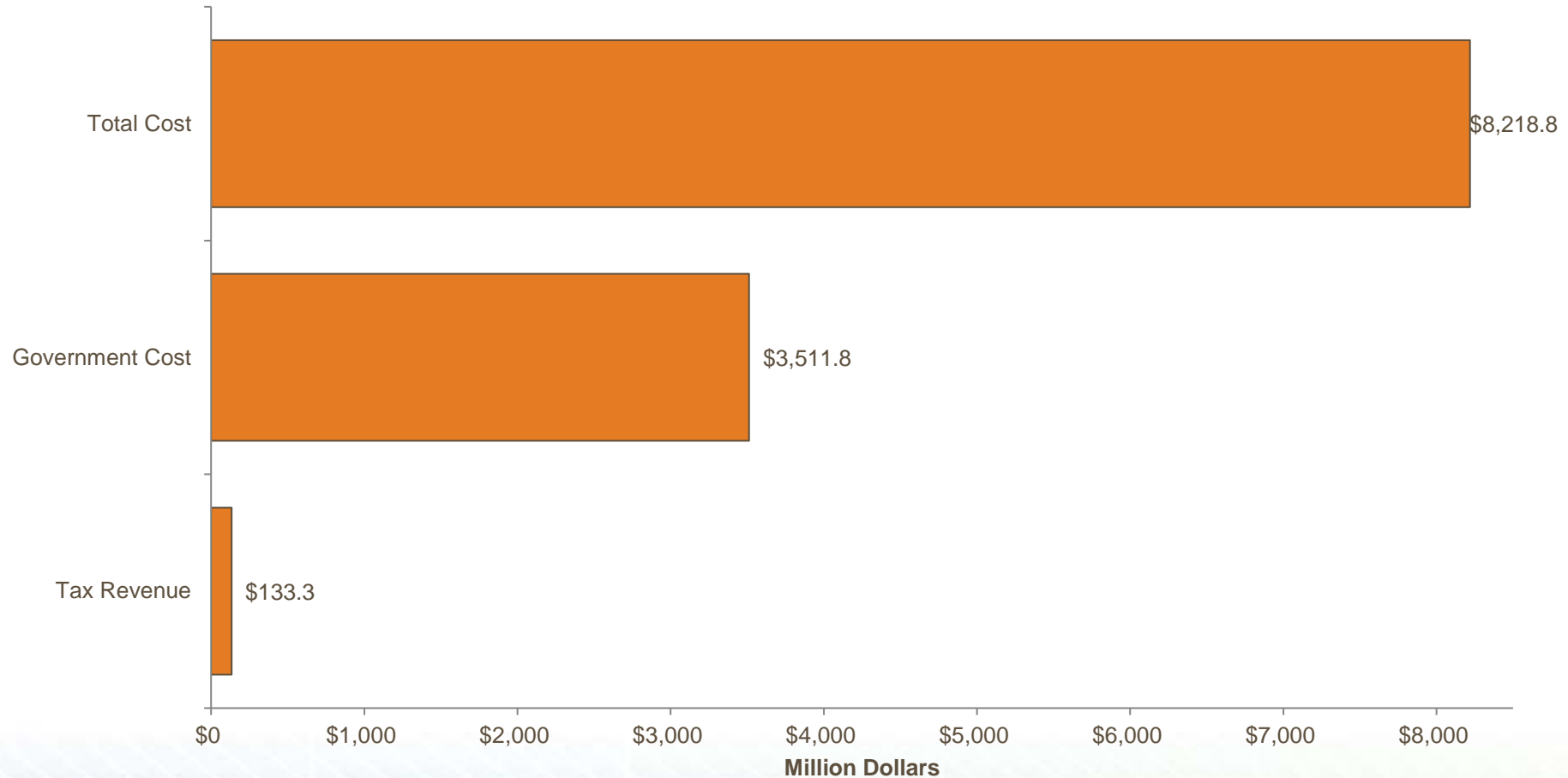
Economic Costs of Tobacco Use

United States, 2010



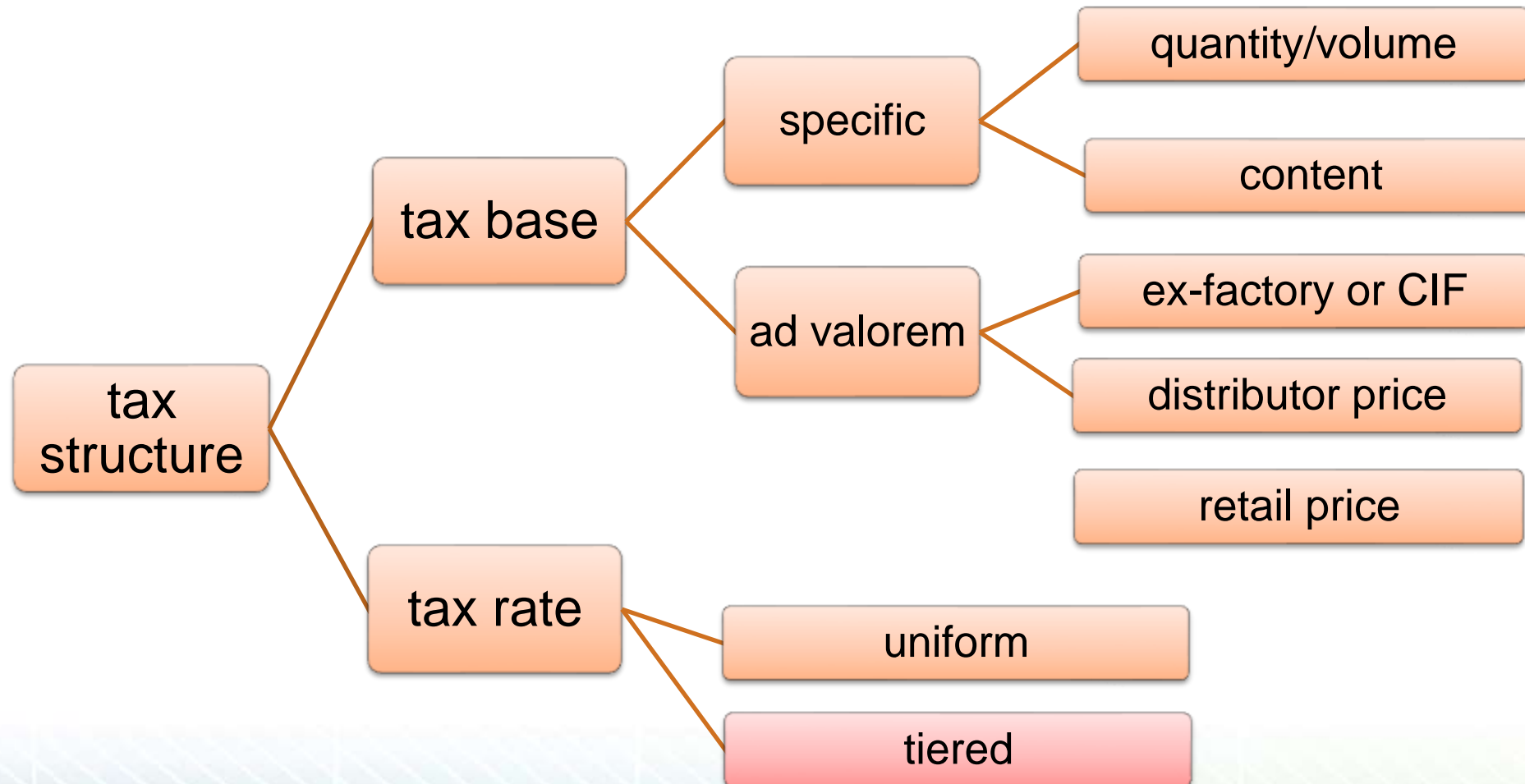
Sources: 2014 SGR; Tax Burden on Tobacco, 2014

Economic Costs of Excessive Alcohol Consumption & Alcohol Tax Revenues, Michigan, 2006



Sources: Tax Policy Center, 2016; Sacks et al., 2013

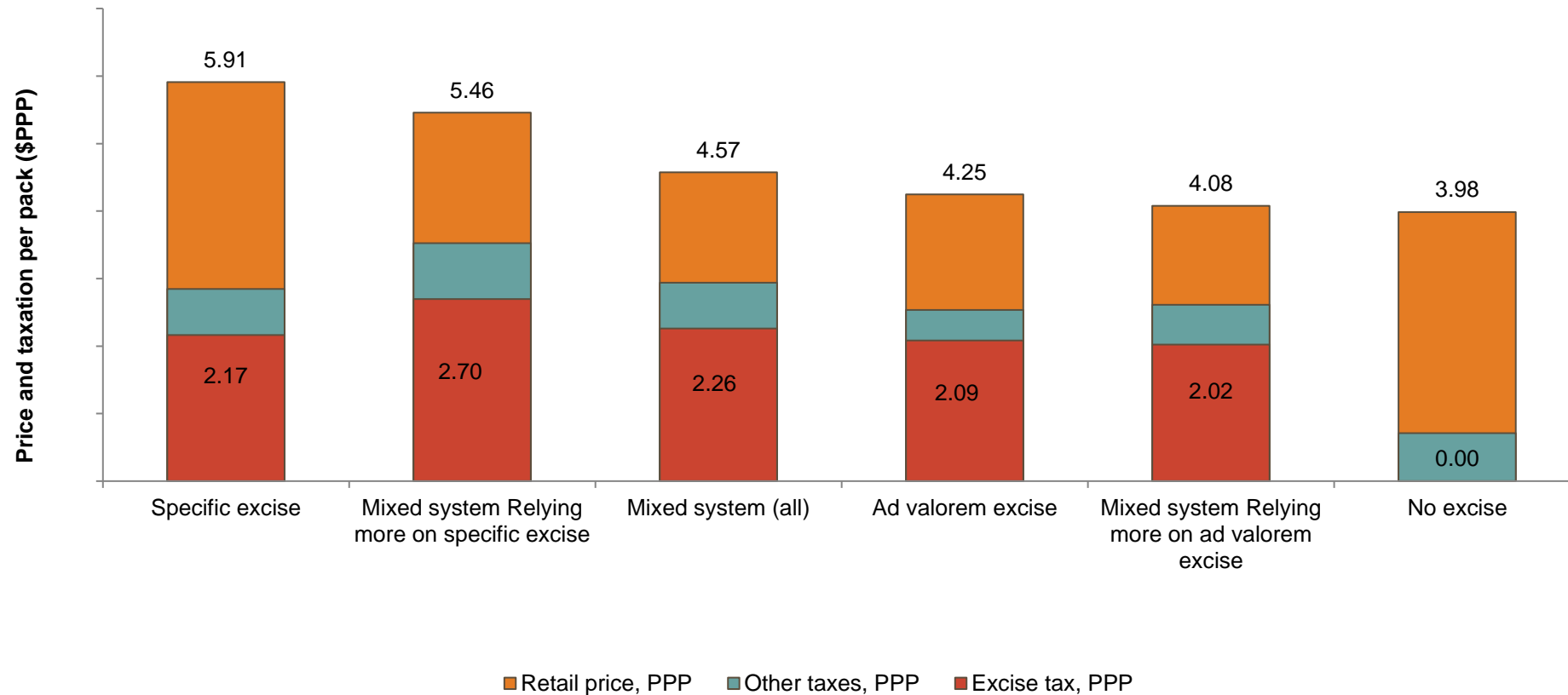
Structure of Health Excise Taxes



Structure of Health Taxes

- Other Considerations
 - Need to adjust specific taxes for inflation and/or income growth
 - Equivalence of taxes across products
 - Earmarking of tax revenues

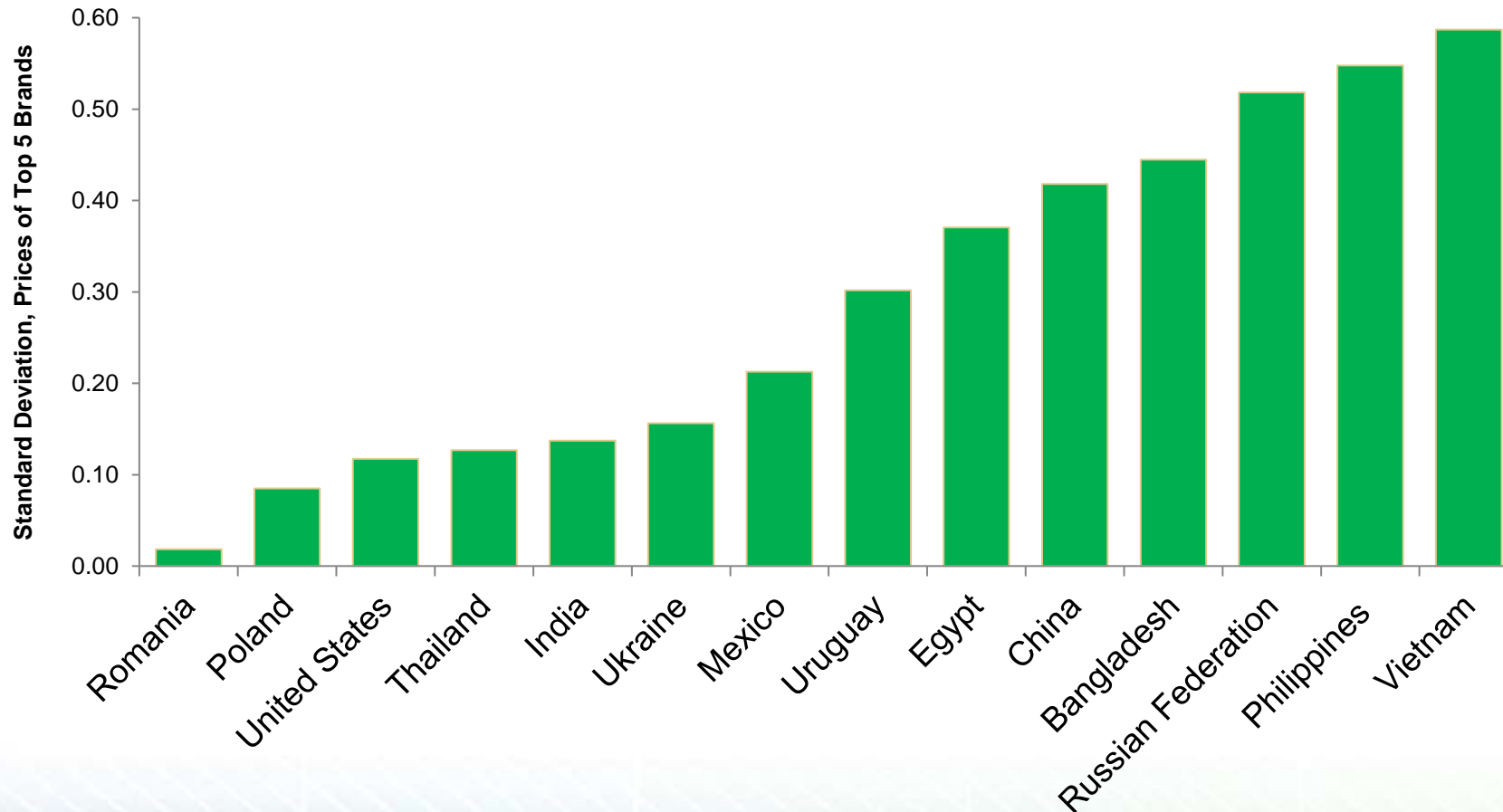
Tobacco Excise Tax Structure



Source: WHO 2017 GTCR data; unpublished figure.

Notes: Averages are weighted by WHO estimates of number of current cigarette smokers ages 15+ in each country in 2015; Prices are expressed in Purchasing Power Parity (PPP) adjusted dollars or international dollars to account for differences in the purchasing power across countries. Based on prices as of July 2016 for 53 high-income, 100 middle-income and 27 low-income countries with data on prices of most sold brand, excise and other taxes, and PPP conversion factors.

Excise tax structure: Simple specific and mixed relying more on specific tax to lead to less variable prices

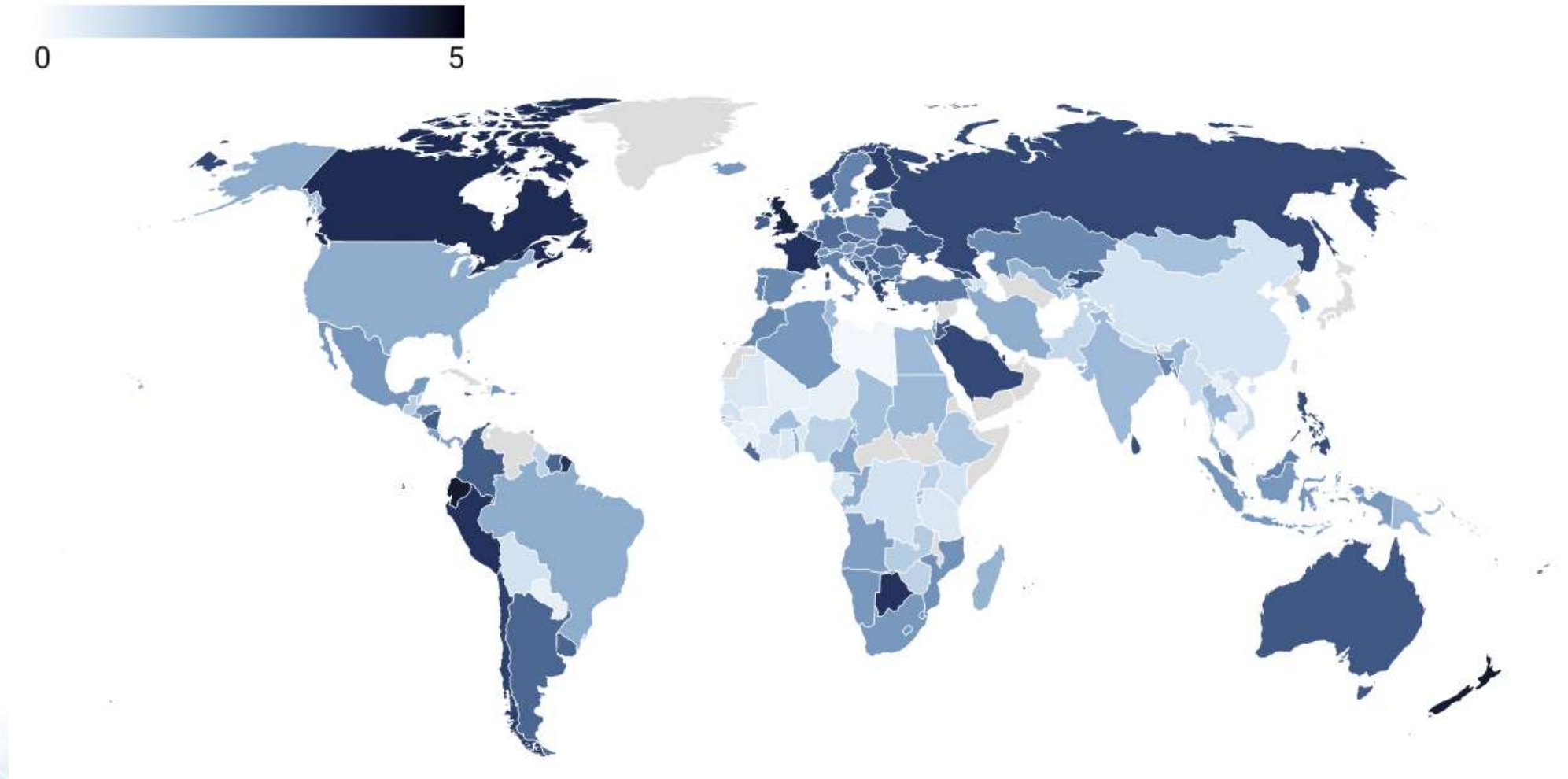


Cigarette Tax Scorecard

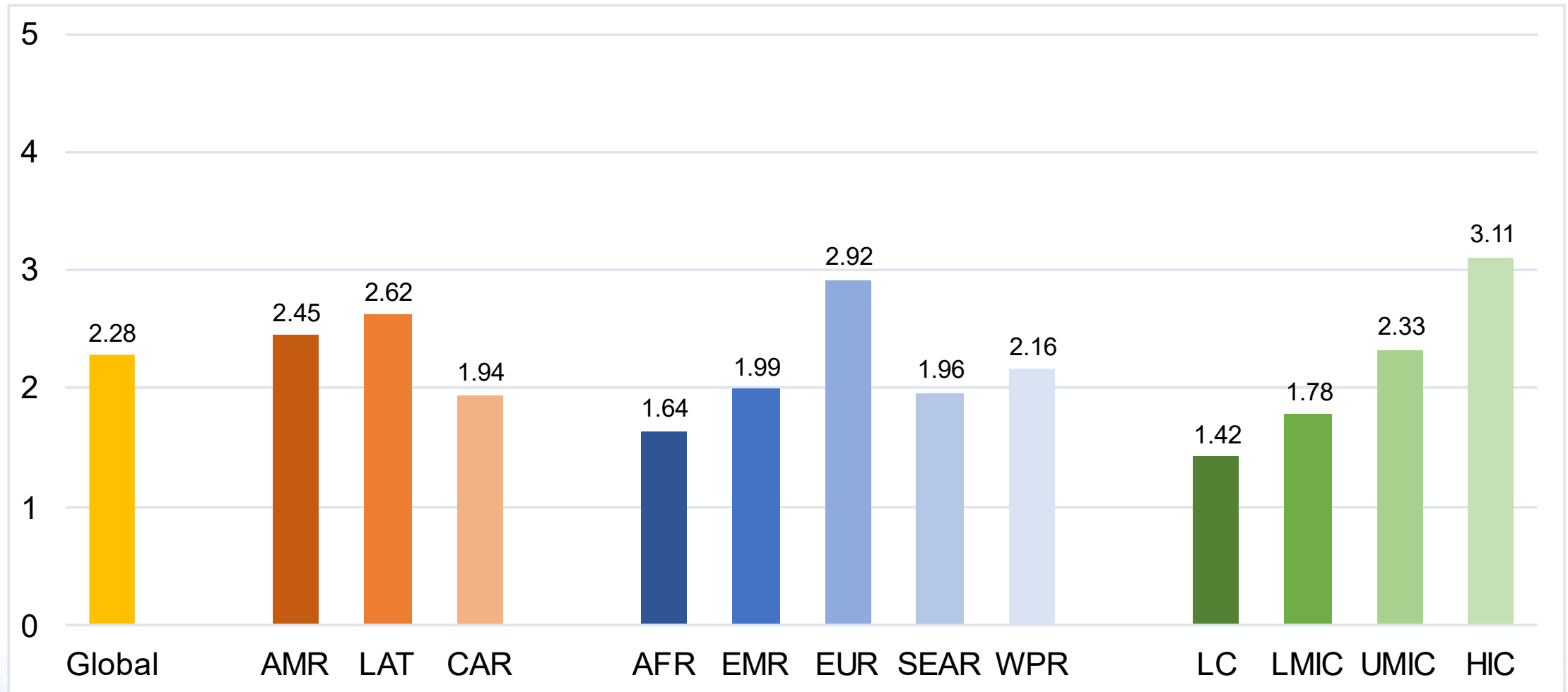
- Tobacconomics team assessment of the strength of cigarette tax systems globally
- Four key dimensions of cigarette tax systems
 - Tax structure
 - Tax shares
 - Absolute price
 - Changes in affordability over time
- Higher scores associated with reduced cigarette consumption and higher cigarette tax revenues

Source: Tobacconomics, 2021 and forthcoming

Overall Cigarette Tax Scores, 2020



Overall Cigarette Tax Scores, 2020



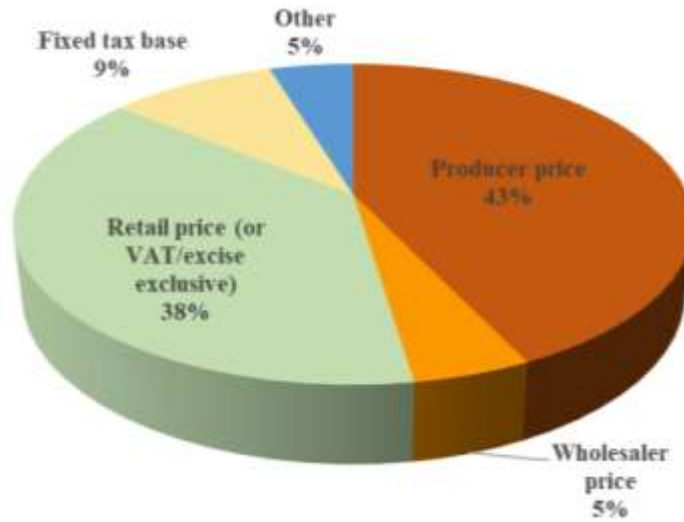
Alcohol excise taxes in the Americas, November 2020

Country	Beer	Wine	Spirits
Antigua and Barbuda	-	-	-
Argentina	Ad valorem	-	Ad valorem
Bahamas	Ad valorem & Unitary	Ad valorem	Specific
Barbados	Unitary	Unitary	Unitary
Belize	Unitary	Unitary	Unitary
Bolivia (Plurinational State of)	Ad valorem & Unitary	Unitary	Ad valorem & Unitary
Brazil ^a	Ad valorem	Ad valorem	Ad valorem
Canada ^a	Unitary	Unitary	Specific
Chile	Ad valorem	Ad valorem	Ad valorem
Colombia ^b	Ad valorem	Unitary & Specific	Unitary & Specific
Costa Rica	Ad valorem & Specific	Ad valorem & Specific	Ad valorem & Specific
Cuba	-	-	-
Dominica	Unitary	Unitary	Unitary
Dominican Republic	Ad valorem & Specific	Ad valorem & Specific	Ad valorem & Specific
Ecuador ^c	Ad valorem & Specific	Ad valorem & Specific	Ad valorem & Specific
El Salvador	Ad valorem & Specific	Ad valorem & Specific	Ad valorem & Specific
Grenada	Specific	Unitary	Specific
Guatemala	Ad valorem	Ad valorem	Ad valorem
Guyana	Unitary	Unitary	Unitary
Haiti ^d	Ad valorem	Ad valorem	Ad valorem
Honduras	Unitary	Ad valorem & Unitary	Ad valorem & Unitary
Jamaica	Specific	Specific	Specific
Mexico	Ad valorem	Ad valorem	Ad valorem
Nicaragua	Ad valorem & Specific	Ad valorem & Specific	Ad valorem & Specific
Panama	Unitary	Unitary	Unitary
Paraguay	Ad valorem	Ad valorem	Ad valorem
Peru ^e	Unitary	Ad valorem OR Unitary	Ad valorem OR Unitary
Saint Kitts and Nevis	Ad valorem	Ad valorem	Ad valorem
Saint Lucia	Unitary	Unitary	Unitary
Saint Vincent and the Grenadines	Unitary	Unitary	Unitary
Suriname	Unitary	Specific	Unitary
Trinidad and Tobago	Unitary	Unitary	Specific
United States of America ^a	Unitary	Unitary	Specific
Uruguay ^f	Unitary	-	Unitary
Venezuela (Bolivarian Republic of)	Ad valorem	Ad valorem	Ad valorem

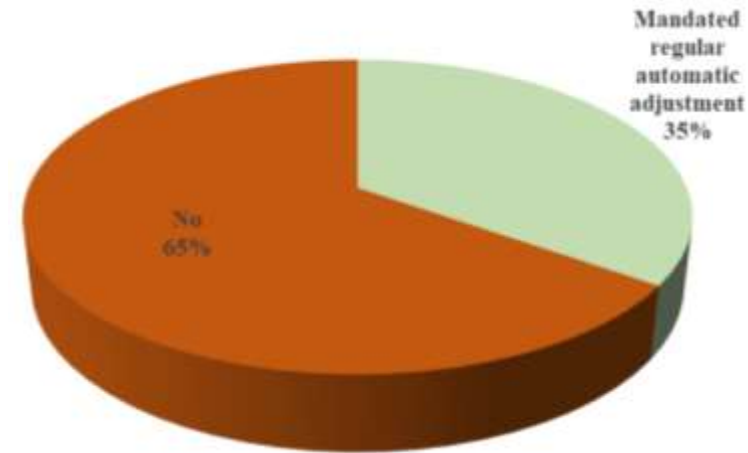
Source: Roche, et al., forthcoming

Alcohol excise tax design in the Americas, November 2020

Ad valorem tax base



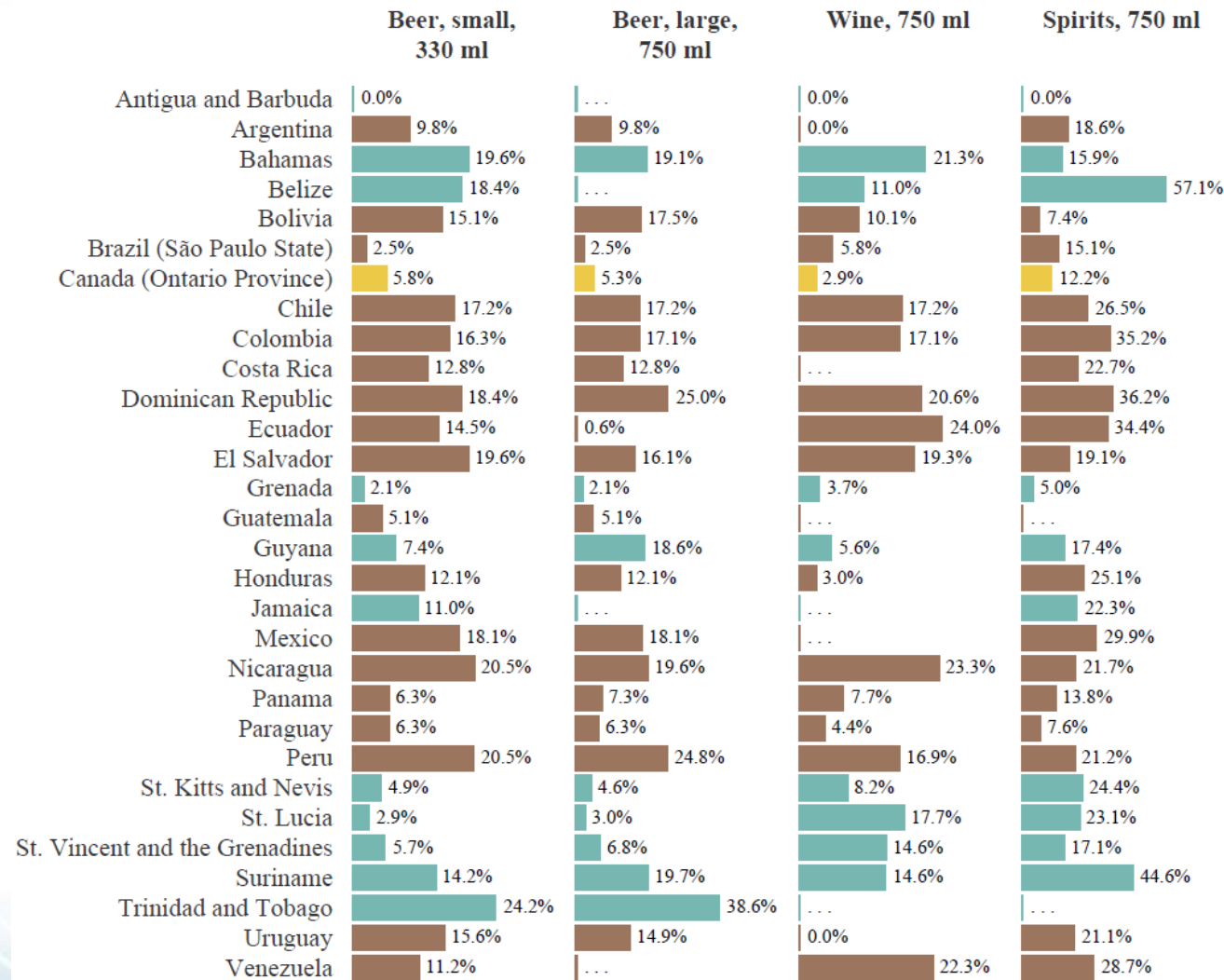
Mandatory automatic adjustment of unitary and specific excise taxes



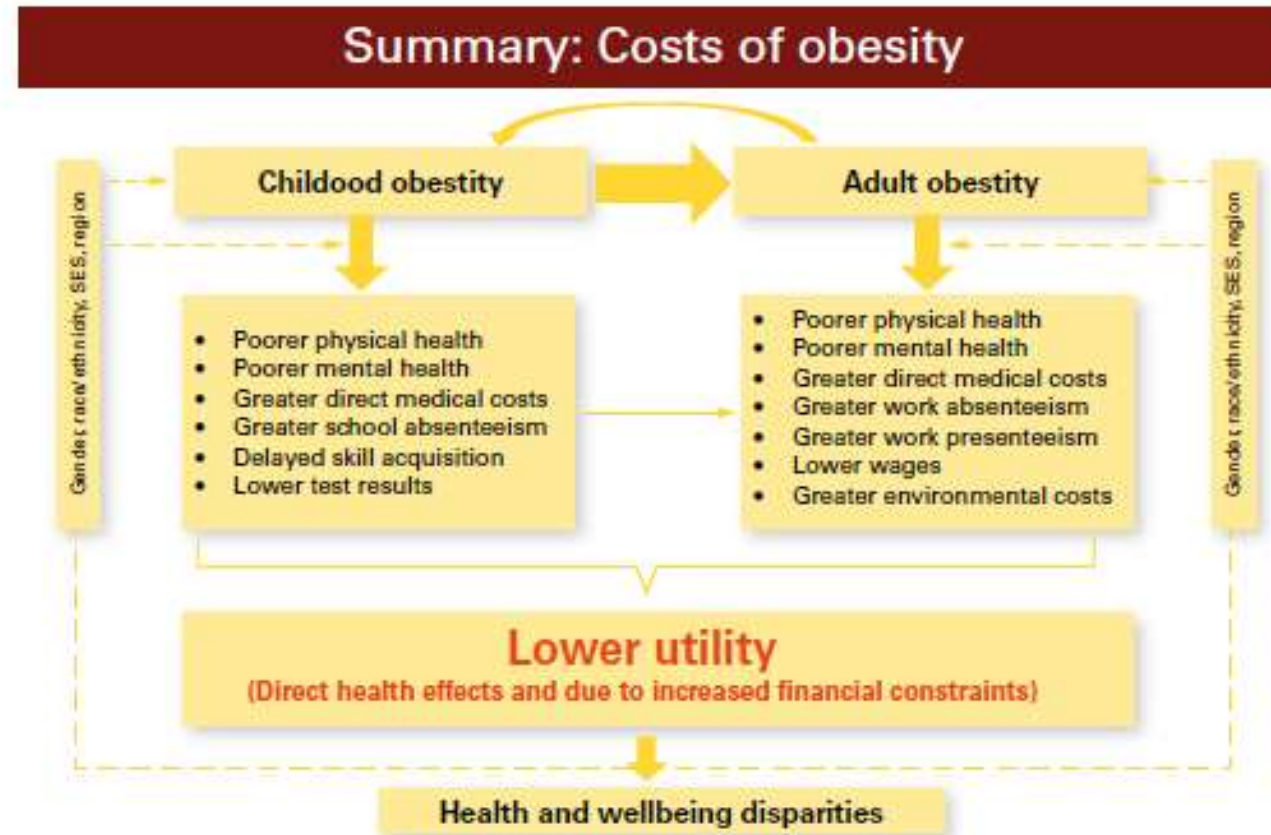
Tiered vs. Uniform systems:

- 90% of excise tax systems do not apply the same rate to all alcoholic beverages.
- 38% of excise tax systems using a tiered structure use alcohol concentration to define tiers at least to differentiate rates for one alcoholic beverage type (mostly for spirits)
- Other tier definition include: tariff codes (mostly in the Caribbean), type of alcoholic beverage

Alcohol excise tax shares in the Americas, November 2020



Costs of Obesity



Source: Lisa M. Powell. Presented at the Uppsala Health Summit Ending Childhood Obesity: Actions through Health and Food Equity. Uppsala, Sweden, 2016.

SSB Tax Design: What to include in the Tax Base?

The appropriate **tax base** depends on the objective of the tax

- Public health objective to reduce sugar intake suggests a tax on **all** forms of SSBs including:
 - Energy drinks, soda, sports/isotonic drinks, fruit drinks, and teas/coffees
 - Taxing **dairy**? Add sweetened/flavored milk to the tax base
 - **Free sugars**? the base would include **100% fruit juice**
- Broader tax base helps to minimize substitution

SSB Tax Design: What Type of Tax?

- Excise tax versus sales tax
 - Incorporated in shelf price (vs point-of-sale) – more apparent to consumers
 - Applicable regardless of where items are sold
- Specific (per unit) versus ad valorem (% of price) excise tax
 - Specific: quantity discounts are still taxed
 - Specific: reduces incentives to switch to cheaper brands
 - Ad valorem: levied early in the value chain has a smaller impact on price
 - Specific: needs to be adjusted for inflation

SSB Tax Design: What Tax Rate?

- How large should the tax be to generate a meaningful impact?
 - WHO recommends at least 20% increase in price
- Recent taxes in Mexico, Barbados and Dominica implemented at ~10%
- Ranges in the U.S. from 1 cent/oz to 2 cents/oz
- Flat per unit tax across SSB types equates to a lower % tax on higher priced SSBs; e.g., based on 2017 Cook County data, a 1¢/oz tax equates to:
 - **37% for soda, 28% for juice drinks, and only 7% for energy drinks**
- Tiered tax rate based on sugar content
 - E.g., UK tax with thresholds of 5g/100ml (tax of 18p/L) and 8g/100ml (tax of 24p/L) ~ based on current exchange rates, this equates to a tax of about 0.7¢/oz for sugar content above 18g/12oz and 0.9¢/oz above 28g/12oz
 - Need to determine country-specific distribution of volume by sugar content to inform determination of cut points for tax tiers (see next figure for example for U.S.)

SSB Tax Design: Earmarking of Tax Revenue

- A portion of the tax revenue may be earmarked for specific government programs.
- Earmarking can be important to help garner public support.
- Earmarking for nutrition and physical activity-related programs can complement the intended health impact of the tax.
- Earmarking toward low-income and minority populations can help to address tax regressivity and health disparities.

SSB Taxes in the Region of the Americas



Key Messages

- Excise taxes are often used as “Pigouvian” taxes and are implemented with the intent of inducing a behavior change to correct for harmful levels of consumption.
- Specific excise taxes have many advantages over ad valorem excise taxes:
 - They reduce the price gaps among different brands of the taxed product, reducing opportunities for consumers to trade down to cheaper brands when taxes are increased.
 - Since specific excise taxes are applied on a per unit basis rather than as a function of price, quantity discounts are still taxed at the same rate.
 - They encourage production of higher priced products.
 - They generate more stable revenues as they are not as subject to industry price manipulation.
 - Specific taxes are relatively easy to administer and are not as susceptible to industry tax avoidance and evasion.
 - However, one main disadvantage of a specific excise tax is that it needs to be increased regularly or its value will be eroded by inflation or increases in income.

Key Messages

- The base to which the tax applies should be comprehensive to include all product types otherwise substitution to untaxed harmful products will occur reducing the effectiveness of the tax in promoting health and lowering potential tax revenue.
- Tiered tax structures with higher rates based on higher levels of harm associated with products (i.e., ethanol or sugar) can help to reduce consumption of the most harmful products to a greater extent. Tiered taxes can also help to encourage reformulation.
- Given the level of current taxes, increases in taxes or new taxes are expected to continue to generate increased tax revenue.
- Earmarking of tax revenue can help to garner public support for health taxes, augment the health impacts of health taxes, and offset potential unintended consequences of health taxes.

Chapter and Contact Information

Chapter 8

The Design of Effective Health Taxes

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