ASIA & THE PACIFIC HEALTH FINANCING FORUM

HEALTH TAX IN TIMES OF COVID-19

Financing Primary Health Care: **Opportunities at the Boundaries**

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CHAIR



Dr. Kate Mandeville Senior Health Specialist, World Bank



AGENDA

Agenda Item	Speaker	
SETTING THE SCENE (15 min)	Evan Blecher, Global Tax Program, World Bank	
PANEL DISCUSSION (45 min)	 PANELISTS Ms Catherine Harding, VicHealth Board Member, Australia Mr Batbayar Ochirbat, Adviser to the Minister of Health, Mongolia Dr Kenneth G. Ronquillo, Under Secretary of Health of Department of Health of the Philippines Dr Robert Thomsen, Acting Director General/Deputy Director General, Ministry of Health, Samoa Ms Yeshoda Aryal, Chief Public Health Administrator, Ministry of Health and Population, Nepal Prof Lennert Veerman, School of Medicine and Dentistry, Griffith University MODERATORS Hideki Higashi, Senior Health Economist, World Bank 	
QUESTIONS AND ANSWERS (20 mins)	Mamata Ghimire, Health Economist, World Bank	
CLOSING REMARKS	Kate Mandeville, Senior Health Specialist, World Bank	



PANELISTS



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PRESENTER



Evan Blecher, PhD Global Tax Program, World Bank



Health Taxes: Improving Health and Budgets

Evan Blecher, PhD

Global Tax Program, Macroeconomics, Trade & Investment Global Practice, World Bank



KEY MESSAGES

- Health taxes are an established and well-regarded fiscal policy tool underpinned by a strong economic framework
- Health taxes are very effective at improving population level health; however, not enough attention is paid to ensuring that high-quality tax policies are well designed, implemented, administered and evaluated
- Key consideration of tax design is the tax structures (i.e. type, base and attributes of the tax)
 - Under appreciated aspect that is crucial to ensure that health taxes result in improvements in population level health outcomes
 - Uniform specific taxes are the most effective tax structure for tobacco
 - While specific taxes are preferred to ad valorem taxes, there is no one-size-fits-all approach to the tax base for alcohol and sugar-sweetened beverages taxes
- Substantial experience and evidence supports design, implementation, administration and evaluation of health taxes, including case studies of successful reforms



What are health taxes?

- Excise taxes that are applied to products that cause health related harms and generate negative externalities and internalities
- Most common health taxes are tobacco, alcohol and sugarsweetened beverages (SSBs), although some movement to frame some environmental taxes as health taxes
- Historically called "sin taxes" in
 some countries but this term has
 become less common; more
 modern term is health or prohealth taxes since it implies that
 these taxes improve health
- Direct taxes, sales taxes and tariffs are not generally considered health taxes

Economic framework for health taxes

Negative externalities

Negative internalities

 Increase prices to ensure that market price account for the economic costs

Influence consumer and firm behaviour to improve population health

- Increase prices to reduce use and consumption
- Increase cessation; reduce initiation; reduce intensity
- Tax structures can encourage/incentivise reformulation

Fiscal Policy context

- Reduces expenditures related to externalities (e.g. health care costs; policing, justice and corrections; etc)
- Generates additional tax revenue that improves fiscal space
- Compensatory measures (e.g. cessation services)
- Potential to earmark funds to health sector



HEALTH TAXES HAVE A VERY LARGE POTENTIAL TO PREVENT DEATHS AND RAISE TAX REVENUES

Deaths averted by a once-off 50% tax induced price increase over 50 years Incremental tax revenue raised from a once-off 50% tax induced price increase over a 50 years



Cigarette excise taxes, prices and sales in South Africa, 1961-2020



1961-1990: specific taxes eroded by inflation (no nominal or insufficient increase in taxes) \rightarrow falling prices (in real terms) \rightarrow rising sales

1991-2010: deliberate action to increase specific taxes \rightarrow increasing prices (over shifted) \rightarrow declining sales

2011-2020: smaller tax increases aimed at maintaining real value \rightarrow sales flat at first, but then decline as tax administration suffers under challenging governance environment

Source: Research Unit on Excisable Products, University of Cape Town Note: all values are adjusted for inflation (converted into 2020 constant prices)

South Africa is a global leader on health taxes

- Regular tobacco and alcohol tax increases since the early 1990s
- Relationship between prices and consumption is an excellent example of the inelastic price elasticity of demand → increases in prices reduce consumption
- Ensuring that tax increases result in price increases is a function of tax structures
- Smartly designed taxes ensure that tax increases have significant impact on health:
 - Tobacco: uniform specific taxes
 - Alcohol: alcohol-content based taxes on beer and spirits; uniform specific taxes on wine
 - Recently introduced an SSB tax using nutrient-content based tax





Mortality and morbidity due to tobacco use in South Africa, 1990-2019

Percentage of all cause mortality	1990	2000	2010	2019
Deaths	13.0%	10.6%	7.9%	8.2%
DALYs	7.6%	6.2%	4.8%	5.0%
Rate per 100,000				
Deaths	104	127	100	77
DALYs	3,785	4,042	3,122	2,372

South African experience shows that declines in tobacco use result in positive health impact

Declines in sales and consumption of cigarettes correlate strongly with:

- Declines in smoking prevalence (increased cessation and reduced initiation, particularly by youth)
- Adult smoking prevalence declined by a third between early 1990s and 2010s
- Declines in mortality (37% and 26% decline) and morbidity (34% and 27% decline)

Similar, declines have been observed in alcohol use, mortality and morbidity:

- Declines in sales volume somewhat smaller than tobacco
- Declines in total alcohol consumption (i.e. litres of absolute alcohol) larger than the declines in sales volume due to declining ABV, particularly beer (will come back to this later)
- Declines in mortality (29% and 18% decline) and morbidity (24% and 20% decline)

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Source: Research Unit on Excisable Products, University of Cape Town); Global Burden of Disease study (2019)

Strong relationship between tax rates and tax revenues

- Since tobacco (and alcohol) are price inelastic, declines in sales are less than proportional to increases in taxes and prices, meaning that tax increases result in increases in tax revenues
- Increases in taxes since 1991 in South Africa resulted in large increases in tax revenues (in real terms)
- Similar increases in alcohol tax revenues have been observed



Important to consider health tax revenues in the context broader tax policy and domestic revenue mobilization

- Most direct and indirect tax revenues in South Africa have increased since the early 1990s, not just health taxes
- Health tax revenues have increased considerably, yet share of total tax revenue and GDP has remained somewhat unchanged
- Contribution to total tax revenues and GDP varies by product; will also vary by country based on patterns of use and tax policies

Health tax revenues in South Africa, 2020/21

	Excise revenue (billions)		Percentage	
	Rands	US Dollars	Tax revenue	GDP
Alcohol	R 31.1	\$ 1.8	2.3%	0.6%
Tobacco	R 14.9	\$ 0.9	1.1%	0.3%
SSBs	R 2.9	0.2	0.2%	0.1%
Liquid fuels	R 84.4	4.9	6.2%	1.5%
Plastic bags	R 0.6	0.0	0.0%	0.0%

Sources: Research Unit on Excisable Products, University of Cape Town; National Treasury Budget Review (2022) Note: all values are adjusted for inflation (converted into 2020 constant prices)

How to design health taxes

In order to achieve intended economic, health and fiscal goals, health taxes need to be welldesigned

- Poorly designed health taxes will fail to achieve policy goals and squander political capital
- *Quality* of health taxes may be assessed through an analysis of the design, implementation and administration through:
 - Tax structures
 - Tax rates
 - Tax administration
- Given our limited time, focus here is on tax structures since this is what is most important in achieving meaningful health benefits
 - <u>Type of tax</u>: specific, ad valorem or mixed
 - <u>Tax base</u>: e.g. volume of beverage or the volume of alcohol/sugar
 - <u>Other attributes</u>: uniformity, thresholds or tiers

Case study: tobacco taxes

WHO recommends that countries implement uniform specific taxes (i.e. the same value of tax for each cigarette), but why?

- Harm is correlated by the number of cigarettes smoked and the years smoked rather than the value and other attributes of the cigarettes
- Homogeneity of cigarettes means that all cigarettes are similarly harmful
- A cheaper is not less harmful than a more expensive cigarette, so taxing based on value is not optimal
- Specific taxes raise prices on cheaper cigarettes more, thereby reducing consumption the most



TAX STRUCTURES EXAMPLE: AD VALOREM



Source: Blecher and Le Thu Thu (2018) Note: all values are adjusted for inflation (converted into 2016 constant prices)



Ad valorem taxes in do not result in improved health outcomes, example of Vietnam

- Vietnam uses an ad valorem excise tax on cigarettes based on the ex-factory price, which is early in the supply chain and thus a small tax base
- Retail prices did not increase when the tax rate increased in 2008 and 2016; since the tax increases did not increase prices there would be no effect on smoking prevalence or health!
- Tax increases "under shifted" as producers cut ex-factory prices to lessen the effect on retail prices



REFORMING A TIERED SYSTEM TO A UNIFORM SPECIFIC TAX



The Philippines embarked on an ambitious tax reform in 2012

- Resulted in dramatic increases in taxes through consolidation of four tiers into highest rates over a five-year period
- Dramatic shift in trend in affordability, from increasing to decreasing affordability which then resulted in significant declines in per capita sales
- Notably, after 2017, we have continued to observe large increases in tobacco taxes; current rate is Peso 55 per pack, rising to 60 in 2023



Reforms were not confined to tobacco

- Similar increases of beer taxes through consolidation and four-fold increase on lowest tier between 2012 and 2022
- Increases on spirits taxes
- Introduction of taxes on SSBs

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Source: Campaign for Tobacco Free Kids (2017), Euromonitor, World Bank World Development Indicators

But what about tax structures on alcohol and SSBs?

Uniform specific taxes are the best practice tax structure for tobacco

- Harm caused by consumption of tobacco is correlated with the number of cigarettes smoked and the years smoked
- Homogeneity of cigarettes means that all cigarettes are similarly harmful

Alcohol and SSBs are different

- Harm caused by consumption of alcohol and sugar-sweetened beverages are linked to the volume of alcohol or sugar, not the volume of the beverage
- Concentration and pattern of consumption highly corrected with harm (e.g. binge drinking)
- How does this inform the design of taxes? There is no one-size-fits-all approach!



	Volumetric tax base	Alcohol and sugar content tax bases
Design	Simple and easy to design	Complex and challenging to design
Tax administration	Simple and easy to collect	Regulatory and compliance capacity required to verify alcohol and sugar content
Policy transmission mechanism	Increases prices and reduces demand	Generates incentives for producers to reduce tax liability by reformulating products or encouraging consumers to consume lower alcohol or sugar products
Health impact	Increases prices of cheap products more in relative terms; effective at reducing demand if tax rate is sufficient	Small taxes can have large health impact if tax induced reformulation (population level effects)
Unintended consequences	Relative price increases may be smaller on most expensive products that may have highest alcohol or sugar content	May encourage cheaper low alcohol products; potentially increasing consumption among vulnerable populations
Tax revenue	Larger revenue scope	Revenue will decline over time as producers reformulate

Alcohol content as the tax base

- Prior to 1998, beer excise taxes in South Africa were volumetric (i.e. per litre of beer); in 1998, base was changed to the litres of absolute alcohol, taxing based on the strength of the beer
- The current excise rate is R79.26 per liter of alcohol, resulting in a tax yield per 330ml can of beer as follows:

ABV	Brands	Excise
2.4%	Windhoek Light	R 0.62
4.0%	Castle Lite, Amstel Lite, Windhoek Lager	R 1.04
5.0%	Castle Lager, Amstel Lager, Heineiken	R 1.31
5.5%	Black Label	R 1.44

What have the effects in the market been?

- No noticeable tax pass-through to prices, i.e. higher-alcohol beers did not become relative more expensive than loweralcohol beers
- Instead, large shifts in advertising occurred with brewers favoring advertising lower-alcohol beers compared to higher-alcohol beers
- Consumption shifts followed advertising and per capita alcohol from beer declined substantially





NUTRIENT CONTENT TAXES ON SUGAR-SWEETENED BEVERAGES



Another consideration: scope of the tax

- Which SSBs to apply the tax to
- Why not to non-caloric beverages

An extraordinary amount of innovation is occurring global in the way countries are designing and implementing SSB taxes

- Many countries are using thresholds and other sugar-content attributes (e.g. tiers) to generate incentives for producers to reformulate products and lower sugar content
- Thresholds set a sugar level below which no tax is paid, whereas tiers apply different tax rates based on sugar content
- These create more explicit incentives compared to linear systems but can also be combined with linear systems

Linear with threshold: South Africa applies a tax of ZAR 0.021/g/100ml where sugar content > 4g/100ml

Tier with threshold: UK applies a tax of GBP 0.18/L for sugar content > 5g/100ml and < 8g/100ml; GBP 0.24/L if sugar content > 8g/100ml; no tax below 5g/100ml

Volumetric tax with threshold: Hungary applies HUF 7/L for all beverages where sugar content > 8/100 ml

Volumetric tax: Mexico applies a uniform specific volumetric tax (MXN 1/L)

How effective are these incentives? Evidence from South Africa

After implementation of the SSB tax in 2019, majority of brands reformulated and reduced sugar content; figure shows the sugar content for the most popular SSBs before and after implementation

- 18 reduced sugar content below the threshold to avoid the tax entirely
- 9 reduce sugar content, but remain above the threshold, lowering tax liability
- Only 3 did not lower their sugar content and assumed the full tax liability

A convenient artefact of this tax structure is that the tax revenue collected implicitly tells us about how much sugar is being consumed from SSBs

- Caveat: only tells us about consumption over the 4g threshold!
- Tax revenue has declined since the tax was implemented at start of 2018/19 fiscal year
- Since the rate has remained unchanged, implies that sugar consumption from SSBs with more than 4g/100ml of sugar has declined by 29% in 3 years



Fiscal year	Tax revenue (ZAR million)	Tax rate (Cents/g/100ml)	Tonnes of sugar
2018/19	R 3,248	2.21	146,976
2019/20	R 2,513	2.21	113,701
2020/21	R 2,114	2.21	95,638
2021/22	R 2,289	2.21	103,568

KEY MESSAGES

- Technical aspects of health taxes may appear daunting, but there is a wealth of evidence, experience, expertise and support available
- Policy reforms and successes are achievable in countries in all regions, at all levels of economic development
- Health taxes are an established and well-regarded fiscal policy tool underpinned by a strong economic framework
- While the benefits and need is for health taxes are in the health sector, the policies are designed, implemented and the fiscal sector; need to engage with ministries of finance, revenue authorities, etc.)
- Tax structures are under appreciated; health taxes and tax increases need to be well-designed to ensure that they result in improvements in population level health outcomes
- However, we have not discussed the <u>political economy</u> barriers and challenges, challenges in <u>tax</u> <u>administration</u>, and the unique <u>macro fiscal</u> opportunities and challenges that world is currently facing



PANEL DISCUSSION



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QUESTIONS AND ANSWERS



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CLOSING REMARKS

