

# Tax Administration Considerations

## Health Taxes: Policy & Practice

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# Introduction

- 1 Book
  - Chapters on tax administration
  - Value: evidence + cases + how to
- 2 Tax administration plays a key role on HT effectiveness: Win (health) + win (tax revenue)

*Tobacco Tax Reform at the Crossroads of Health and Development : A Multisectoral Perspective (Marquez et al. 2017)*
- 3 Purpose: Key messages on challenges and opportunities from practice

# MESSAGE 1:

Uniqueness of **local** conditions are crucial for **effective** HT administration

# Local conditions: What we already know

## 1 Health Taxes: actors in **the game**

- Tax administration (MoF, Tax and customs authorities)
- Industry
- Illicit activities (licit & illicit actors)
- Consumers of taxes goods
- MoH

## 2 Occurs in a setting of **interacting complex systems**

- Tax administration
- Public finance
- Financial system
- Legal system
- Justice system
- Health system (financing)

## 3 Good practices on HT administration exist

- Good governance
- Technical manuals on tax administration (Yurekli 2018; WHO 2021)

# Local conditions: Lessons from practice

- 1 Role and **power relation** among actors
  - Big Tobacco, Alcohol, Soda. Multinational and national companies with
    - Market power
    - Capacity for policy interference
    - History of tax evasion/ avoidance
  - Power imbalance between companies and LMIC governments
- 2 Institutional arrangements of tax administration **within** the country
  - Weak integration of activities between tax and customs administrations
  - Lack of reciprocity: agents in complex systems
- 3 Health Taxes (and HT revenue) **leaks**
  - Transaction costs
  - Coordination failures
  - Information asymmetries
  - Moral risks
  - Reduction of **fiscal space**

# MESSAGE 2:

International trade  
**exacerbates weaknesses** of  
HT administration

# International: What we already know

1 Taxed goods (tobacco, alcohol) are **easy to move** across borders and in long distances

- Intranational differences in institutional strength (borders)
- International differences in complex systems related to HT
- Move the good across institutional/regulatory settings
- Opportunities of illicit trade for legal and illegal actors

2 Effective **actions** on illicit trade

- *Confronting Illicit Tobacco Trade: A Global Review of Country Experiences* (World Bank 2019)
- *WHO Protocol to eliminate illicit trade in tobacco products* (WHO 2013)

# International: lessons from practice

- 1 **Geographical** scale of operation creates **power imbalance** and opportunities for **regulatory capture**
  - Industry's business units & organized crime operate at the **regional/global** level
  - Tax Administration's institutional arrangements operate mostly at the **national/subnational** level
- 2 Governance: Institutional arrangements of HT administration are **extremely weak** among countries
  - Transaction costs
  - Coordination failures
  - Information asymmetries
  - Moral risks
- 3 International HT **leak**
  - **Illicit trade**
  - International loss of tax revenue and reduction of **fiscal space**



## MESSAGE 3:

Seizing the **opportunities** to improve tax administration boosts **effectiveness** of HT

# Opportunities: Practice

- 1 Increase **understanding/knowledge** of complex local conditions of HT administration
  - ✓ The game
  - ✓ Complexity of HT administration
    - Outcomes: **Tracer indicators** on taxed goods (tobacco, alcohol)
      - # Licit quantities
      - # Illicit quantities
      - Tax revenue from HT
- 2 Health taxes opens a **disruptive** discussion (entry point) on:
  - Structural adjustments on tax administration
    - ✓ Implementation
    - ✓ Disassemble/dismantle
  - Implementation of **effective** mechanisms of **international coordination**
  - Increase of **fiscal space** and domestic revenue mobilization Le et al. 2016

# Thanks!

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## PROESA

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