HEALTH TAXES
A primer for WHO staff
INTRODUCTION

Health taxes are taxes on commodities and products that are harmful, unhealthy and have a negative public health impact (e.g. tobacco, alcohol, sugar-sweetened beverages, fossil fuels). Taxes on tobacco and alcohol were the original “sin taxes”, invented by the modern state as revenue-generating measures. However, in the last decades, these have been increasingly recognized as core health protection and promotion policies.
WHO FRAMEWORK IN A NUTSHELL

Health
WHO is a health organization. Health taxes therefore need to be understood, first and foremost, as health protection and promotion measures. However, the effective use of health taxes requires an understanding of fiscal policy, economics, governance and law.

Economics
Economic impacts are not the principal objective of health taxes, but they are nevertheless socially important outcomes that policy makers need to take into account. Indeed, the majority of arguments advanced against health taxes do not attempt to rebut their positive health impacts but rather to convince policy makers that the negative economic impacts of health taxes outweigh their health benefits.

Tax design
The taxes should decrease affordability of the target commodities, therefore, the taxes should be adjusted to account for increases in consumer prices and incomes. The taxes should also discourage substitution.

Governance and administration
National authorities seeking to implement health taxes could encounter practical challenges including weak tax administration, revenue leakages, and limited new sources of tax funds.
Begin by framing health taxes as health measures

Emphasise that health taxes result in significant public health gains

**SSB:** There is strong evidence which proves that increasing the prices of food items are effective in changing the consumption and purchasing of target foods, especially for lower-income, less-educated, younger populations, and populations at greater risk for obesity. Even small changes in dietary behaviour can lead to large reductions in population-level morbidity, mortality and associated costs to society.¹

**Alcohol:** Studies show that increasing the price of alcohol through higher taxes can:
- reduce alcohol consumption and its related harms (e.g. related diseases, injuries, motor vehicle accidents, etc)
- prevent drinking initiation, which is a significant preventive strategy among LMICs that report a high prevalence of lifetime abstainers.²

**Tobacco:** Evidence across a wide range of countries shows that a 50 percent increase in cigarette price typically leads to a 20 percent decline in cigarette consumption. Reduced consumption has a powerful impact on subsequent tobacco-related sickness and death within several years. Higher tobacco prices also

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¹ Fiscal policies for diet and prevention of noncommunicable diseases: technical meeting report, 5-6 May 2015, Geneva, Switzerland
reduce smoking initiation among young people and so help stop them from becoming addicted to tobacco in the first place.³

**Underscore the cost-effectiveness of health taxes**

Based on WHO analysis,⁴ increasing excise taxes on alcohol and tobacco are considered best buys (considered the most cost-effective and feasible for implementation), and SSB taxes are considered cost effective interventions.

The industry usually attempts to discredit the science behind health taxes by funding research to create doubt around credible science which links their products to poor health, and claiming that the tax will not result in positive health outcomes.

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³ [https://openknowledge.worldbank.org/handle/10986/28494](https://openknowledge.worldbank.org/handle/10986/28494)

WHO focal points should understand the basis of the economic arguments about health taxes in order to employ coherent economic arguments as a part of a comprehensive approach to discussing health taxes with policy makers. The long term impact on health systems should also be emphasized: reduced burden of diseases and associated treatment cost.

Health taxes generate stable, predictable revenues in short to medium term. Revenues depend on variety of factors, including:

- Tax rate, structure and base
- How responsive consumers are to changes in price in the target commodities/ substitutes
- Industry pricing and production strategies
- Extent of tax avoidance and evasion

It important to account for these factors when projecting revenue impact of tax increases.

Common economic arguments used by the food, alcohol, and tobacco industry against health taxes

- Claim that raising health taxes result in tax evasion
- Argue that raising health taxes has a negative impact on employment
- Insist that health taxes violate international trade agreements
- Claim that the taxes are regressive

a. **Claim that raising health taxes result in tax evasion**

Tax avoidance and evasion can undermine impact of health taxes, but:

- There are still public health and revenue benefits even in presence of avoidance/evasion;
- Strength of governance is a more important determinant of illicit trade;
- There are effective approaches to curbing illicit trade
SSB: there is likely to be little tax avoidance and evasion in response to an SSB tax\textsuperscript{5}; No evidence of tax avoidance/evasion in Mexico; Low profitability relative to tobacco and alcohol smuggling given very low taxes and bulky product.

Alcohol: Opportunities for tax avoidance tend to increase if the tax structure is too complex; simplifying the structure of alcohol excise taxation will help reduce these opportunities and will facilitate monitoring of the costs per unit of tax revenue raised.

Tobacco: Experiences from around the world show that even in the presence of illicit trade, tax increases still lead to higher tax revenues and real reductions in tobacco use.

b. Argue that raising taxes would have a negative impact on employment: Industries argue that production and consumption of their products makes a significant economic contribution. Often their studies only tell part of the story and ignore the net impact on employment.
   - Money not spent on taxed product will be spent on other goods and services
   - New/increased tax revenues spent by government
   -Offsetting job gains in other sectors

c. Insist that health taxes violate international trade agreements: WTO agreements recognise health as a legitimate policy goal. Thus, these instruments allow countries to introduce health-related policy measures provided they are deemed necessary to protect human or environmental health and safety and are not introduced to act as a barrier to trade.

d. Claim that the taxes are regressive
   A regressive tax is a tax that takes a larger percentage of income from low-income earners than from high-income earners, and affect people with low incomes more severely than people with high incomes. Health taxes are progressive, taking into consideration health care costs and health burden. Public health impacts need to be understood so that public debate can be informed.

\textsuperscript{5} Fiscal policies for diet and prevention of noncommunicable diseases: technical meeting report, 5-6 May 2015, Geneva, Switzerland
Know the practical aspects of tax design and implementation

Tax rates should decrease affordability of the target commodities, therefore, the taxes should be adjusted to account for increases in consumer prices and incomes.

Different types of excise taxes

**Specific excise tax** is levied based on quantity (e.g. a fixed amount per cigarette or weight of tobacco, amount of ethanol in an alcoholic beverage).

**Ad valorem excise** is levied based on value (e.g. a percentage of the factory price or retail price).

Some governments employ more complex tax structures, such as: combination of an ad valorem duty and a specific duty. If the ad valorem excise falls below a minimum floor, a specific tax applies. (e.g. In 2010, Turkey, increased the ad valorem tax on cigarettes to 63% of the retail price with a minimum specific floor of 2.65TL/pack) (Manual on tobacco tax administration 2010, Geneva: WHO; 2010)

**SSB:** Fiscal policies that lead to at least a 20% increase in the retail price of sugary drinks would result in proportional reductions in consumption of such products.\(^6\)

**Alcohol:** In order to target alcoholic beverages specifically to generate tax revenue or control consumption, excise tax is the best tool the government can use.

Specific taxation may be appropriate for high-income countries that have a high prevalence of drinkers because it promotes the consumption of low alcohol content beverages, which results in a reduction in total alcohol consumption. Mixed specific and ad valorem taxation (MSA) and ad valorem with specific floor taxation (ASF) may be appropriate for LMICs because it promotes the consumption

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\(^6\) **Fiscal policies for diet and prevention of noncommunicable diseases: technical meeting report, 5-6 May 2015, Geneva, Switzerland**
of medium alcohol content beverages, which is expected to reduce total alcohol consumption among heavy drinkers and prevent drinking initiation among young people.7

**Tobacco**—The best practices for tobacco include the adoption of a relatively simple tax system that applies equivalent taxes to all tobacco products, with
- at least 70% excise tax share in final consumer price
- tax increases that exceed increases in consumer prices and incomes, to reduce the affordability of tobacco products
- minimization of incentives for tobacco users to switch to cheaper brands or products in response to tax increases
- improvement of tobacco tax administration to reduce opportunities for tax avoidance and tax evasion 8

Learn the importance of tax governance and administration

Governance and administration involve a set of related issues that go beyond economics, and involve principles of public financial management, law, regulation, and respect of international treaties. These are all important issues to consider, but are their highly context-specific nature makes general guidance difficult. WHO can provide further information on request.

Earmarking
One of the issues of governance and administration arising around the dialogue on health taxes however, is earmarking. Earmarking refers to “separating all or a portion of total revenue – or revenue from a tax or group of taxes – and setting it aside for a designated purpose”. There are different types of earmarking:

**HARD EARMARKING**
An earmark is “hard” if it is the main or only revenue source for the particular service or programme and, under law, none of the earmarked revenue can be allocated to any other purpose.

**SOFT EARMARKING**
An earmark is “soft” if tax revenues are agreed to be designated for a particular service but do not determine the amount spent – there is no hard expenditure ceiling and transfers to and from general funds are possible.

Earmarking is not the logical starting point for a discussion around health taxes; the principal starting point for health taxes is and should be demonstrating health benefit in alignment with policy priorities. After (or in conjunction with) demonstrating health benefit, it is important also to consider the fiscal and economic implications of health taxes (in conjunction with other partners), but usually without any specific regard to earmarking.

However, earmarking can arise as one of the considerations relevant to the political feasibility and acceptability of a given health tax. Earmarking can be politically useful but should not be established as a goal in itself. Discussions on earmarking should be health under the principles of good public financial management, and therefore finally also relevant to the effective design, implementation and administration of a particular health tax.
Knowledge about earmarking is still developing, and recent WHO publications will provide WHO staff with an extensive discussion of the nuances of the debate. (For more information see Earmarking for health: from theory to practice / Cashin, Sparkes and Bloom, WHO Health Financing Working Paper No. 5)
WHO RESOURCES

SSB / Diet

Fiscal policies for diet and prevention of noncommunicable diseases: technical meeting report, 5-6 May 2015, Geneva, Switzerland (English and French)

Using price policies to promote healthier diets, 2015: Copenhagen: WHO Regional Office for Europe; 2015 (English, Russian)

Report on fiscal policies to reduce consumption of sugar-sweetened beverages and other regulatory measures to promote healthy diets in the Republic of Maldives (English)

Taxes on Sugar-sweetened Beverages as a Public Health Strategy: The Experience of Mexico (English)

Alcohol


Tobacco

Tobacco control economics publications

Earmarking


Earmarked tobacco taxes: lessons learnt from nine countries, 2016, Geneva, Switzerland (English and French)