Tax exemptions or reductions for pharmaceutical products

WHO Guideline on Country Pharmaceutical Pricing Policies
A plain language summary

Main points
- Tax exemptions or tax reductions remove or lower the taxes on pharmaceutical products.
- When implementing this policy, any savings should be passed on to patients and purchasers.

Pros
- Tax exemptions and reductions are likely to make products more affordable over the long term, especially for patients living on a low income.

Cons
- Tax exemptions and reductions may lead to a loss of income for governments, although the loss is likely to be small.

HIGHLIGHTS
For policymakers responsible for promoting affordable access to health products

WHO GUIDELINE
Conditional* recommendations for the policy

* Consult stakeholders to understand the conditions within country context before full adoption

1. WHO suggests that countries consider exempting essential medicines and active pharmaceutical ingredients from taxation.

2. WHO suggests that countries consider any tax reductions or exemptions, with measures to ensure that the policy results in lower prices of medicines to patients and purchasers.
What is the policy?
Tax is a compulsory transfer of money from private individuals, institutions or groups to a government. Direct taxes are levied by governments on the income of individuals and corporations. Indirect taxes are added to the prices of goods and services, such as medicines and their supply. Taxes on pharmaceutical products may be reduced or removed altogether, particularly sales or value-added taxes.

Why is the policy implemented?
Import duties and taxes present trade barriers, and may hinder access and market competition. The negative financial impacts of taxes can also affect patients more than suppliers, making medicines less affordable to them.

How is the policy implemented?
Typically, the policy is managed by the Ministry of Finance or Treasury as one part of the overall system of taxation.

How commonly is the policy used?
Many countries, particularly high-income countries, have eliminated customs duties for pharmaceutical products. These include countries that signed up to the World Trade Organization’s 1995 reciprocal Pharmaceutical Tariff Elimination Agreement, also known as the Zero-for-Zero initiative. However, many lower-income countries continue to apply import tariffs as high as 10% on pharmaceutical products. Value-added tax, up to 25%, has been more widely applied to pharmaceutical products. Some countries apply a reduced rate for all pharmaceutical products or specific medicines (e.g. reimbursed medicines) compared to the standard tax rates.

For more information
See the WHO Guideline on Country Pharmaceutical Pricing Policies for more information, including an overview of the evidence about tax exemptions or reductions and nine other pharmaceutical pricing policies. https://www.who.int/publications/i/item/9789240011878

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