
**Committee of Experts on International
Cooperation in Tax Matters
Twenty-third session**

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Item 5 (n) of the provisional agenda

Indirect taxes, including health taxes

Possible work on health taxes

Summary

This paper provides an introduction to the topic of health taxes for the consideration of the Committee of Experts in developing its work programme. Health taxes, particularly excise taxes on tobacco, alcohol and sugar-sweetened beverages (“SSBs”), contribute directly to the achievement of SDG 3, Ensure healthy lives and promote well-being for all at all ages, as well as supporting other SDGs. They may also, at least in the short- and medium-term, provide additional revenue to countries to aid in domestic resource mobilization.

Health economists have done substantial research on appropriate policy design with respect to such taxes. However, finance ministries and tax authorities have to be involved if health tax frameworks are to be improved in many countries. The Committee is invited to consider whether to pursue work on this issue and, if so, to consider the establishment of a Subcommittee on Health Taxes, which would allow for the efficient involvement of subject matter experts. If the Committee decides to establish such a Subcommittee, it should provide guidance on whether industry representatives would be allowed to participate in the Subcommittee in light of the exclusion of tobacco companies from the UN Global Compact in 2017.

Introduction

The topic of excise taxes on tobacco, alcohol and SSBs (hereinafter, “health taxes”) would be a new area of work for the UN Committee of Experts on International Cooperation in Tax Matters, although it is similar to work on carbon taxation that was taken up by the Committee in its last membership. In both cases, the primary motivation for new or improved taxes would be to directly support the achievement of the Sustainable Development Goals. Consumption of the targeted products are deemed risk factors for non-communicable diseases (NCDs); by reducing consumption of those products, health taxes therefore support SDG 3 (Ensure healthy lives and promote well-being for all at all ages).¹ As discussed below, such taxes can, perhaps counter-intuitively, raise revenue at the same time as they reduce consumption of the targeted products.

2. During its last (the Twenty-second) session, the Committee recommended the matter be put on the list of items the next Committee Membership (this current Membership) might look at and decide whether and how to carry them forward. It was therefore included in the provisional agenda for this, the twenty-third, session. This note is intended to provide background information to help the Committee debate whether, and if so how, it should play a part in providing guidance to countries, particularly developing countries, that may be considering the introduction or reform of health taxes.

Background

3. According to WHO statistics, NCDs, such as cardiovascular disease, cancer, chronic respiratory disease and diabetes, result in 41 million deaths a year; 15 million of those are premature deaths and 85% of these preventable deaths occur in LMICs. Individuals who suffer from NCDs are, in many cases, also particularly at risk of more severe outcomes from COVID-19. Reducing the incidence of NCDs therefore is crucial to the achievement of SDG 3.

4. Many NCDs are causally linked to the use of tobacco, alcohol, and SSBs. Reducing the consumption of these products therefore is a priority for the public health community. Reductions in consumption of alcohol also results in many fewer deaths from road traffic accidents (Target 3.6) and fewer acts of violence (SDG Target 16.1).

5. Research has shown that one effective means to reduce such use is through well-designed excise taxes. Moreover, experts in public health have made significant progress in identifying the form that such taxes should take. In order to increase the effectiveness and extend the reach of such guidance, finance and tax experts could be made more aware of the extensive work that has already been conducted in this area and asked to contribute to those areas, such as tax administration, where more work is needed.

Potential Role of the Committee

6. There is already substantial momentum in favor of the adoption of health taxes. An increasing number of countries have adopted taxes on SSBs within the last few decades. Most countries already have taxes on tobacco and alcohol, although these taxes may not be as effective as they could be in reducing consumption and improving health outcomes, either because they are not high enough to affect consumption or were not designed with health outcomes in mind. In this context, the role of the Committee would be to build on the existing body of knowledge to provide tax policy and administration guidance that would assist countries in adopting the most effective health taxes, from both a health and revenue perspective. Many recent “success stories” relating to health taxes involve

¹ Health taxes relate specifically to Target 3.4 (By 2030, reduce by one third premature deaths from non-communicable diseases...), Target 3.5 (Strengthen the prevention...of substance abuse, including...harmful abuse of alcohol), Target 3.6 (By 2020, halve the number of global deaths and injuries from road traffic accidents) and Target 3.a (Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries, as appropriate).

developing countries, making this an area of tax policy where there is substantial scope for sharing of experience between developing countries.

7. If the Committee takes up work on this issue, the Committee also could examine the arguments that inevitably will be raised in opposition to the introduction of new health taxes or to changes that will make existing health taxes more effective. Just as the handbook on carbon taxes produced by the last Membership of the Committee addressed the issue of public acceptability of carbon taxes, so could Committee guidance address the concerns, whether from a policy, administrative or economic perspective, that may hinder the uptake of these policies by countries that would benefit from reform of their health-related excise taxes.

8. Guidance from the Committee might take the form of one or more handbooks on health taxes (either individually, or as a group) similar to the carbon tax handbook, which addressed policy design, administration and political economy issues. The process of drafting the guidance would itself raise the profile of the issue with tax officials who may not have been aware of the progress that has been made in this area. In addition, as with all of the Committee's publications, these handbooks would provide the basis for capacity development activities to disseminate the Committee's guidance to tax and finance policy officials in developing countries that are in a position to implement or reform health taxes in line with the handbook's recommendations.

9. A stand-alone handbook on tobacco taxes might be possible within two years, to be followed by a handbook on either alcohol or SSBs within the term of this membership. Alternatively, it might be determined that there are sufficient commonalities to address all three types of health taxes in a single handbook to be finalized by the end of this membership's term. One or more workshops on health taxes during the course of this membership would enrich the guidance and raise the profile of the issue as well.

Areas Where Input from Tax Experts Could be Most Useful

10. As noted above, there is a substantial literature on policy design with respect to health taxes. There are certain commonalities among the three types of products, but also important differences. Accordingly, necessary input from tax and finance experts differs somewhat depending on the type of product.

11. In the case of tobacco, numerous studies conclude that, because the harm from one cigarette is the same no matter what the price, it is appropriate to impose a specific tax with respect to a given amount of tobacco product. In that case, the tax on each cigarette or other tobacco product would be the same no matter what the price. This allows for a relatively simple yet effective tax structure, which also is easier to administer. The Philippines, for example, had tried specific, *ad valorem* and tiered systems of tobacco excise taxes in the past. In 2013, it opted for uniform specific taxation with significantly raised rates, which was phased in over five years. The reform resulted in a reduction in tobacco use but, because demand for cigarettes is relatively inelastic (meaning that the decline in consumption is less than proportional to the increase in price), also increased tobacco tax revenues. However, some countries may take the view that imposing only specific taxes would allow tobacco companies to capture more revenue from premium brands that are sold at higher prices, leading them to impose *ad valorem* taxes in addition to specific taxes. In any case, the taxation structure must support and maintain the goal of decreasing affordability – that is, if a country adopts a specific tax, it must ensure that inflation and economic growth do not erode the effects of the tax through increased affordability. Some countries adopt an automatic “escalator” mechanism linked to specified economic factors in order to avoid regular legislative changes that might otherwise be necessary to ensure that tobacco products do not become more affordable over time, which would undercut the policy of discouraging their use.

12. Work on tobacco tax administration has lagged behind the policy work, although this is changing. In 2016, the IMF published a “how-to” note on tobacco excise taxes that addressed some

administrative aspects.² The World Health Organization³ and the World Bank⁴ have both recently published significant volumes focusing on case studies that describe how various countries have organized tobacco tax administration or addressed illicit tobacco in its various forms. It would be helpful for tax authorities to provide input regarding the administrative considerations that should be taken into account when developing tobacco tax policies. For example, many countries impose tobacco excise taxes at the time of manufacture or at import, when the cigarettes enter the country. This approach can produce an unfamiliar twist on a familiar transfer pricing problem, as this structure frequently results in the tax being imposed on the price charged in an inter-company transaction. For example, a manufacturer may choose to build a single plant in a jurisdiction within an economic community and export cigarettes throughout the community through subsidiaries, charging relatively low prices at the border in order to reduce the excise tax burden. Because excise taxes on tobacco products may be much higher than the income tax rate in either jurisdiction, and are imposed on the gross value of the product, the transfer pricing may be driven by excise tax considerations rather than income tax considerations, since the income tax is imposed on a net basis at a lower rate.⁵ Solutions may be to impose *ad valorem* taxes when tobacco is sold to the public or relying more on specific taxes.

13. With respect to alcohol, appropriate tax policies may differ more than in the case of tobacco. This is in part attributable to the diversity of alcoholic products (with respect to type, alcohol content, price and quality), but it is also due to cultural differences relating to alcohol consumption. One approach is to tax products based on the alcohol content, while others argue for targeting those products that contribute most to harm. In some countries, the products that produce the most harm would be wine or beer. Under the first approach, wine and beer would be taxed relatively lower than spirits; under the second, taxes would be relatively higher than on spirits. These differences suggest that, while there is not a one-size-fits-all policy prescription, there is significant room to increase understanding to improve health outcomes. Historically, alcohol taxes have been imposed mainly in order to raise revenue, so that tax authorities would benefit from learning about how to improve health outcomes while maintaining or increasing tax revenues.

14. On the other hand, there may be less risk of smuggling with respect to alcohol than with respect to tobacco. Tobacco products are lighter than alcohol and, therefore, more valuable per ounce. A crime syndicate deciding whether to smuggle a container of cigarettes or of alcohol will find the cigarettes much more profitable. As a result, tax authorities may be able to focus less on administrative issues and more on policy design with respect to alcohol.

15. The parameters of effective taxes on SSBs are fairly well-developed in the health literature – taxes should be imposed on the sugar content in order to drive substitution by consumers of healthier beverages and/or reformulation by producers towards lower sugar content. Because of the relatively lower price of SSBs, there seems to be less scope for illicit smuggling or production of SSBs, so the administrative difficulties appear relatively manageable. The issues therefore tend to relate to political economy – convincing policy makers of the health benefits of a substantial tax on SSBs rather than, for example, all beverages (which would penalize consumption of healthy beverages, such as bottled water).⁶ Opponents often argue that taxes on SSBs will have negative effects on employment in the sugar and beverage industries. In fact, because consumers will likely shift expenditure in response to a tax, taxes on SSBs encourage substitution of other goods and services, which may in many cases produce increased employment – a rare win-win-win from a tax reform.

² <https://www.imf.org/external/pubs/ft/howtonotes/2016/howtonote1603.pdf>

³ <https://www.who.int/publications/i/item/9789240019188>

⁴ <https://www.worldbank.org/en/topic/tobacco/publication/confronting-illicit-tobacco-trade-a-global-review-of-country-experiences>

⁵ There also may be income tax issues specific to the tobacco and alcohol industries that affect developing countries that might be taken up by the Committee at a later time.

⁶ Many countries have long-standing taxes that apply to all beverages, which are not well-suited to affect health outcomes in positive ways.

Recommendation

16. Although substantial work has already been done on the issue of health taxes from the health policy side, significant progress on implementation is likely to be achieved only if tax and finance experts become more involved in the process of developing tax guidelines. The Committee therefore is asked to consider whether it wants to pursue work on this topic. If so, it would be necessary to consult regularly with health experts who have been working on these issues, including from academia and specialist agencies, so that establishing a Subcommittee on Health Taxes would be the most efficient means of making progress. From the tax side, the ideal participants in such a Subcommittee would be primarily specialists in the administration of excise taxes, so that there should not be a substantial burden on the members of the Committee themselves. Such a subcommittee should include representatives of civil society who have been working on these issues and should receive industry input through the promulgation of public discussion drafts, with adequate time for responses from the public.

17. If the Committee agrees to this approach, it could consider the following draft mandate for the Subcommittee on Health Taxes:

The Subcommittee is mandated to consider, report on and propose guidance on health tax issues and opportunities for developing countries in particular, on the basis that it shall:

- Identify and consider the most pressing issues where guidance from the Committee may most usefully assist developing countries in this area and initially report to the Committee on such issues at its twenty-fourth session in 2022;
- Pay particular attention to the application of excise taxes on tobacco, alcohol and sugar-sweetened beverages and report on current country practices, policy considerations and administrative issues; and
- Provide draft guidance on such issues as are approved by the Committee at its sessions.

In undertaking its work, the Subcommittee shall consult broadly and seek to engage with academia, specialist agencies (such as the World Health Organization) and other international organizations, and civil society active in the field. The Subcommittee will also make drafts of its proposed reports and other publications available for written comment in order to receive input from industry stakeholders. The Subcommittee shall report on its work at each session.