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Health Taxes

Proposed United Nations Handbook on Health Taxes for Developing Countries
Draft Outlines of Additional Chapters

Summary

This note is provided to the Committee for ***discussion*** at its 25th Session.

At its 23rd Session in October 2021, the UN Committee of Experts on International Cooperation in Tax Matters considered note (E/C.18/2021/CRP.35) on a proposed new workstream on health taxes. Health taxes are excise taxes on tobacco, alcohol, sugar-sweetened beverages and other harmful products that are intended to reduce their consumption, thus improving health outcomes. Health taxes therefore directly support a number of the Sustainable Development Goals. The Committee decided to establish a Subcommittee on Health Taxes to undertake work on this topic that would focus on providing tax policy and administration guidance to assist countries in adopting the most effective health taxes, from both a health and revenue perspective.

At the 24th Session of the Committee, the Subcommittee proposed a work program (E/C.18/2022/CRP.4) that would focus on producing a handbook on health taxes for developing countries. It also requested comments from the Committee on a tentative structure for that handbook and an outline of Chapter 4 – General Considerations When Designing Health Taxes. The Committee approved the proposed work plan and provided helpful comments on the handbook structure and chapter outline.

This note includes draft outlines of Chapter 2 – An Introduction for Policymakers: Looking at health taxes through different lenses, Chapter 5 – Setting the Health Tax Structure and Rate, Chapter 6 – Revenue Use and Chapter 7 – Administering Health Taxes.

The Subcommittee expects that the chapters based on these outlines (taking into account any comments at the 25th Session) will be submitted to the Committee for its consideration during 2023.

Chapter 2: An Introduction for Policymakers: Looking at health taxes through different lenses

I. Introduction: Setting the Scene

- A. The epidemic of NCDs exacerbated by Covid-19
- B. The urgent need for increased fiscal space

II. Why health taxes?

- A. Improve population health
- B. Raise government revenues
- C. Correct for negative externalities (harm to society) and negative internalities (harm to oneself)
- D. Can strengthen inclusive and sustainable growth

III. Special concerns for health taxes in a developing country context

- A. Can be a relatively important source of government revenues
- B. Fiscal capacity – the state's ability to raise revenues from taxes efficiently
- C. Current health taxes can be poorly designed
- D. Particularly challenging political economy

IV. What Finance Ministers need to know about health taxes

- A. Investing in health is good for the individual and the economy
- B. Can be an efficient instrument to improve population health
- C. Can improve economic efficiency
- D. Can be progressive
- E. Can generate revenues even in low-capacity environments (few tax subjects)
- F. Soft earmarking may make sense

V. What Health Ministers need to know about tax administration and fiscal policy

- A. Enforcement and compliance impose a cost for governments and businesses (and possible implications for employment)
- B. Align tax policy to administrative capacity

C. Rationale may differ (what is the optimal rate?)

D. Existing laws and regulations

E. Earmarking taxes for health do not automatically increase the health budget and Ministries of finance generally do not approve of earmarking

VI. What the Governments need to know: The political economy considerations of health taxes

A. Industry usually aggressively advocates against health taxes (know the arguments)

B. Longer-term benefits for individuals and economy (possible losers in the short run)

C. Health taxes in combination with other targeted health policy measures improve health effects

D. Successful health taxes (along with other health policies) eventually entail reduced health tax revenue

E. The key role of data and analytical capability of both ministries of finance and health to inform discussion, socialization and implementation.

VII. Prospects for health taxes

A. Important promise of triple wins (health, revenue, equity)

1. Understand political economy and the local context

2. Much common ground between health and finance authorities

3. Coalition of reform

B. Invest in tax administration – policy is never better than what can be implemented

Chapter 5: Setting the Health Tax Structure and Rate

I. Introduction.

A. Nearly all countries have alcohol and tobacco taxes, and many tax non-alcoholic beverages.

B. Reforms to design of tax structure and rate can lead to improved fiscal and health outcomes.

II. The economic framework for health tax design

A. Theory of externalities and Pigouvian taxation (Summarize briefly how externalities arise from consumption of alcohol, tobacco)

Box 1. Estimates of the Cost of Externalities from Alcohol, Tobacco, SSBs in Developing Countries

B. Taxation of internalities (Summarize recent literature on how consumers do not consistently internalize the costs of consumption (Gruber & Kozcegi))

Box 2. Estimates of the Cost of Internalities from Alcohol, Tobacco, SSBs in Developing Countries.

III. Basic considerations for setting the tax structure (tax type and base)

A. Types of taxes and tax base

1. Excises taxes versus import tariffs and VAT/sales taxes. Excises are optimal instrument except in exceptional situations, e.g., SIDS

2. Types of excise taxes: specific versus ad valorem, hybrid specific/ad valorem.

3. Choice of type depends on fiscal and health policy objectives and country situation.

4. Uniformity versus tiers and thresholds

5. Defining the base for taxation

B. Best practices and examples of tax rates

1. Tobacco

2. Alcohol

Chapter 6 – Health taxes: revenue use

I. Introduction: Setting the Scene

A. Health taxes are a good idea in their own right

1. Revenue benefits (as shown in previous chapters) can be substantive

2. Vigorous debate and a wide range of country experiences of these revenues use

B. Spectrum of health tax revenue use

1. General budget

2. Hard earmarking

3. Well-defined expenditure purpose

C. Importance of broader context

1. Overall tax;

2. Budgeting processes; and

3. Governance systems

relevant to use of health tax revenue (Ref to Chapter 3: Role of Health Taxes in National Budgets)

D. Good-practice expenditure and revenue management strategies relevant to use of health tax revenue

E. Examines approaches to health tax revenue use from a 'purpose' perspective.

II. Overview of health tax revenue use

A. Overview of the number of countries that earmark all or a portion of tobacco, alcohol, or sugary-sweetened beverage (SSB) taxation

B. Description of the characteristics and purpose of revenue use

1. World Bank GTP Health Tax database

2. How to monitor revenue use and assess 'success'

C. Three types of revenue use observed:

1. Mitigating or compensatory measures

a. Address equity impacts and other (unintended) consequences of taxation

b. Example: Introducing health tax reform as part of a broader fiscal package that may include more funding for cash transfer programs

2. Complementary or reinforcing measures

a. Support achievement of the health tax policy objective

b. Example: Channeling part of health tax revenue to cessation programs

3. Earmarking arising from health taxes introduced specifically to raise revenue for health system financing (e.g. Philippines)

III. Considerations of health tax revenue in the context of mitigating or compensatory measures

A. Examples of revenue use to mitigate impact on producers (e.g. tobacco, sugar farmers)

B. Consumer (equity) impacts

C. Relevant political economy dimensions: addressing stakeholder interests; legitimacy

D. Relevant good-practice expenditure and revenue management considerations (PFM)

IV. Revenue use for complementary or reinforcing measures

A. Ways in which revenue use can support the broader (social) policy objective

B. Preventive health

C. Cessation programmes

D. Early childhood development and nutrition (ref Ch 13)

E. Relevant political economy dimensions: acceptability (ref Ch 10); legitimacy

F. Relevant good-practice expenditure and revenue management considerations (PFM)

V. Revenue use for health financing

A. Some health taxes are introduced with a specific objective of health system financing – earmarking effectively the purpose of the tax

B. Health taxes are often brought up as part of broader DRM strategy to increase financing for health

C. Relevant political economy dimensions: acceptability (ref Ch 10); legitimacy

D. Relevant good-practice expenditure and revenue management considerations (PFM)

VI. Conclusion, including a checklist/summary list of the considerations

Chapter 7 – Administering Health Taxes

I. Introduction

II. General Issues in tax administration

A. Resourcing and Tax Administration Arrangements

B. Combat corruption within administration

C. Dispute Resolution Processes

III. General Issues in health tax administration

A. Capacity constraints – the extent to which administrative capacity delimits health tax policy

B. Different taxes - acknowledgment of differences, historical and practical, when collecting tobacco, alcohol, SSB. But also, opportunity to highlight crossover

C. Collaborative Arrangements - importance of designating competent authority for specific tasks and the importance of structured cooperation with other domestic agencies (Tax Authorities, Health, Police, Ministry of Finance, etc.)

D. Regional - coordination / cooperation between states, especially when introducing measures (to mitigate potential cross-border shopping. e.g. minimum pricing of alcohol in Ireland was to await introduction of similar measure in UK)

IV. Tax compliance

A. Registration (or authorization) and licencing (including the collection of information (when licencing) and the obligation on licenced operators to keep records)

B. Licenced activities (including, manufacture, importation, movement under duty suspension, and release for consumption)

C. Tax declaration

D. Audit and control (including opportunities to cross-reference data from other sources, including track and trace systems)

E. Payment and collection (including anti-forestalling measures)

F. Refund

G. Challenge posed by online sales

H. Challenge posed by informal markets (thinking of, e.g., sigaret kretek tangan in Indonesia, umqombothi in South Africa.

I. Special considerations in respect of small island developing states

V. Specific Considerations

A. Application to Tobacco

B. Application to Alcohol

C. Application to SSB

VI. Track and trace

A. Discuss effectiveness in controlling supply chains and extent to which T&T is, or is not, incorporated into tax administration and connection with tax stamps.

VII. Enforcement (combatting illicit trade)

A. Fiscal marks (tax stamps)

B. Customs controls (x-ray scanners, dogs, physical checks, etc.)

C. International exchange of information

D. Special measures for free zones

E. Penalties (sufficient to deter illegal activity)

VIII. Conclusion