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**Committee of Experts on International
Cooperation in Tax Matters
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Item 3(o) of the provisional agenda

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 Twenty-seventh Session.

At its Twenty-third Session in October 2021, the UN Committee of Experts on International Cooperation in Tax Matters decided to establish a Subcommittee 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's work on this topic 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 its Twenty-fourth Session, the Committee approved a work program ([E/C.18/2022/CRP.4](#)) that would focus on producing a handbook on health taxes for developing countries.

This note includes draft outlines of *Chapter 3: Role of Health Taxes in National Budgets*, *Chapter 8: Addressing Potential Secondary Effects of Health Taxes*, *Chapter 9 (Insuring coherence between policy instruments)*, *Chapter 10: How to Generate Public Acceptability for Health Taxes*, *Chapter 11: Specific Issues with Respect to Tobacco Taxation*, and *Chapter 13: Specific Issues with respect to Excise Taxation to Support Improved Nutrition*.

The Subcommittee looks forward to the Committee's comments on these draft outlines.

CHAPTER 3: Role of Health Taxes in National Budgets

I. Introduction: Health taxes and financing for sustainable development

- A. Health taxes as an investment in sustainable development: Investing in health and human capital are key to sustainable development
 - 1. Human capital as an important factor of economic development
 - 2. Non-communicable diseases (NCDs) represent a substantial economic burden (loss of capital – premature deaths and sickness, loss of productivity, loss of capital previously invested into education and health, increased healthcare spending and public sources that cannot be invested into development)
 - 3. Health-care costs impose burden on national budgets (present evidence of varying burden between high-income countries (HICs) and low- and middle-income countries (LMICs), and how health taxes are used as source for financing health care costs).
 - 4. Households' spendings on health-harming products and on health care costs linked to harmful consumption crowd out spendings on education, healthy nutrition, etc.
- B. Under-tapped revenue potential (not only) for countries with “stressed” public finances
 - 1. Current context of growing public debts, mainly due to external events (pandemics, wars, rising global interest rates) create a need for additional financing sources
 - 2. Potential impact on sovereign credit ratings (showing potential for other countries, used the example of Phillipines)
 - 3. Majority of the countries currently under the WHO recommended thresholds of share of tax and share of excise tax in retail prices for tobacco products – space for improvement and more revenue generation
 - 4. Even if revenue probably not as significant as other taxes, such as VAT, the additional revenue for implemented/increased health taxes can cover many policy measures and considerably contribute to achieving SDGs and goals in national plans
 - 5. Reducing NCDs morbidity and mortality through health taxes would support a stronger labor force with lower drop-out rates due to NCDs, absenteeism and presenteeism. Tobacco taxes would reduce the number of hours spent on unsanctioned smoking-breaks and therefore a loss of productivity
- C. Addis Ababa Action Agenda: global framework for financing sustainable development (includes 7 action areas)
 - 1. Action area A) Domestic Public Resources:

- a. Strengthening the mobilization and effective use of domestic resources is central to achieving the SDGs. Domestic resources are critical to realizing sustainable development and achieving the sustainable development goals.
- b. Linked to:
 - i. Point 22: health taxes broaden the tax base in line with Point 22 (broadening the tax base) by including additional taxes applied on selected products in the national tax mix;
 - ii. Point 31: restructuring taxation and rationalizing inefficient fossil fuel subsidies;
 - iii. Point 32: price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing for development in many countries.

II. Why are health taxes important for budget-setters?

- A. Position of health taxes in the budget: short definition and description of a budget and the basic budget structure for a non-financial audience; box with revenues and expenditures overview showing where health taxes fit it
- B. Role of health taxes in the tax mix
 - 1. Developing countries often rely on corporate income tax and consumption taxes, primarily sales tax, while developed countries have higher shares of revenues from personal income taxes (UN DESA)
 - 2. Brief comparison of health taxes in relation to other taxes in terms of sound tax policy (purpose, advantages and disadvantages – capacity to raise revenues, scope of distortion, etc.).

III. Health taxes and strategic budgeting

- A. Planning beyond annual budgets
 - 1. Health taxes represent a relatively more reliable and stable source of revenues, relative to other taxes that are more affected by economic booms and busts - important for planning, especially in the medium term
 - 2. Planning beyond annual budgets can contribute to better prioritization and better outcomes towards achieving development goals
 - 3. After COVID-19 and/or the crisis linked to the war in Ukraine, many governments are being forced to revise and reformulate their development plans and public financing strategies

4. Good planning may contribute to addressing potential secondary effects of health taxes (ref. Chapter 6 and Chapter 8)
 5. Good planning can help address and/or prevent inconsistencies in national budgets and fiscal policy – e.g., imposing taxes on health-harming products while providing incentives to the industries that produce these products; VAT exemption on unhealthy products while taxing SSBs; providing fossil fuel subsidies harming environment and health while imposing a carbon tax (ref. to the UN Handbook on Carbon Taxation).
- B. Health taxes and public financial management: planning, formulation, implementation and evaluation
1. Annual budgets
 2. Multi-year budgeting for improved outcomes:
 - a. Medium-term revenue strategy – includes reform plan for tax system
 - b. Medium-term expenditure frameworks – focus of goals, accountability, and efficiency
 3. Planning and formulation phases: need for health tax revenue estimates, need for estimates of impact on industries affected by health taxes, impact estimate on unemployment and linked income tax revenue and social security payments, impact of health taxes on population' health and health care spending (ref. to Chapter 8)
 4. Implementation: proper processes to channel resources raised from health taxes through the national budget
 5. Evaluation phase: evaluation of forecasting accuracy, search for errors in estimates and reasons of errors for improved forecasts, evaluation of the use of resources
- C. Health Taxes within Financing for Development and Integrated National Financing Framework (INFFs)
1. Countries have agreed to use INFFs to support national implementation of the Addis Agenda (a missing link between financing needs and resources; estimated that 70 percent of 107 national development plans were not costed).

<p>Box: Country case – INFF in Cambodia: Financing recovery: Cambodia gears itself for a strong comeback post-Covid-19. Includes increasing taxes on tobacco, alcohol, and sugary beverages as one of the recommendations of the INFF to increase domestic revenues.</p>
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2. Cohesive planning and financing are essential to strengthen the link between planning and financing and to mobilize financing for the SDGs.
3. Graphics about the position of health taxes in the system, as excise taxes within the different sources of public funding:

Development Finance Assessment dimensions:

Resources	Public		Private	
	Domestic (health taxes)	International	Domestic	International
Tool	Integrated planning and financing			
	Public-private collaboration			
	Monitoring and review, transparency and accountability			

4. National planning and financing systems: Health taxes are part of medium-term implementation strategies and correspond to medium-term government action plans (3-5 years): Tax revenue strategy.

Graphics: National planning and financing systems

Timeframe	Planning		Financing
Long-term (10 years +)	National development plan, Economic development plan		Finance strategy or chapter of NDP
Medium-term (3-5 years)	Medium term action plan (sector plan, thematic plans, subnational plans, infrastructure investment plan)		MTEF, MTRS (Tax revenue strategy including health taxes), PPP Policy, Investment promotion policy, Development cooperation strategy, Policies on other flows
Annual	Annual action plan		National budget

- D. Gender responsive budgeting
 - 1. To fully align the INFFs and fiscal policies with the SDGs, the UNDP and the UN Women developed a technical guide to mainstream gender equality into the INFFs.
 - 2. The manual recognizes taxation as a tool to support women and to advance equity.
- E. Health taxes, the 2030 Agenda and the Sustainable Development Goals
 - 1. Health taxes align with 16 out of the 17 SDGs (all except for SDG 7. Affordable and clean energy)
 - 2. Taxation is a powerful tool to help finance the achievement of the SDGs, and it can also spur inclusive and sustainable development in other ways
 - 3. Health taxes may save expenditures beyond health care (e.g., reduce expenditures linked to gender-based violence as a result from alcohol tax, reduce expenditures necessary to address environmental pollution linked to tobacco growing)
 - 4. Infographics on how health taxes are linked to SDGs and budgetary expenditures needed to finance linked policies (a few sentences to each).
- F. Pursue synergies with policies aiming to achieve similar goals: While other policy measures focused on harmful consumption may represent additional expenditures in the budget, they may strengthen the impact of tax on consumption and amplify the benefits of health taxes.

IV. Optimizing the use of health tax revenue

- A. Transparency and accountability: Importance of accountability and transparency, to publicize the ‘return on investment’ in health taxes and to show where spending of health tax revenue is going, etc.
- B. Allocation of health tax revenue: Governments can allocate health tax revenue for specific purposes (soft earmarking) based on country context (ref. to Chapter 6 and Chapter 8).
- C. Monitoring use of health tax revenue: Monitoring is key to ensure accountability in the allocation of resources, to measure effectiveness of health taxes in the national budget and to demonstrate the good use of the resources raised from taxes.
- D. Key stakeholders
 - 1. Key stakeholders may include the Ministry of Finance, Ministry of Health, cessation services, research centers, CSOs, specialized funds on health promotion
 - 2. Country examples, such as Thailand and Panama, of key stakeholders involved in use of health tax revenue
- E. Tax cooperation: Cooperation of international, regional, national, and local tax authorities is important to ensure the efficient use of health tax revenue (ref. Chapter 4).

CHAPTER 8: Addressing Potential Secondary Effects of Health Taxes

I. Introduction

- A. Besides the direct, primary impacts of introduction/increase of health taxes discussed in previous chapters (impact on prices and consumption of taxed products, on health of the population and on health tax revenues), health taxes may have other, secondary, impacts. Impacts of health tax implementation or scale-up may vary greatly across countries depending on context (e.g., market sizes and character, presence and scale of farming linked to taxed products, existing policies, elasticity and current demand) – this chapter analysis the potential secondary effects.
- B. Governments need to assess which and how different sectors and industries will be impacted by a tax change
- C. Refer to a check list (provided at the end of the chapter) as a guidance on how to assess the secondary impacts of health taxes

II. Potential secondary impacts of health taxes by sector

- A. Agriculture
 - 1. Concern: a decrease in consumption caused by a tax increase could lead to a decrease in the demand for raw tobacco, grapes, hops, barley, rice, honey and other inputs used in the production of health-harming products, causing potential losses in revenue for farmers.
 - 2. Scope:
 - a. Summarize information on relevant agricultural sector globally (number of farmers of each product, number of jobs created, tax revenues generated, but also costs - environmental, subsidies, health...)
 - b. Assess the profitability, sustainability and welfare of working in each industry; e.g., for tobacco: Low productivity, profitability of tobacco industry in comparison to other industries, difficult position of tobacco farmers, often lower income in comparison to other livelihoods (e.g., North Macedonia), dependence on tobacco industry for inputs and often selling tobacco leaf under monopsony conditions.
 - 3. Ways to address:
 - a. Support farmers to switch to production of other goods

- b. Support re-training and entrepreneurship
 - c. Ensure safe and flexible safety net for persons searching for job alternatives.
 4. Country example: Kenya - farmers higher revenues after switching from tobacco
- B. Manufacturing industry
 1. Concern: health taxes could decrease employment in the manufacturing of the health-harming products, and linked suppliers.
 2. Scope: Information about the number of employees in the sectors, contribution to GDP, evidence on the impact of tax measures on employment in the sector (e.g., in Indonesia, 1 percent decrease in output results in a 0.16 percent decrease in employment in the cigarette manufacturing sector, 1 percent decrease in output corresponds to a 0.092 percent decrease in employment in the tobacco processing sector (World Bank Group, 2018)).
 3. Ways to address:
 - a. Support re-training and entrepreneurship
 - b. Ensure safe and flexible safety net for people searching for job alternatives
 - c. Create programmes specifically targeted to affected industries (potentially using the revenues gained by increased health taxes)
 - d. Support reformulation and innovation towards healthier products in industries where possible (e.g., non-alcoholic beverages).
- C. Distribution industry
 1. Concern: decreased consumption resulting from health taxes could impact the distribution sector.
 2. Scope:
 - a. Information about the number of employees in the sectors, contribution to GDP, evidence on the impact of tax measures on employment in the sector

- b. However, people tend to replace products by other products so reduced consumption will be to a great degree replaced by other products – include evidence.

3. Ways to address:

- a. Announce the tax in advance to allow for accommodation and adjustments by the industries.
- b. Support with other fiscal measures (such as reduced VAT on healthy alternatives or education-related materials).

D. Retail

1. Concern: health taxes could affect sales of grocery stores, corner stores and shops.

2. Scope:

- a. Information about the number of employees in the sectors, contribution to GDP, share of health harming products as share of turnover in the retail industry (that sells such goods), evidence on the impact of tax measures on employment in the sector
- b. However, evidence shows that consumers change their consumption patterns so income is re-allocated to consumption of other goods, even within the same entities, or within the same sector (acknowledge that some income can go into savings rather than other consumption).

3. Ways to address:

- a. Measures linked to employment and entrepreneurship (support re-training and entrepreneurship)
- b. Support innovation to support switching to or creating healthier alternatives
- c. Flexible systems and good business environment (one-stop shop to open business)
- d. Support with other fiscal measures (such as reduced VAT on healthy alternatives or education-related materials).

E. Hospitality industry

1. Concern: health taxes would affect revenues of restaurants, bars etc. and linked sectors, and their jobs.
2. Scope:
 - a. Information about the number of employees in the sectors, contribution to GDP, share of health harming products as share of turnover in the hospitality industry, evidence on the impact of tax measures on employment in the sector
 - b. Experience that restaurants and bars actually often do better after the implementation of tobacco tax, and smoke-free policies, which can attract a new clientele (e.g., families) (add country examples).
3. Ways to address:
 - a. Measures linked to employment and entrepreneurship listed above
 - b. Flexible systems and good business environment (one-stop shop to open business).

F. Industry revenues and impact on tax revenues

1. Concern: Decrease in consumption caused by a tax increase could lead to decrease in industry revenues, which can lead to a decrease in corporate income tax revenue from the industries.
2. Scope:
 - a. Share of national tax revenues contributed by the tobacco, alcohol, and SSB industry, and share of that which is from CIT vs excise tax.
 - b. Industries tend to accommodate to changes, including tax changes (examples of accommodation: innovative products – e-cigarettes, non-alcoholic beverages, SSBs reformulation in various countries - including examples from Portugal, South Africa and other countries).
3. Ways to address:
 - a. Support reformulation of SSBs (e.g., early announcement of the tax increase, tax design, support of innovations)

- b. Support innovation towards healthier products where possible, e.g., through tax design
- c. Support research and development.

G. Households

1. Concern:

- a. Higher health taxes may represent an additional economic burden, especially for low-income groups.
- b. For those whose consumption is more inelastic, higher taxes will not change behavior and will just represent a higher share of household income being spent on health-harming goods, at the expense of other household needs (crowding-out).

2. Scope:

- a. Share of household income that is spent on health-harming products, with information by different income groups. Share spent on health, out of pocket health spending.
- b. Health taxes reduce NCD prevalence (that affect low-income groups disproportionately), reduce healthcare costs, reduce loss of productivity, reduce likelihood of withdrawal from the labor force.

3. Ways to address:

- a. Combine with other policy measures focused on harmful consumption (awareness-raising, health warnings or labeling, sales regulation, etc.)
- b. Combine with cessation interventions to lower inelastic behavior: Help people to stop smoking by offering information and free cessation support, offer help to people with alcohol addiction to stop drinking, provide information on alcohol's harmful impact
- c. Ensure drinking water is accessible as an alternative to SSBs and is not included in the health tax
- d. Ensure healthy alternatives to SSBs are available, particularly at schools and other places for children and youth

- e. Encourage preventive health care through other measures and make it accessible to households from all socio-economic groups.

4. Additional considerations:

- a. Substitution and trading down effect: effective tax design to prevent households from switching to cheaper and/or other unhealthy products, often even more harmful (e.g., low-quality products, illicit products, roll-your-own cigarettes without filter) (Ref. to Ch 4) often more harmful products.
- b. Tax design: ensure that it does not encourage price and volume manipulations by the industry, such as reducing volume and keeping price constant (e.g., Thailand: after tax increase TI decreased the size of cigarettes).

H. Gender impact

- 1. Concern: Increased health taxes could burden the family budget, this can also be particularly bad for women: even if men smoke and drink alcohol more frequently and should bear the burden of health taxes more, they also often control the family budget which could have a negative economic impact on women and children in the household and lead to reduced investment in education, nutrition and health.
- 2. Scope: low taxation of tobacco and alcohol is like “subsidizing it” because it does not internalise the full cost, which then leads to women being exposed to second-hand smoke during pregnancy and breastfeeding, harmful substances and difficult conditions in farming.
- 3. Ways to address:
 - a. Gender empowerment policies should be in place to support access of women to the labor market, financial services, education, and financial literacy, etc.
 - b. Support smoking cessation,
 - c. Provide support for people with alcohol addiction and provide information on harmful effects of alcohol,
 - d. Use other measures to ensure basic supplies and services are accessible, including tax measures (e.g., VAT exemptions on healthy food, school supplies, etc.).

4. Positive gender impact of health taxes and reduced consumption of harmful products:
 - a. All genders benefit: men mostly through decreased direct consumption (as main tobacco, alcohol and SSB consumers) and women through decreased indirect consumption (main victims of second-hand smoke and gender-based violence caused by alcohol).
 - b. Gender aspects of farming (women in linked agriculture – exposure to health-harming substances, pressures in the sector).
- I. Lower tax revenue than expected from increased health taxes
1. Concern: Given that health taxes are geared to change consumer and producer behavior, consumption may decrease so much, while producers may reformulate products in a way to avoid taxes, such that the revenue generated may be lower than originally expected.
 2. Scope: Even if less revenue from health taxes is generated than expected, empirical evidence shows that for most countries, there is often still a considerable revenue increase to be expected; the revenue may also depend on the character of the market (pass-through rate); in addition, excise taxes are often linked to other taxes, such as VAT where revenue should also increase.
 3. Ways to address:
 - a. Analyse the market
 - b. Analyse revenues from other linked taxes, such as VAT
 - c. Ensure that all harmful products are taxed in the given category to raise additional revenues (e.g., in many countries milk-based SSBs are not taxed)
 - d. Ensure the tax design prevents price manipulations and other strategies taken by the industry to avoid paying tax
 - e. Use conservative revenue estimates while budgeting.
 4. Country example of SSB tax in UK: tax revenue was less than expected given industry response to reformulate beverages with less sugar. Still, there was additional revenue generated.
- J. Illicit trade and cross-border shopping

1. Concern: tax increase would fuel illicit trade.
2. Scope:
 - a. Common misapprehension; in reality there is a very weak causal relationship. Other factors, such as administration capacity, play a more important role in determining level of illicit trade and smuggling
 - b. No evidence on the connection between illicit trade and SSBs
 - c. Tax and price differences are some of the incentives behind illicit trade with alcoholic beverages; however, other factors, such as legal framework (penalties, sales regulation, etc.), cross-country cooperation and others play an important role (ref. to ‘ways to address’)
 - d. Country examples of where tax increases did not increase illicit trade (Sierra Leone).
3. Ways to address:
 - a. Strengthen administration, implement tracking measures, etc. (reference to the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products), regulating and controlling the supply of raw materials
 - b. Raising level of awareness of the health impacts, threats of the illicit trade and its consequences
 - c. Strengthen cross-border tax harmonization, coordination and cooperation
 - d. Analyze the market and design the tax according to context (size of illicit market, character of licit market, population’s purchasing power, etc.)
 - e. Prevent industry interference, including misleading studies about taxation and illicit trade
 - f. Ensure multistakeholder cooperation.

Detailed Case Study for Sierra Leone and its policies following an increase in health taxes to reduce the negative impacts on those affected
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K. Inflationary pressures

1. Concern: health taxes may add inflationary pressures as they increase the prices of products; tobacco products, alcoholic and non-alcoholic beverages are often part of the CPI basket.
2. Scope:
 - a. Reduced only to a limited number of products which usually do not represent a significant share of the CPI, the pressures on inflation should not be that high.
 - b. Taxes may not be fully reflected into retail prices – depends on market structure and competition environment (pass-through rate).
3. Ways to address:
 - a. Work with inflation expectations
 - b. Nurture fiscal stability to ensure macroeconomic predictability
 - c. Mitigate through price support of products that are in line with SDGs (e.g., zero VAT rate on educational materials, healthy foods).

L. Environmental impacts

1. Health taxes may have a positive impact on the environment through reduced pollution of air, soil and water, reduced water use in farming and production processes; less waste; cleaner environments and communities; this may lead to savings in addressing environmental damages linked to production of harmful products
2. Scope: fewer cigarette butts, volume of pollutants in each cigarette; amounts of water used in production (cigarettes, alcoholic drinks and SSBs as well as for bottling); less glass and plastic bottle and can pollution; less harmful production during tobacco farming; etc.

III. Conclusions

Appendix: check-list to assess secondary impacts of health taxes

Will include points like:

- size of concerned industries and agriculture – tax revenue, employment;
- character of the market – which will impact how the tax is reflected on the markets;
- product elasticity and cross-price elasticities;
- conditions in the industries – profitability, employment conditions;
- accessibility of healthier options;

- other linked policies – unemployment and retraining policies, social security networks, gender policies, cessation programmes;
- other policies linked to health-harming products.

Chapter 9 -- Ensuring coherence between policy instruments

I. Introduction: Setting the Scene

- A. Fiscal policy goals in the XXI century [*diversity of goals involves trade-offs and requires policy coherence*]
- B. Health taxes and their goals
- C. Fiscal policy interactions and potential synergies
- D. Interactions with non-tax agreements and potential constraints
- E. Wider (non-fiscal) policy interactions and potential synergies

II. Health taxes within the wider fiscal system

- A. The need for policy coherence in shaping consumption
 - 1. Consumption taxes within the broader fiscal system
 - 2. Health taxes as consumption taxes
 - 3. Health taxes' interactions with other consumption taxes: opportunities and risks
 - a. Effects of combining different types of consumption taxes [*typically, VAT/sales taxes, import duties and excise taxes*]
 - b. Efficient and coherent tax design: health tax base and rates
 - c. Health taxes base value and impact on other consumption taxes' incidence
 - d. Other interactions:
 - i. Subsidies (fruits and vegetables)
 - ii. Minimum unit pricing for ALC and other pricing policies
 - 4. Interactions with other fiscal policies:
 - a. Direct taxes
 - b. Subsidies (agricultural, industry-specific)
 - c. Other [*e.g., EU sugar production quota, commodity price controls*]

- B. Interactions in revenue generation and fiscal equity
 - 1. The revenue-raising potential of health taxes and relative importance in countries at different levels of income
 - 2. Revenue interactions with other consumption taxes [*theoretical direction of change*]
 - 3. Overall consumption tax burden faced by consumers and equity concerns
 - 4. Interactions with other fiscal policies and equity concerns:
 - a. Direct taxes [*theoretical direction of change (corporate profit tax, income tax)*]
 - b. Broader welfare expenditures [*overall fiscal balance and equity of the system*]
 - 5. Tax administration and compliance costs

III. Repurposing existing consumption taxes: the case of foods

- A. Foods are subject to general consumption taxes in most countries [*often misaligned with public health goals*]
- B. Repurposing consumption taxes on foods to realign them with public health and environmental sustainability goals - particularly VAT/sales taxes - would not require the introduction of new taxes (often unpopular)
- C. Current approach with excise taxes on HFSS foods is limited in terms of scope [*e.g., Mexico and Hungary*]
 - 1. Nutrient profile modelling as one example of evidence-based tool to broadly discriminate rates between foods based on their relative nutritional impact
 - 2. Limitations [*VAT are less flexible than excise, administration capacity and equity concerns, etc., reference to Chapter 13*]

IV. Health taxes and non-tax agreements

- A. Introduction to the section: Non-tax agreements may impact the use and effectiveness of health taxes [*Competing forces/incentives between trade objectives, corporations' profit driven actions, and public health*]
- B. Trade and international investment agreements between countries: Limitations on import tariffs

- C. International treaties and obligations: Freedom to adopt domestic tax measures for health purposes and the principles of non-discrimination [*WTO GATT*]
- D. Public-private partnerships and commercial agreements: Impeding policy coherence across government sectors, limiting the ability to implement and increase taxes [*e.g., Laos' Investment License Agreement with tobacco industry in 2021 placing a moratorium on tobacco tax increases*]

V. Health taxes and other cost-effective NCD prevention policies

- A. Health taxes are highly cost-effective, however, tackling NCDs requires a comprehensive approach [*combining policies lead to greater impact*], including other cost-effective policies to regulate these commodities [*special focus on WHO best-buys*]
- B. Interactions with such policies:
 - 1. Packaging regulations (front-of-pack labelling, graphic warnings/plain packaging)
 - 2. Marketing regulations (bans/regulations of advertising, promotion and sponsorship)
 - 3. Prevention campaigns (behavioural change communication and mass media campaigns)
- C. Others:
 - 1. Measures to minimize illicit trade (mentioning cross-border shopping)
 - 2. Physical availability and food environments

VI. Conclusion

[including a checklist/summary list of the considerations]

Chapter 10: How to Generate Public Acceptability for Health Taxes

I. Introduction

- A. Feasibility of health taxes
 - 1. Importance of feasibility
 - 2. Introduction to public acceptability as part of feasibility
- B. Global context for health taxes
 - 1. SDGs – including health and Universal Health Coverage SDG3 – and role of health taxes in both prevention and raising revenue – need to coordinate with Ch4 and Ch6
 - 2. COVID-19 and NCDs – Implications for risk and imperative for action in relation to public acceptability
 - 3. Note changing context regarding public acceptability

II. The importance of acceptability

- A. Overview/ introduction on acceptability and its link to political decision making
- B. Acceptability *to whom*
 - 1. Consumers
 - 2. People who are economically affected by taxes – consumers and also as workers
 - 3. Political acceptability
 - 4. Ministry of Finance acceptability – especially re: revenue, complexity considerations, capacity considerations
- C. Acceptability of new taxes as well as changes to taxes
 - 1. Noting that for tobacco and alcohol the taxes are largely in place and the issue is increasing rate and strengthening tax design, and for SSBs there is a broader issue (<50% of countries)
 - 2. Salience implications for changes between tax types – e.g. excise vs sales tax

III. Explaining attitudes towards health taxes

- A. Evidence regarding the acceptability of health taxes
 - 1. The salience of health taxes (i.e. do people notice/ care about health taxes)

2. How acceptable health taxes are to the public
- B. What influences public attitudes:
1. Cultural dynamics and context
 - a. Differences and similarities between alcohol, tobacco and SSBs
 - b. Aspirational dimension of consumption
 2. Media discourse
 - a. Role of the media in shaping public acceptability
 - b. Media as a stakeholder – what influences their acceptance?
 3. NGO influence on attitudes
 - a. Medical professional, patient association
 - b. Academic influence – trust and public authority to magnify authority
 4. Industry influence on attitudes
 - a. Strategies used and frames etc
 - b. Industry funded research
 5. Benefits of health taxation are heterogenous and individuals often don't see the specific benefit (i.e. they are people not getting the disease) – collective action problem
- C. Influence of the overall tax package on public acceptability
1. Evidence and theory regarding policy packages with other tax measures, and packages with other health measures
 2. Use of revenue – need to coordinate with Ch6 – especially transparency regarding use of revenue raised (even without earmarking)
 3. Implications of health taxes for corporate tax revenue – especially re: tobacco industry

IV. How to generate public acceptability

- A. The importance of perceptions of the policy problem and opportunities – including framing and explaining benefits from taxation
1. NCDs

2. Other health-related issues
 3. Non-health impacts, including related environmental issues
 - B. The role of political and institutional trust
 - C. Considerations regarding the tax revenues
 1. Perceptions of benefit
 - D. The importance of perceived fairness
 1. Perceptions of elitism (this was significant for carbon taxation so will explore the extent to which it is important for health taxes); add the paternalism argument regarding health taxes “nanny state” etc.
 2. Public perceptions of impact on the poor or other groups
 3. Industry framing of taxes as unfair – need to coordinate with chapter 8
 4. The experience and role of industry response, and strategies to address
 - a. How industry actively seeks to shape public perceptions and acceptability
 - b. Sponsorship of public events by industry – normalization of consumption – and policy interventions to reduce this
 - c. Push by industry to emphasise other (non-product) risk factors
 - E. Strategic policy design to increase public acceptability
 1. Excluding certain products (e.g. national pride products) and manufacturers (e.g. small businesses) – this is an issue that comes up as a policy design question and need to address as an important issue
 2. Engaging with stakeholders strategically
- V. Public acceptability and the policy process**
- A. Searching for windows of opportunity
 1. COVID-19, heightened awareness of health risks associated with NCDs, and importance of financing health systems
 - B. Examples of potential policy-mixes/packages
 1. Complementary policies to address major drivers of (non)acceptance
 - C. Measuring acceptability in due time

VI. Conclusion

Suggested examples throughout chapter (non-exhaustive list)

- Mexico – public campaign, role of NGOs in public acceptability
- Rwanda – new report on health taxes
- Philippines – policy package with tax reform
- Australia – public acceptability in relation to policy package for tobacco, with taxes integral part – there are good data about the impact of various aspects of the policy package
- Czech Republic – attempt to exclude wines from increase in excise taxes and started public conversation about exclusion and industry influence

Chapter 11: Specific Issues with Respect to Tobacco Taxation

- I. Introduction: Global evidence on the harm of tobacco and the effectiveness of tobacco control policies, including tobacco taxation is well established**
- A. Robust body of evidence on health and economic harms and growing body of evidence on secondary harms to the environment (see chapter 8).
 - B. Global treaty and evidence-based and accepted policies to address the harm-
 - 1. WHO Framework Convention on Tobacco Control (WHO FCTC): one of the most rapidly and widely embraced treaties in United Nations' history and designed to reduce consumption and control supply of tobacco.
 - 2. MPOWER: There is broad global agreement on the policies required for effective control of tobacco. Taxation is one of them and the most effective and cost-effective measure. Yet it is the least employed measure.
- II. Why is tobacco use a persistent challenge and why are taxes still under-implemented despite global consensus on its harm and available solutions?**
- A. Poor Tobacco Tax Policy Design: Taxes (ideally excises) should be well structured and constitute a substantial share of the price. Uniform specific taxes that keep pace with inflation and income growth are more effective instruments at raising prices, reducing affordability, and thus, decreasing consumption. Taxes should be high enough to impact the price and affordability of tobacco products.
 - 1. Structure:
 - a. Tobacco products are typically subject to excise taxes, which are either specific or ad valorem or both, which are called hybrid or mixed structures. Specific taxes are assessed per unit of the product (for example, a stick or a pack), while an ad valorem excise tax is a tax that is assessed as a percentage of value (for example manufacturer price or retail price).
 - b. Some jurisdictions have tiered structures with different tax levels depending on the product features, such as the type of cigarette (e.g., Indonesia) or the pack's price category (e.g., Bangladesh).
 - c. Excise taxes should tax all tobacco products similarly to avoid substitution between types of products, e.g., smokeless tobacco, cigarettes, cigars, etc.
 - d. Uniform specific excise taxes reduce price variability, while ad valorem excises and tiered tobacco tax structures result in greater variability in

prices, which creates more opportunities for substitution that occurs when tobacco users trade down to cheaper brands in response to tax and price increases, rather than quitting or cutting back on consumption (*Chaloupka et al., 2010, 2014; Shang et al., 2014; World Bank, 2017; WHO, 2010, 2014, 2021b*).

- e. Specific excise taxes are more effective in raising consumer prices compared to ad valorem taxes and, thus, result in greater reductions in cigarette consumption (*Delipalla & Keen, 1992; Delipalla & O'Donnell, 2001; WHO, 2010*) while complicated tax structures, such as tiered tax structures and systems with a greater share of ad valorem taxes, are associated with higher cigarette consumption compared to uniform specific tax structures (*Shang et al., 2019*).
- f. Linking specific tax rates to the inflation rates and income growth can help maintain the impact of the tax and thus keep the affordability of tobacco products from increasing over time (*WHO, 2014*).
- g. Uniform specific taxes are easier to administer (*WHO FCTC Article 6 Guidelines and the WHO Technical Manual on Tobacco Tax Policy and Administration*). Ad valorem taxes and/or tiered tax structures are more difficult to administer because they are more complex and create more opportunities for tobacco manufacturers to avoid and/or manipulate the tax, making their revenues more difficult to forecast and less stable (*WHO, 2014*).
- h. Retail price as the base of the ad valorem tax is most effective at preventing tax avoidance and evasion because it is the most transparent, and typically the highest price. In contrast, in systems where the ad valorem tax is based on the manufacturer's (ex-factory) price; the cost, insurance, and freight (CIF) price; or the wholesale price, manufacturers can simply evade the tax by artificially lowering the product price at the earlier stages of the value chain where the tax is assessed and move their costs further up the chain (*WHO, 2014, 2021b*).
- i. A minimum tax in combination with an ad valorem tax creates a price floor below which cigarettes cannot be sold, pushing up the prices of economy brands and reducing the price variation between brands. Governments not only gain more revenue from the higher priced brands, but a minimum tax guarantees that amount of revenue from lower-priced brands (*WHO, 2014*). While minimum pricing policies can also set a price floor, the revenues from these policies go to the industry rather than to the government.

2. Tax Share:

- a. Two common and related benchmarks of tobacco tax performance: The first benchmark is whether the sum of all taxes is greater than 75 percent of the average retail price of a tobacco product, and the second benchmark is whether excise taxes account for at least 70 percent of tobacco product retail prices. When taxes are increased to these levels—provided prices are sufficiently high—they lead to significant price increases, motivating many users to quit and deterring large numbers of youth from starting to use tobacco.
- b. Tax share is also a good measure of a government's ability to affect the prices of tobacco products more directly and generate revenue from these taxes.

3. Price:

- a. The price of cigarettes negatively impacts smoking behaviour. (*WHO FCTC Article 6 and Guidelines, WHO Technical Manual on Tobacco Tax Policy and Administration, World Bank Tobacco Tax Reform at the Crossroads of Health and Development, Tauras et al., 2016*).
- b. Cigarettes are relatively price inelastic: an increase in price will result in a less-than-proportional decline in consumption. The estimated impact of price on tobacco consumption varies from country to country, but most studies show that consumption is more responsive to price in low- and middle-income countries (LMICs)—where elasticity estimates cluster around -0.5—than in high-income countries where it is closer to -0.4. Therefore, a ten-percent increase in price will result in a five-percent decrease in consumption in LMICs and a four-percent decrease in high-income countries. (*U.S. National Cancer Institute & World Health Organization, 2016*).
- c. Youth are two to three times more responsive to tobacco price increases than the general population, which is explained by various factors including limited income, lower addiction levels, and peer effects (Bader et al., 2011).

4. Affordability:

- a. Changes in income also affect smoking behaviour, with increases in income often resulting in greater consumption. Cigarette affordability addresses both price and income by reflecting an individual's ability to purchase cigarettes. (*U.S. National Cancer Institute & World Health Organization, 2016*).

- b. In recent decades, many low- and middle-income countries have seen rapid growth in incomes and inflation, and these increases in inflation and purchasing power can erode the impact of tax and price increases on consumption (*NCI & WHO, 2016; World Bank, 2017*).
 - c. FCTC Article 6 Guidelines emphasize the importance of taking income growth and inflation into consideration when raising tobacco taxes, recommending that tax increases should be large enough to make tobacco products less affordable over time.
 - d. The latest evidence on cigarette affordability shows that from 2010 to 2020 cigarettes became less affordable in 84 countries—evenly distributed across high-, middle-, and low-income countries—and affordability remained unchanged in 68 countries. Over the same period cigarettes became more affordable in 20 countries, 17 of which are LMICs (*WHO 2021a*).
- B. The Role of the Tobacco Industry: blocking efforts for strengthened tobacco control, including taxation
- 1. Established evidence of industry to influence scientific research, public perception, policymaking and the media to ensure proliferation of their products and to block effective tobacco control implementation, including reforms in tobacco taxation (cover also the arguments used against tax increases, including employment and farmer issues).
 - 2. The WHO FCTC, a global treaty with 182 country Parties, includes a key Article (Article 5.3), which represents a legal obligation for Parties to protect public health policies from tobacco industry influence. This obligation needs to be seriously considered/implemented.
- C. Product Innovation: New and emerging tobacco products creating confusion in tobacco control implementation, including taxation
- 1. Uncertainty due to the lack of long-term perspective on their health impact and the lack of clear evidence about the claim that some of those products could be used as tobacco smoking cessation tools.
 - 2. The diversity and dynamic evolution of the products in the global market make it difficult to undertake analysis and recommendations on best practices in terms of regulation, including taxation.
 - 3. Divergent policy responses from countries, such as bans, no regulation at all, varying levels of taxation, etc., make it difficult for countries to assess the best approach forward.

III. Conclusion: Tobacco use has been a persistent problem, but it doesn't have to be a forever problem. Key recommendations:

1. Improve tax policy design (list best practices as per tax scorecard) and administration (see chapter 7) and discuss important recommendations to prevent illicit trade in tobacco.
2. Implement Article 5.3 of the WHO FCTC or establishing other firewalls to protect from tobacco industry influence in policy making.
3. Political economy looms large (see chapter 10) not only from the perspective of the public but essentially among key decision-makers. Political support at the highest level is needed.
4. Be ambitious: follow the lead of some countries' strategies towards Zero Tobacco.

Chapter 13: Specific Issues with respect to Excise Taxation to Support Improved Nutrition

I. Introduction and context

- A. Specific aspects regarding the rationale for nutrition-related taxes
- B. Overview of drivers of food choice and the role of tax
- C. Overview regarding progress made so far – mainly focussed on SSB taxation but some interest in nutrition-related taxes more broadly – the structure reflects this (practice first, then more theoretical)
- D. Interface between nutrition-related taxation and other policy agendas and priorities
 - 1. Environmental sustainability
 - 2. Economic growth and poverty reduction

II. Specific considerations for SSB taxation

- A. Approaches to categorising and defining SSBs for taxation
 - 1. Considerations regarding inclusion of non-sugar-sweetened beverages
- B. Evidence for appropriate tax mechanisms
- C. Evidence on the impact on prices, sales, reformulation, and diet/health outcomes (short)
- D. Considerations regarding the design of taxation
 - 1. Disincentivize consumption and foster substitution to healthy alternatives, including safe drinking water
 - 2. Encourage SSB reformulation

III. Specific considerations for unhealthy foods taxation

- A. Approaches to categorising and defining foods for taxation
 - 1. Nutrient-based (single nutrient eg. HFSS / Fat, salt, sugar; nutrient profiling models)
 - 2. Level of processing
 - 3. Energy density
 - 4. Healthy and sustainable diets
- B. Evidence on the impact on prices, sales, reformulation, and diet/health outcomes (short)

- C. Considerations regarding the design of taxation
 - 1. Disincentivize consumption and foster substitution to healthy alternatives, and encourage reformulation
 - 2. Evidence for appropriate tax mechanisms
 - 3. Tax structure considerations (mostly uniform vs. tiered, revenue-neutral financing healthy food subsidy)

IV. General considerations for nutrition-related taxation

- A. Administrative considerations (need to cross-reference with Chapter 7) – focussing on the specifics of operationalizing and administering new taxes
 - 1. Highlight formality/ informality issues
 - 2. Intersection with labelling for administration – issues and challenges
- B. Tax policy coherence regarding food
 - 1. Overall context of food taxation in relation to health – including lower taxes on healthier foods and beverages
- C. Pathways for starting or scaling up nutrition-related taxation
- D. Considerations related to distributional impacts, equity and regressivity (need to cross-reference with Chapter 8)
 - 1. Food affordability
- E. Industry & macro-economic impacts, and political economy dynamics of SSB taxes (need to cross-reference with Chapter 8)
 - 1. Mention subsidies here (cross reference to Chapter 9)
 - 2. Instances of alignment between industry interests and health-related food taxation – example of food for out-of-home consumption
- F. Framing and public acceptability (need to cross-reference with Chapter 10)
- G. Revenue use (need to cross-reference with Chapter 6)

V. Summary/conclusions