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# Financing Policy Brief Series – Recommendations for FfD4

# **Tobacco and other health taxes for healthier population**

Action Area A: Domestic Public Resources

## **Key messages**

* Noncommunicable diseases (NCDs) pose a significant threat to sustainable development, as they are the leading cause of death and disability worldwide—limiting progress towards SDG target 3.4, which seeks to reduce premature mortality by one-third. Most low- and middle-income countries are, however, off track to reach this target.
* The consumption of harmful products, such as tobacco, alcohol, and sugary drinks, all increase the risk of NCDs. Tobacco, in particular, is the single most damaging product, and its consumption accounts for 8 million deaths every year.
* WHO strongly recommends raising taxes on tobacco, alcohol and sugar-sweetened beverages (SSBs) to reduce consumption, prevent unnecessary deaths, diseases, and disabilities, while collecting billions in government revenues to support financing for development.
* Health taxes not only generate government revenue through higher tax rates but also promote healthier behaviors, leading to improved health outcomes and productivity gains that benefit society as a whole.
* Over the next five years, increases in tobacco, alcohol, and SSB taxes could generate an additional $3.7 trillion USD in government revenues globally—an average of $740 billion USD per year, equivalent to 12% of global health budgets and 0.75% of global Gross Domestic Product (GDP).
* Health taxes can also help reduce healthcare costs, alleviate pressure on health systems, and promote greater equity. These outcomes will directly support SDG target 3.8 on pursing universal health coverage (UHC), as well as contribute to reducing poverty (SDG Goal 1), promoting productive employment (SDG Goal 8), and reducing inequality (SDG Goal 10).
* In addition, tobacco control measures, including tobacco taxation, are also proposed to have a direct influence on 15 out of the 17 SDGs.

## **Problem statement**

Noncommunicable diseases (NCDs) pose a significant threat to sustainable development and well-being, as they are the leading cause of death and disability worldwide. Each year, NCDs claim 41 million lives, with 77% of these deaths occurring in low- and middle-income countries.[[1]](#footnote-1) Forty-two percent of these deaths are premature, occurring before the age of 70. Beyond their direct impact on mortality, NCDs reduce productivity as individuals affected by these diseases often struggle to work effectively, leading to lower t earnings and reduced economic output.

NCDs require continuous, long-term care, placing a heavy burden on health systems. All countries rely, to varying degrees, on public sources to fund their health systems. However, the burden caused by NCDs undermines the potential for public revenue generation by weakening the labor force and straining social security systems—a tax model already fragile in less developed countries due to a large informal economy. Additionally, many low- and middle-income countries are so heavily indebted that nearly half spend more on servicing debt than on public health.[[2]](#footnote-2)

On a household level, NCDs impose significant costs, often pushing individuals and families into poverty due to the high expenses associated with long-term healthcare. In low-income countries, nearly 16% of the population is pushed into or remains in extreme poverty due to the inability to afford healthcare.[[3]](#footnote-3)

For these reasons, the 2030 Agenda for Sustainable Development rightly recognizes NCDs as a major challenge for sustainable development. Countries committed to develop ambitious national responses, by 2030, to reduce by one third premature mortality from NCDs through prevention and treatment (SDG target 3.4). Most low- and middle-income countries are, however, off track to reach this target. An annual investment of nearly US$ 18 billion is needed in these countries to make substantial progress and achieve the goal by 2030.[[4]](#footnote-4)

There are proven methods to lower the risk of developing these illnesses. The consumption of harmful products, such as tobacco, alcohol, and sugary drinks, all increase the risk of NCDs. Tobacco in particular is the single most damaging product, and its consumption accounts for 8 million deaths every year,[[5]](#footnote-5) and economic losses equivalent to 1.8 percent of the world’s GDP.[[6]](#footnote-6) About 2.6 million people die each year due to alcohol consumption, and sugar consumption is implicated in the growing burden of disease from obesity and diabetes that accounts for some 6 million deaths each year.[[7]](#footnote-7)

This brief argues that taxation policies on tobacco, alcohol, and sugary drinks are a timely and effective strategy for supporting sustainable development and improving public health and well-being. Health taxes not only generate government revenue through higher tax rates but also promote healthier behaviors, leading to improved health outcomes and productivity gains that benefit society as a whole. Furthermore, increasing taxes on unhealthy products can help reduce healthcare costs, alleviate pressure on health systems, promote greater equity, and directly contribute to poverty reduction.

## **Policy solutions**

The World Health Organization (WHO) strongly recommends the implementation of health taxes as a cost-effective policy solution to advance towards the SGD targets 3.4 and 3.8. Excise taxes are particularly important in fiscal policies aimed at promoting public health, as they raise the price of the taxed products relative to other goods for consumers.[[8]](#footnote-8) Excise taxes are largely underused policies with untapped potential for improving health and well-being, mobilizing government revenue and enhancing equity. Specifically, excise taxes on tobacco, alcohol, and sugar-sweetened beverages (SSBs) have proven effective in reducing consumption and mitigating the associated health risks.[[9]](#footnote-9)

Raising taxes on tobacco can do more to reduce premature mortality than any other single health policy.[[10]](#footnote-10) In 2015, Member States recognized the significance of price and tax control measures on tobacco, leading to their endorsement by the UN General Assembly as part of the Addis Ababa Action Agenda on financing for development. Globally, raising the tobacco excise tax by $1 USD (approximately an 85% increase) could generate an additional $250-300 billion USD in government revenue per year, equivalent to 4% of global public health spending.[[11]](#footnote-11)

WHO recommends that the total tax on cigarettes should constitute at least 75% of the retail price. However, globally, only 41 countries have met this target, with just 12% of low- and middle-income countries achieving it.[[12]](#footnote-12) In addition, around 80% of the world's 1.3 billion tobacco users live in low- and middle-income countries,[[13]](#footnote-13) where cigarettes remain highly affordable.[[14]](#footnote-14)

Alcohol taxes present a significant opportunity to improve public health. In addition to saving millions of lives, these taxes have substantial revenue potential worldwide. Given the widespread consumption of alcohol in many countries, a demand less sensitive to changes in prices, and currently low tax rates, a 50% tax-induced increase in alcohol prices could generate an additional $474 billion USD in government revenue annually.[[15]](#footnote-15) There is also increasing momentum to support the implementation of SSB taxes, driven by the growing body of evidence linking SSB consumption to obesity and diet-related NCDs,[[16]](#footnote-16) and similarly, a 50% tax-induced increase in SSB prices could generate an additional $66 billion USD in government revenue annually.[[17]](#footnote-17) When combined, a 50% increase in tobacco, alcohol, and SSB prices have the potential to generate additional government revenue equivalent to 0.75% of global GDP.[[18]](#footnote-18) Over the next five years, these additional government revenues are projected to total $3.7 trillion USD globally—averaging $740 billion USD per year equivalent to 12% of health budgets.[[19]](#footnote-19)

Time is of the essence. It is crucial for low- and middle-income countries to act now to change the trajectory of the tobacco epidemic, reduce the significant harms and disease burden caused by alcohol, and address the growing health threat from sugary drinks. WHO strongly recommends rapidly and significantly increasing taxes on tobacco, alcohol, and sugary drinks, with ongoing adjustments over time to reduce their affordability, alongside improving tax design, administration, and enforcement. The global economy is currently confronting multiple challenges and health taxes can be an important part of the solution.[[20]](#footnote-20)

## **Specific recommendations for FfD4**

The following recommendations fall under the action area of ***domestic public resources*** and aim to address the current gap in SDG target 3.4, which seeks to reduce premature mortality by one-third through prevention and treatment and promote mental health and well-being. Implementing health taxes can have three primary and direct impacts: improving public health, generating government revenue, and enhancing equity—each of which directly supports SDG target 3.8 on pursuing universal health coverage (UHC). Health taxes will also contribute to reducing poverty (SDG Goal 1), productive employment (SDG Goal 8), and reducing inequality (SDG Goal 10). Since poorer households are generally more responsive to health taxes than richer households, they gain a larger share of the associated benefits: fewer sick days, longer and more productive working lives, and reduced healthcare expenses. In addition, tobacco control measures, including tobacco taxation, are also proposed to have a direct influence on 15 out of the 17 SDGs.[[21]](#footnote-21)

In line with the 2015 Addis Ababa Action Agenda, and recognizing the enormous burden NCDs place on developed and developing countries, especially in Small Island Developing States (SIDS), WHO recommends including the following in the outcome document of the FfD4:

1. **Raise tobacco taxes significantly,** prioritizing excise taxes as the primary tool to increase prices, while ensuring these increases outpace inflation and income growth to make tobacco products less affordable and incentivize users to quit or reduce consumption.
2. **Accelerate the implementation of alcohol taxes** as a crucial policy measure to reduce consumption, prevent avoidable harms, diseases, disabilities, and deaths, and unlock significant potential tax revenue to support financing for sustainable development and well-being.
3. **Adopt effective taxes on sugar-sweetened beverages (SSBs)** as an additional policy measure to reduce sugar consumption, helping to curb the rise in obesity, diabetes and other related NCDs and generating additional revenues for governments.

## **Summary**

This brief argues that taxation policies on tobacco, alcohol, and sugary drinks present a timely and effective strategy for advancing sustainable development while improving public health and well-being. Health taxes not only generate government revenue through higher tax rates but also promote healthier behaviors, leading to improved health outcomes and productivity gains that benefit society as a whole. Over the next five years, increases in tobacco, alcohol, and SSB taxes could generate an additional $3.7 trillion USD in government revenues globally—an average of $740 billion USD per year, equivalent to 12% of global health budgets and 0.75% of global Gross Domestic Product (GDP).

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