

Fifteenth meeting of the UN Inter-Agency Task Force on the Prevention and Control of NCDs on COVID-19 and the NCD-related SDGs

Date of meeting: July 17, 2020

Participants: Around 50 participants joined, representing 18 members of the Task Force

Subject: Health Taxes: Policy and Practice

1. The objective was to: (i) present an overview of health taxes and how governments can correct for market failures to generate more revenues and improve health outcomes; (ii) explain the WHO country engagement on tobacco taxation using the case of Indonesia; (iii) showcase the health taxes in South Africa; (iv) discuss the collaborative health tax work of the UNIATF which informs policies that aim to reduce the worldwide burden of NCDs.
2. Filling the Coffers Post-COVID through Health Taxes (joint presentation by the World Bank, WHO and Global Fund).
 - i. Ceren Ozer (World Bank) explained what health taxes are and how they result in a healthier population. The primary goal is firstly to improve health outcomes and secondly to generate revenue. The tax generates funds that finance health expenditure contributes to inclusive economic growth. Health taxes is an important channel that influences people's behavior and the choices they make.
 - ii. Kate Mandeville (World Bank) emphasized the increasing consumption of many unhealthy products in low- and middle-income countries compared to high-income countries. For example, the calories sold per capita per day of sugary drinks is decreasing in high-income countries but increasing in low- and upper-middle income countries which could be a prime target and focus for taxation as part of COVID-19 fiscal recovery. The impact of excessively consuming sugary drinks (also known as sugar-sweetened beverage, SSB) is illustrated in the increasing number of overweight children globally which can result in a higher risk of diabetes, heart disease, premature death and disability. These health impacts reduce productivity and prevent return on investments into human capital that many countries are making into their young population, for example in the forms of vaccinations and education.
 - iii. Therefore, health taxes are underlined as an effective policy intervention that governments need to instigate to correct market failures. Evan Blecher (WHO) presented the empirical evidence of the revenue generation, years of life gained, and years of life/revenue if there were a tax induced price increase of 20 per cent and 50 per cent of tobacco, alcohol and SSBs over a period of 50 years. There is a significant distinction between the different products and the amount of revenue generation and period it takes to achieve the health benefits. For example, given that alcohol prevalence is higher than tobacco use, the intensity of the tax revenue generated is also higher. However, with regards

to the years of life gained, it is imperative to note that tobacco use generates a similar amount as alcohol. In terms of revenue years of life gain, SSBs generate lower numbers, but provide very good value for money.

- iv. The World Bank Global Economic Prospects report estimates a 5.2% contraction in global GDP in 2020 largely due to the COVID-19 pandemic. Tax revenues are expected to decline faster than GDP. As fiscal space shrinks and human capital investment declines, countries need to make difficult choices with regards to the expenditure. By adopting health taxes, revenues can be generated in the short-term and health outcomes can be improved (e.g. by reducing risk factors for COVID-19 infection such as obesity and smoking) to mitigate the health system impact in the future.
 - v. The design of taxes plays a substantial effect on the impact of that tax, both on revenue and on health. For example, for tobacco tax, there is a consensus that uniform specific excise taxes are the best practice on all cigarettes no matter the characteristics or attributes. This element recognizes that all cigarettes are equally harmful to health and result in an equal externality. On the other hand, there is more variation on the appropriate tax design for alcohol and SSBs, with some jurisdictions basing these taxes on volume and others on content (i.e. alcohol or sugar). But the key message is that the design of taxes matters as a poorly designed tax will not lead to any significant health benefit and increase in revenue.
 - vi. An illustration of Ukraine showed that with inelastic demand the reduction in consumption (and thereby sales) occurs at a lower rate than the increase in taxes, meaning that the decline in consumption is accompanied by large increases in revenue. With content-based taxes, reformulation by manufacturers may achieve health outcomes, however could lead to less revenue than forecast. Careful framing and managing expectations are important here to avoid later opposition.
 - vii. Revenue from health taxes can be put towards any expenditure in the government budget or dedicated to a specific expenditure, a process known as earmarking. Health specialists often advocate for hard earmarking, which uses a formal process that more or less bypasses the budget. An alternative is soft earmarking, which links revenue with policies however proceeds transit through central treasury accounts and are fully subject to annual parliamentary review. Any earmarking revenue from health taxes will reduce fiscal flexibility, but soft earmarking may support the political economy.
3. Country engagement on tobacco taxation: Indonesia.
 - i. Anne-Marie Perucic (WHO) explained WHO's direct engagement with the MoF since 2009 via regular communication with key technical teams in the Ministry as well as direct engagement and visits to senior officials. A typical collaboration includes high-level engagement with senior officials, capacity-

building work between the WHO team and MoF technical team, follow-up discussions with the government once tax policy change adopted, support throughout the year and joint events.

- ii. Indonesia is a challenging environment for tobacco control: the tobacco industry is a very influential. In particular, the issue of employment is a massive challenge in the tax policy discussion. Despite the challenging environment, some successes include 10% increases on average every year and the latest change to 23% increase adopted in 2019 for 2020.

4. South Africa's Health-Related Taxes.

- i. Mpho Legote from National Treasury (equivalent of Ministry of Finance) presented that tobacco excise rate is currently 40% as a percentage of the retail selling price of the most popular brand. Excise taxes are adjusted annually by at least inflation. According to a survey, there has been a decrease in smoking prevalence rate to 16.4% in 2014/15.
- ii. Alcohol excise tax also implemented. The current excise rate is set for wine, beer and spirits at 11%, 23%, and 36%, respectively, since 2002. Since its implementation, tax rates on alcoholic beverages have consistently increased above inflation year-on-year.
- iii. Environmental taxes and carbon tax were initiated in 2006 under the Environmental Fiscal Reform Policy to focus on the development of a coherent process and framework to consider and evaluate environmental taxes. Some examples include plastic bag levy in 2004, CO2 tax motor vehicle emissions in 2010, electricity levy of non-renewables in 2009, tyre levy in 2016 and carbon tax in 2019.
- iv. A case study of SSB tax implementation. The discussion started in early 2015 and was implemented in 2018. Since its announcement and implementation, the industry has begun to reformulate their products, increased no/less sugary beverages, and reduced (increased) the package sizes of existing (new) products.

5. NCD 2030 Project.

Alexey Kulikov (UNIATF) gave a rundown of the joint project between the WHO and the UNDP that starts now to develop guidance and tools to support countries to strengthen fiscal measures to prevent NCDs.

- i. Phase 1: Investment cases are done to help countries increase domestic resources for NCDs, health and development. The sample actions in countries following investment cases include: tobacco control bill, excise tax, raise taxes, tobacco control program.

- ii. Phase 2: In the next five years, NCD2030 will continue with NCD investment cases as well as expanding to mental health investment cases and supporting countries to develop NCD legislative fiscal and regulatory policies. This is to enable the joint program and its partners to have a common approach for supporting country's development or strengthen fiscal measures on in NCDs that are context-specific for the country.

Other issues:

The 2020 ECOSOC resolution on the work of the Task Force will be agreed on 21 July 2020. Members were invited to watch the proceedings on UN WebTV.

An updated draft of the Task Force paper on NCDs and COVID-19 would be circulated shortly, for further comments among members.

Next meeting

Friday 24 July 2020, 16:00 – 17:00 CET

World Bank is inviting AMPATH to discuss their work in providing chronic care during the COVID-19 Pandemic in Western Kenya

24 July 2020