

Action for health taxes

from policy development to implementation



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1

Introduction

1.1. Background

1.1 Background

Health taxes result in healthier people, a healthier and more productive population, and a wealthier treasury.^{1,2} Health taxes are typically imposed on goods associated with a negative health impact, such as tobacco, alcohol, sugar sweetened beverages (SSBs) and, increasingly, on fossil fuels.² Through their impact on the price faced by consumers, health taxes discourage the consumption of goods that are harmful to health and thereby reduce harms to health and other associated costs, either those incurred by users themselves of those products or costs that may fall on the rest of society. A robust evidence base demonstrates the positive impact of health taxes.^{3,4,5,6,7} While health is a human right and an important policy objective in its own right, it is well known that a healthier society is also more economically productive.⁷ In addition, money not spent on unhealthy products can be invested or spent elsewhere in the economy to greater effect.² Health taxes generate revenues that government can use to finance public investments and other programmes, including public health programmes, that can benefit the entire population.

Taxes on tobacco, alcohol, and SSBs are effective yet underutilized. Despite compelling evidence, impressive cost effectiveness and wide-ranging benefits, health taxes are often not implemented to their full potential.^{6,8} Existing excise tax systems have frequently been designed to meet certain historical, political, or industrial- and trade-policy requirements that are not necessarily aligned with public health.⁹ Challenges to the effective design and implementation of health taxes include (i) the lack of policy coherence amongst different government ministries, (ii) industry interference in policymaking, and, occasionally, (iii) public opposition, particularly in the case of taxes on fossil fuels. Policymakers and advocates for health taxes must be equipped not only with technical advice, but also with strategies and tools to forge cross-sectoral consensus and build alliances for change.

This document is the first in a series that, taken together, provides a practical overview of approaches to develop, strengthen, and implement health taxes. The specific focus of the series is on managing the broader stakeholder environment (sometimes called 'the political economy') effectively. Using a step-by-step framework, outlined below, users will be able to build the case for effective health taxes for noncommunicable disease (NCD) prevention and control across health and relevant non-health sectors. Drawing on perspectives from tobacco, alcohol and SSB taxes, this series will enable policymakers and other

stakeholders to take a coordinated approach to health taxes in their country. The series is designed to be used in a wide variety of national contexts and can be adapted to the current health-tax policy situation in the specific jurisdiction concerned. This document therefore presents generic issues and challenges that can and often do arise in how health taxes are designed, negotiated, communicated, defended, implemented, and evaluated. Its companion pieces focus on the particularities of health taxes on tobacco, alcohol, SSBs, and fossil fuels that can arise in various settings. A selection of practical case studies highlighting lessons learned is presented in a separate piece.

This document is for policymakers and other stakeholders interested in developing, strengthening, advocating for, or coordinating national approaches to health taxes. This includes actors in non-health sectors (i.e. civil servants, politicians and related personnel, and policymakers located in ministries of finance, agriculture, and trade, or in equivalent sectors), those employed in central tax agencies, as well as those working in civil society organizations (CSOs).

This document focuses on excise taxes. Consumption taxes, including excise taxes, constitute a principal element in most tax systems, and excise taxes are relatively more important in the tax systems of low- and middle-income countries (LMICs). Although a variety of consumption taxes are utilised by governments, excise taxes are effective in promoting health as they increase the cost of the taxed products relative to other goods, thereby changing consumer behaviour.^{1,3} Excise taxes are moreover a very cost-effective means of improving health, with a strong evidence base supporting taxes on tobacco and alcoholic beverages, and a growing evidence base for SSBs and fossil fuels.^{1,3,9,10,11,12,13} Health taxes are prominent among the policy options offered by the World Health Organization as part of the WHO Global Action Plan for the Prevention and Control of Noncommunicable Diseases.¹⁴

This document is organised in two main sections. First, it begins by outlining the health, economic, and social rationale for health taxes. Second, it introduces a step-by-step framework that guides stakeholders through actions at each stage of the cycle of policy development and implementation. At each stage, best practices are highlighted alongside practical activities that can be performed by stakeholders to develop and strengthen the implementation of health taxes. The document can be read as a whole, or specific sections can be accessed as needed. Users will see frequent cross-references to other sections within the document and across other documents in the series.

Throughout this document, Insights boxes provide examples to extend the reader's knowledge of certain aspects of the policy implementation process. Toolboxes contain strategies and examples of successful activities that national actors can take at each step of the policy implementation process.



2

The case for health taxes

2.1. Why tax tobacco, alcohol and SSBs?

2.2. Policy objectives are mutually reinforcing

2.3. Best buys

2.4. Sustainable development

2.5. Health tax policy evolution over time

The case for health taxes

Tobacco consumption, the harmful use of alcohol, and unhealthy diets are amongst the leading global risk factors for morbidity and mortality.¹⁵ Combined, they contribute to well over an estimated 10 million deaths globally every year. Tobacco use is responsible for around 8 million deaths per year.¹⁶ Alcohol consumption is responsible for around 2.6 million deaths.¹⁷ SSB consumption is linked to overweight and obesity. Higher-than-optimal BMI causes an estimated 5 million deaths from NCDs.¹⁸

Worldwide, there are an estimated 1 billion smokers, 2.3 billion current drinkers, and 1.9 billion adults and well over 400 million children who are overweight or obese.¹⁸ The health impact of these products is of particular concern to low- and middle-income countries (LMICs): the majority of smokers are located in developing economies, and alcohol use and the prevalence of overweight and obesity are also increasing rapidly in the same locations, driven in part by increased industry attention on new markets^{19,20} as well as by increasing population income levels.

2.1. Why tax tobacco, alcohol, SSBs and fossil fuels?

Health taxes are imposed on goods that are associated with a negative health impact, such as tobacco, alcohol and SSBs.^{2,8} Almost all governments impose tax on tobacco and alcohol products in some form, while a growing number of governments have applied taxes on SSBs. Although the initial objective of such taxes has arguably been public-sector revenue generation, governments are increasingly using them to promote health. While health taxes are the most important fiscal instrument used to discourage consumption, they should be supported by a policy environment of complementary (non-fiscal) measures such as product regulation, advertising bans, and health education.^{5,21,22} The principal justification of health taxes can be thought of in relation to their health, economic, development, and revenue rationales.

2.1.1 Economic

The consumption of tobacco, alcohol, or the consumption of SSBs are associated with large social, economic, and health costs. For example, tobacco use alone costs the global economy US\$ 1.4 trillion^{22a} in 2012. Use of these products is associated with negative internalities (i.e. costs to the individual which are not taken into account when deciding to consume the product) and externalities (i.e. costs which are not borne by the consumer in the price paid but which are passed on to others). Negative externalities include harms to non-smokers through the exposure to second-hand tobacco smoke, or injuries or fatalities because of alcohol-related violence or road-traffic accidents. Internalities include reductions in smokers' well-being and health that are misperceived or incompletely foreseen, and the cause of later regret. As these costs are not reflected in the price paid by the consumer, this constitutes a market failure. Raising the price of unhealthy products through health taxes enables the cost of the behaviour to be better accounted for and therefore helps to 'internalize' externalities and to make internalities salient to consumers. Health taxes can help address other causes of market failure, including information asymmetry. This occurs when consumers have less information on the health consequences of consumption than producers, or when marketing distorts the benefits and costs of consumption.

Health taxes not only address the costs of health-harming products, but they also promote economic growth and prosperity. When society is healthier, it is more economically productive.⁷ Further, reduced spending on unhealthy products allows for the redirection of spending to other goods and services.

2.1.2 Health

Across a wide range of settings, governments have demonstrated an interest in applying health taxes to a range of harmful products in recent years, with the objective of discouraging behaviours that pose a risk to individual and public health. Consumers' response to the changes in prices due to taxation depends on the degree of their sensitivity to changes in prices (or in economic terms the price elasticity of demand), as well as the availability of substitute products.

Evidence suggests that tobacco and alcoholic beverages are relatively price inelastic, which means that consumption does indeed fall but proportionally less than the price increases. In contrast, products like sugar-sweetened beverages are found to have elastic demand, which suggests that imposing taxes can achieve larger proportional reductions in consumption for a given change in price.³

2.1.3 Revenue

While raising prices through excise taxes reduces consumption and saves lives, it also generates additional tax revenues. This additional revenue can be either dedicated for use by the health or social sectors (earmarked) or it can be used for other expenditure programs. The revenues generated from health taxes can be substantial [Insight 1].

Nevertheless, governments face strong opposition from industry and its advocates to imposing or increasing taxes on tobacco, alcohol and sugar-sweetened beverages, discussed further below. These actors typically raise concerns about the impact of tax increases on economic productivity, employment, illicit trade, and the poor. Cross-country evidence, however, demonstrates that these arguments are either false or greatly exaggerated, and none justify inaction.²¹

Insight 1.

Some country examples of the revenue impact of health taxes

Hungary in 2011 introduced a tax on food products containing unhealthy levels of sugar, salt, and other ingredients. Consumption of unhealthy foods decreased considerably, and 40% of food manufacturers either reduced (28%) or eliminated (12%) unhealthy ingredients in their products. In its first four years, the tax generated US\$ 219 million for public health spending.

In 2015, **China** increased its excise rate on the wholesale price of cigarettes from 5 to 11% and included a specific tax of 0.1 yuan per pack. Cigarette sales dropped by 3.3%, and the tax delivered an additional 70 billion yuan (US\$ 11 billion) to the central government in one year.

Taxes on tobacco generated nearly US\$1 billion in **South Africa** and around US\$ 2 billion in both **Mexico** and the **Philippines** in 2016. In the same year, public revenues from taxes on alcohol and sugar-sweetened beverages were also substantial. The share of revenues from health taxes in total government revenues may seem modest (particularly for high-income and middle-income countries where the tax base is wide). Relative to total government revenues, health taxes represent about 2% in Mexico, 3% in South Africa, and 5% in the Philippines. However, revenues from these taxes are significant as a proportion of government spending on health, ranging from about one-fifth of government health spending in South Africa and Mexico to almost two-thirds in the Philippines.

Colombia in 2016 raised the specific tax on cigarettes by 200% and established a 4-percentage point annual increase on top of inflation. Consequently, cigarette consumption decreased by 23% in 2017 relative to 2016, while tobacco tax revenues increased by 54%. Another reform in the same year increased taxes on alcohol, adopting a combination of a 25% ad valorem tax and a specific tax based on alcohol content. The reform increased revenues from these taxes by 17% in 2017.²¹

Sources: 1,22,23

2.1.4 Equity

Health taxes promote health equity. Noncommunicable diseases (NCDs) impact lower-income populations disproportionately.^{24,25} Poorer households tend to face greater hardships from the harmful effects of tobacco, alcohol and unhealthy foods than richer households.^{26,27} Health taxes benefit poorer households more,^{27,28} as they are more responsive to health taxes than richer households, thus providing a greater share of the health benefits to lower-income households. Further, health taxes generate revenue that can be spent on reducing health inequalities and improving health and educational outcomes.^{2,29}

2.2 Policy objectives are mutually reinforcing

Health taxes are a win-win-win: economic, health, government revenue, and equity goals are complementary and not mutually exclusive. Health taxes create a virtuous cycle of health, wealth, and prosperity. They promote healthier behaviours and can create stable and predictable public revenue streams alongside their impact on reducing healthcare costs, which in turn can be used to bolster public finances for health and education, achieving universal health coverage (UHC), ensuring healthy food and safe drinking water in schools, increasing health promotion programmes, and funding primary and secondary education.²³

While health and economic objectives are typically pitted against each other, in reality these objectives are compatible; the health and economic objectives of health taxes have been found each to reinforce each other. National analyses of situations where health taxes have been introduced or raised have found that health taxes predictably reduce consumption and raise government revenues.¹ Whilst in theory taxes may be designed to optimise either health or revenue, in practice no tax is optimally designed for either objective.

2.3 Best buys

Health taxes are a cost-effective instrument for reducing the consumption of products linked to NCDs. Excise taxation on tobacco products and alcoholic beverages show highly favourable cost effectiveness ratios, costing less than I\$ 100 per health life year (HLY) gained in LMICs, and have been termed 'best buys'.⁵ Effective taxation on sugar-sweetened beverages is also a cost-effective intervention depending on the country context, with a cost effectiveness ratio below I\$ 500 per HLY gained in LMICs.⁵ As such, health taxes have been recommended as effective interventions for the prevention and control of NCDs by WHO. The WHO Global Action Plan for the Prevention and Control of NCDs includes a suite of interventions comprising fiscal, regulatory, psychosocial, and information, education and communication (IEC) measures, outlined in Table 1.¹⁴

TABLE 1. Health taxes as cost-effective interventions for NCD prevention and control

Description	Relevant Policy Options/ Interventions
'Best buys': Effective interventions with cost effectiveness ratio (CER) ≤ I\$ 100 per HLY gained in LMICs	<ul style="list-style-type: none"> • Increase excise taxes and prices on tobacco products • Increase excise taxes on alcoholic beverages
Effective interventions with CER between I\$100-500 per HLY gained in LMICs	<ul style="list-style-type: none"> • Reduce sugar consumption through effective taxation on sugar-sweetened beverages

Source: 5

2.4 Sustainable Development

The prevention and control of NCDs is a key component of achieving Sustainable Development Goal (SDG) 3, 'Good Health and Wellbeing'.³⁰

The sustainable development agenda has shaped health policy globally. Aligning health taxes with the sustainable development agenda makes political sense. Policies on health taxes should be coherent across sectors and consider health and socioeconomic impacts from the various perspectives of government and development partners. Of the SDG3 targets, four explicitly link to NCDs targeted by health taxes:

- 3.4: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.
- 3.5: Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.
- 3.6: By 2020, halve the number of global deaths and injuries from road traffic accidents.
- 3.a: Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries, as appropriate.

Building on the SDG agenda, the Global Action Plan for the Prevention and Control of NCDs lists six objectives for the attainment of global NCD targets by 2025: prioritising NCD prevention and control in global, regional and national agendas through international cooperation and advocacy; strengthening national capacity, governance, and multisectoral action; reducing modifiable risk factors and underlying social determinants; health systems strengthening, primary health care, and UHC; promoting research; and monitoring and evaluation.

Additional global commitments of note include the inter-governmental WHO Framework Convention on Tobacco Control (FCTC),³¹ ratified at the end of 2003 by 183 Parties, and the WHO Global Strategy to reduce the harmful use of alcohol.³²

International organizations and multilateral lending agencies have underlined the importance of domestic resource mobilization and the importance of public funding for universal health coverage to realize the SDGs, for example via the Addis Ababa Action Agenda.³³

2.5 Health tax policy evolution over time

Some health taxes are among the oldest tax instruments in existence. Excise taxes on alcohol, tobacco and sugar emerged centuries ago as means to regulate trade and raise revenues from exporters.^a These early taxes were primarily guided by trade and mercantile considerations. However, in recent decades the concept of taxation has been emerging as an important element of public health policy.

Health tax policy is inherently dynamic. As countries learn from the implementation of these taxes, as trade policies change, as research and innovation continue, and as citizens make healthier lifestyle choices, health tax policies are expected to develop or change further. In particular, products that fall under the tax may change as formulations evolve and new markets are created.

^a See, for example, the Sugar Act of 1764 passed by the Parliament of Great Britain, which was preceded by the and Molasses Act of 1733.

3

Health taxes action framework from policy development to implementation

3.1. The policy environment

3.2. Policy content

3.3. Political advocacy

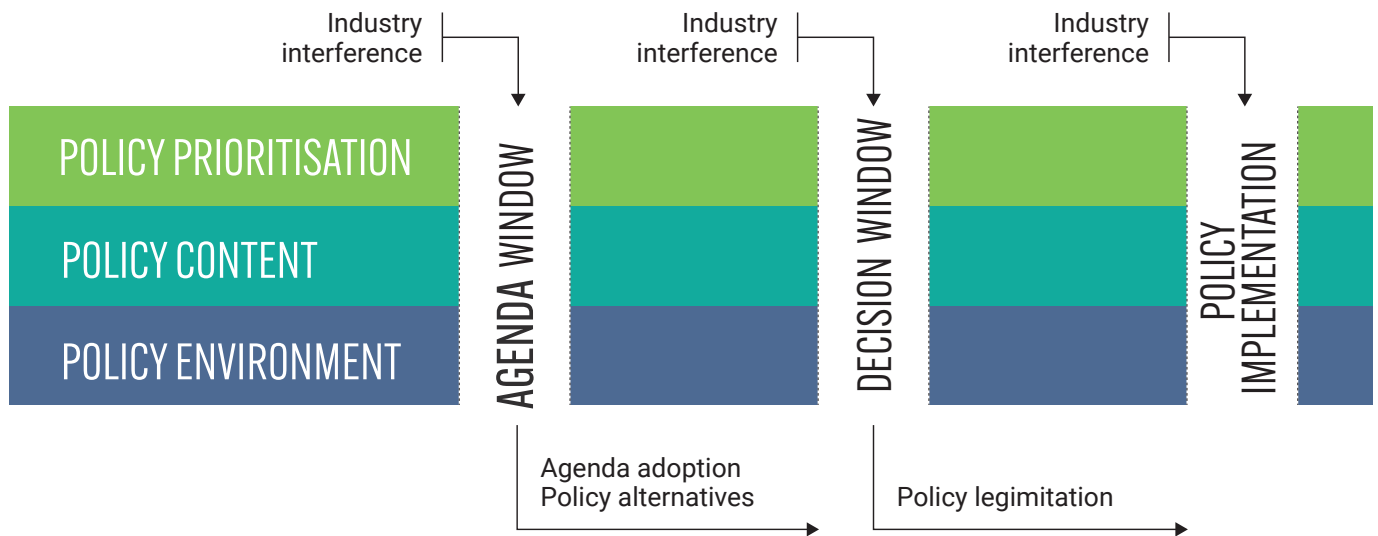
Health taxes action framework from policy development to implementation

The success or failure of a health tax depends on several factors.

While gathering a sound evidence base and designing the tax so that it aligns with health and economic objectives is essential, it is insufficient in isolation. This is because health taxes face broader challenges to implementation, such as misaligned political incentives, industry opposition, and at times public resistance. Thus, understanding and managing the political environment and utilising advocacy and engagement strategies are aspects of health tax policy implementation equally important to technical considerations. Although global technical guidance exists to support the design of health taxes, practical guidance on the health tax political process is also necessary. Effective policymaking is facilitated when informed by country context and the experiences of other countries.

The policy environment for health taxes is complex. The window of opportunity for designing and passing effective policy can be thought of as being shaped by three interacting streams:³⁴ the political environment, policy content, and policy prioritisation (Figure 1). The broader political context includes the national context, over-arching domestic values, the presence and extent of lobbying efforts, as well as a set of typically short-term concerns of political actors, including re-election. The policy content stream encompasses the technical factors that explain how and why a solution to this problem can be developed and pushed forward. Prioritization reflects how and why a specific issue comes to be seen as both a problem and a priority, amidst a set of competing problems. These factors help shape the health tax action framework (Figure 2) and will be discussed in depth in a separate document of national case studies.

Figure 1. The three streams shaping the policy agenda and decision window: policy environment, policy content, and policy advocacy



In this section, we introduce a simple stepwise framework that can guide health tax advocates through the policy process. Figure 2 shows a visualization of the framework. While in reality the policy-making process is non-linear and iterative, the framework is presented as a step-by-step guide so that health tax advocates can organize their activities systematically. The activities that promote maturation of the three interacting streams can be summarized as follows:

- **Policy environment.** The critical steps towards understanding and managing the policy environment include: analyzing the national policy context, developing insights on trade and regional issues, identifying policy actors and other important stakeholders, setting policy objectives, and framing the tax.
- **Policy content.** The key inputs for successful policy design include: gathering robust scientific and technical evidence, developing an effective tax design in line with best-practices, analyzing the legal and regulatory environment, observing the principles of effective public financial management, developing a robust plan for implementation, and performing regular monitoring and evaluation.
- **Policy prioritization.** The essential factors favouring policy prioritization include: analyzing the political economy, mobilizing cross-sectoral and public engagement, and managing industry opposition.

Figure 2. Health Tax Action Framework: policy environment, policy content and policy advocacy



The following sections outline practical actions that can be taken at each of the steps in the framework, highlighting relevant international guidance and taking readers through strategies that can be employed to manage each step effectively.

3.1 The policy environment

A coordinated approach to managing the policy environment provides an important foundation for any health tax initiative, whether introducing something new or reforming existing policy. The first steps in understanding and managing the policy environment are analysing the national context and gathering insights on relevant trade and regional issues. Subsequently, it is important to identify policy actors and other important stakeholders, set policy objectives, and establish a plan (alongside a suitable monitoring and evaluation framework). Practical actions that can be taken at each of these steps will be outlined below (Figure 3).

Figure 3. Steps towards understanding and managing the policy environment



3.1.1 Policy context

The policy context of health taxes includes political, social, cultural, economic, and international factors. Political factors such as election periods and changes of government can affect the appetite for health taxes either positively or negatively. National experiences show that health tax policies that have already established themselves on the policy agenda can often be expedited during leadership changeovers. Social and economic factors, such as the demand for government revenue expansion, are also frequently used to justify health taxes. The influence and actions of multilateral institutions can also shape the health tax agenda in countries.

The national political structure and prevailing institutional norms also shape how governments engage in the design and implementation of health taxes. The political appetite for health taxes has been found to be influenced by ministerial hierarchies and priorities, the space afforded to civil society in the policymaking process, the culture of industry engagement in policymaking, and governance factors that influence the policy agenda.²¹

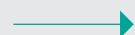
To understand the multiple factors influencing the policy environment, a structured approach to reflecting on the processes surrounding the introduction (or failed introduction) of health taxes is important. Multiple Streams Analysis (Toolbox 1) provides a useful means for policymakers to organise insights on how health tax policy is formed in the national context to make informed and effective decisions.

Toolbox 1.

Multiple streams analysis

Multiple Streams Analysis (MSA) is a political science approach developed to explain why certain policies come to be seen as “an idea whose time has come.”³⁶ This framework is a useful lens through which to consider the policy environment and potential opportunities for health taxes. It has been used to understand agenda-setting and decision-making.³⁵

According to MSA, three separate “streams” need to come together in order to create a “window of opportunity,” i.e. a brief period when it is possible for a policy to successfully be established on the agenda. The three streams are the **problem** stream, the **policy** stream and the **politics** stream:

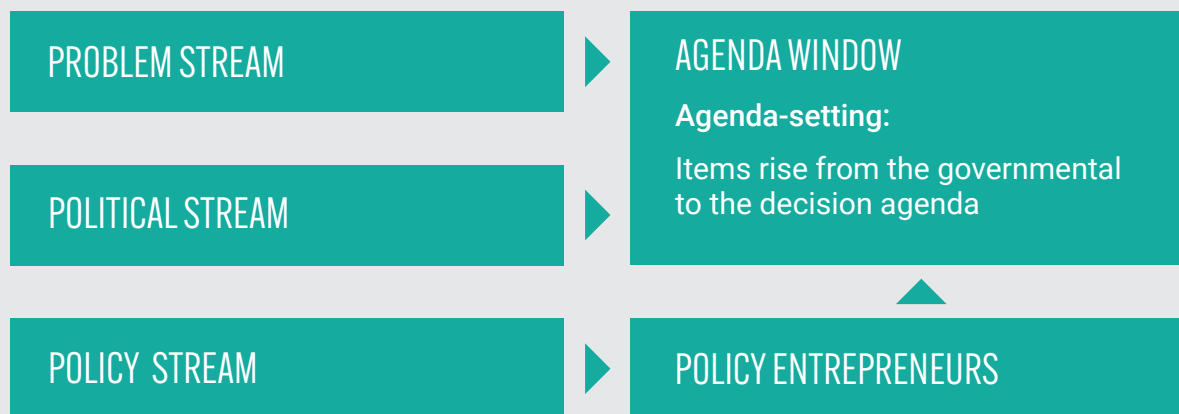


1. The **problem** stream refers to factors which explain how and why a specific issue comes to be seen as both a problem and a priority, amidst a set of competing and similarly undeveloped potential problems.
2. The **policy** stream refers to factors which explain how and why a solution to a problem comes to be developed and pushed forward.
3. The **politics** stream includes the political context, including the national mood, over-arching and ideological values, lobbying efforts, and potential concerns around re-election.

These three streams – problems, policies, and politics – can develop simultaneously, but policy change becomes possible when two or more of the streams are “coupled” or joined together. Typically, both the problem stream and the political stream need to be coupled to lead to an opportunity for policy to get on the agenda. Then, ‘policy entrepreneurs’ (i.e. individuals or groups that promote policy change once it is on the agenda) can bring forward a solution (i.e. policy). The coupling of streams is the key to an issue achieving high status on the policy agenda. Figure 4 illustrates these dynamics.

Figure 4.

A simplified model of the Multiple Streams Approach framework, adapted from Herweg et al 2015^{34,35}



The MSA framework is useful because it provides a way of understanding and explaining the policy implementation process within and between countries and across different types of health taxes. For example, using this approach, a strategic policy window can be identified when countries face a sudden shortfall in public revenues. In this situation policy entrepreneurs can play a critical role in bringing forward health taxes as a potential policy solution to exploit this opportunity. Given the economic challenges most countries are facing as a result of COVID-19, there may be opportunities for strengthening health taxes in many settings. Insights developed using an MSA approach are further detailed in the related case studies document.

Trade and regional issues

With globalized commercial activity and increasing market expansion into LMICs, tobacco, alcohol, and SSB **health tax policy must be understood not only at a national level, but also from an international perspective.** For example, international trade agreements can impede the effectiveness of national strategies to control and prevent NCDs.^{36,37,38} Under such agreements, governments are compelled to reduce and eventually abolish both tariff and non-tariff barriers to international trade.^{38,40} At the same time, international treaties are typically negotiated without significant public health input and are therefore open to significant influence by corporate lobbying. This conjunction weakens the policy environment for health taxes.^{37,38}

Although trade agreements can constrain domestic regulations, specific provisions for the protection of public health can be activated. Article 20 of the General Agreement on Tariffs and Trade (GATT) authorizes governments to act to protect human, animal, or environmental health; this facility has been used by governments to resist constraints on domestic regulations.³⁹ Under this provision, policies designed to reduce the supply or marketing of health-harming products can be successfully defended against trade-related challenges by ensuring there is a clearly stated public health objective in the policy instrument.⁴⁰

3.1.2 Policy actors and stakeholders

'Policy actors' are individuals or groups involved in the policy process, either formally or informally. Stakeholders can be defined as "actors who have an interest in the issue under consideration, who are affected by the outcome of the issue, or who – because of their position – have or could have an active or passive influence on the decision-making and implementation processes."⁴¹ However, who is considered to be a 'stakeholder', the influence they have, and how their interests are negotiated in formulating policy, depends on both the policy context and the policy process. Stakeholders can be individuals, organizations, or networks of organizations, and are likely to include actors from government, civil society and academia.

Health tax implementation strategies should be formulated in a wide perspective encompassing a range of interests in order to sustain support from stakeholders with differing interests and different levels of influence. Nonetheless, governance mechanisms should be established to effectively manage conflicts of interest and safeguard policies that seek to improve health and well-being against industry interference. For example, Article 5.3 of the WHO Framework Convention on Tobacco Control (FCTC) emphasizes the need for governments to protect their public health policies from the influence of the tobacco industry. It calls for measures to prevent any interaction, collaboration, or partnership between the tobacco industry and government agencies in developing and implementing tobacco control policies.

Amongst stakeholders, it is critical to identify **policy champions** who can provide political commitment and leadership on the design and implementation of health taxes. Often, effective implementation is seen to be contingent upon the sustained endorsement (i.e. 'policy championing') by members of the executive branches of government. Another set of stakeholders is typically comprised of **civil society groups**, including local, national, and international research agencies, academics, special interest communities, and non-government organisations (NGOs). It is important to align health taxes policy initiatives strategically with the interests of such groups, who can be influential in shaping public and political agendas. Where relevant, **external development partners** can also help shape health taxes policy through their knowledge base, knowledge sharing approaches, and consensus building actions as part of a comprehensive package of aid, technical assistance, or country support. Finally, **industry** influence can negatively impact health tax development and implementation. Industry opposition can encompass a range of criticisms and defences utilised by local and international corporations whose products are subject to taxation. It is important to craft a strategy that minimizes, or better yet neutralizes, opposition from affected industry stakeholders. Experience has shown that industry interests are fundamentally opposed to the objectives of health taxes. Governments should be alert to industry attempts to undermine health tax efforts and should ensure that policies are protected from commercial interests in accordance with national law.⁴²

Stakeholder analysis is a key part of understanding the policy environment, and can highlight opportunities to involve, collaborate, defend, neutralize, or monitor strategic actors.⁴¹ This is described further in Toolbox 2.

Toolbox 2.

Stakeholder analysis

Identifying stakeholders

Stakeholders can be identified using a mix of approaches, including cognitive mapping, a review of key documents, or snowball sampling (i.e. an approach in which individuals identified as stakeholders initially are then asked to identify additional potential stakeholders).

A Stakeholder Matrix can be used to systematically assess and categorize stakeholders, as shown in the analysis matrix, reproduced from Thow et al., 2021,⁴³ below.

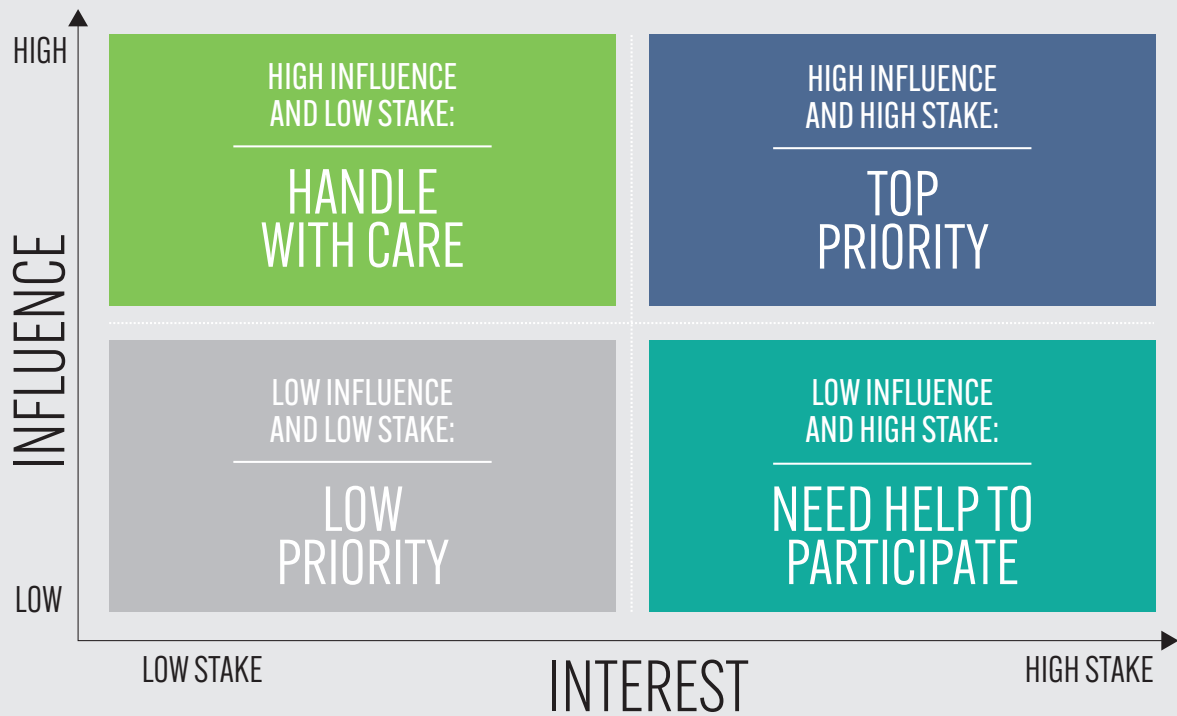
Stakeholder	Nature of interest in the policy issue	Perceived level of interest	Perceived level of influence/power	Any evidence for the outcome/impact of their influence
-------------	----------------------------------------	-----------------------------	------------------------------------	--------------------------------------------------------

The stakeholder grid can be used to assess the political landscape for health tax policy reform and implementation. Assessment involves identifying where stakeholders fall in terms of both power and interest (i.e. identifying their 'position'), and categorizing stakeholders according to the kind of engagement strategies to use in function of their position.

Interest-influence grid

The main aims of a stakeholder analysis here is to understand interests and influence as they relate to health taxes. Results from the 'stakeholder analysis matrix' (above) can be mapped onto a 2x2 grid similar to that shown in Figure 5 below, where the level of interest and influence in health tax policy is made explicit for each stakeholder. This grid helps identify stakeholders to engage with, those to involve, those to inform, and those who are low priority. Industry stakeholders typically fall either in the 'high influence, high stake' group, but can also fall in the 'high-influence, low-stake' group or even in the 'low influence, high stake' group, and the type of strategy to use will differ accordingly.



Figure 5. Example interest-influence grid

On the basis of stakeholder analysis, strategies can be developed. This is discussed in more detail in the section on Policy Prioritization below. UNDP provides more detailed guidance on how to assess the stakeholder landscape through an Institutional Context Analysis framework.⁴⁴

3.1.3 Legal and regulatory analysis

From the outset, it is important to understand the legal and regulatory environment and identify any potential roadblocks to health taxes.

It is also important to ensure the coherence of fiscal, regulatory, and legal initiatives undertaken to reduce the health and economic impact of tobacco, alcohol, and SSBs. Comprehensive, coordinated, and complementary approaches to reduce the use and consumption of tobacco, alcohol and sugar-sweetened beverages produce the greatest impact.

A comprehensive tobacco control program includes the regulation of tobacco products through mandated testing of products, setting age limits for purchase, enforcing tobacco advertising bans, enforcing promotion and sponsorship bans, and imposing standards for product packaging and labelling.²¹ For countries having ratified the WHO Framework Convention on Tobacco Control (WHO FCTC),³¹ these standards are naturally derived from this instrument and are summarised in the MPOWER measures;⁴⁵ however, these same sources can serve as authoritative references in any country.

A comprehensive alcohol control program includes regulating the physical availability of alcohol products through restrictions on time, place, and density of alcohol outlets, enforcing drink driving countermeasures, facilitating screening, offering brief interventions and treatment, regulating alcohol advertising and other forms of marketing, as well as other measures to alter the context and environment surrounding drinking alcohol.^{46,47} Model measures are summarised in the WHO SAFER recommendations.⁴⁶

For sugar-sweetened beverages, a comprehensive policy approach should include the consideration of implementing restrictions on these products' availability in schools, restrictions on their advertising and marketing, regulations on government procurement of such products, elimination of any direct or indirect government subsidies for these products, and strict labelling rules for sugar-sweetened beverages, among others.^{48,49} Toolbox 3 outlines one approach to understanding the legal and regulatory environment.

Toolbox 3.

Legal and regulatory analysis

To ensure sustainability and forestall threatened or actual legal action, health taxes need to be compliant with national and international legal systems. The FELIP framework is one approach to assessing the legal feasibility of health taxes. It was designed from experiences around the legal feasibility of strengthening SSB taxation policies in sub-Saharan African countries. It can be adapted for health taxes more generally.

Figure 6. FELIP framework, reproduced from Karim et al. 2021⁵⁰



The framework consists of five steps:

- 1. Formulation of the health taxes intervention:** The first step consists of identifying potential tax structures and designs and may draw on the considerations discussed in the 'Policy Content' section below.
- 2. Existing legal frameworks:** The second step involves assessing the existing legal framework, including constitutional provisions such as 'limitations clauses' or 'self-standing rights.' 'Limitations clauses' allow rights to be curtailed in service of defined other goals, such as a public health goal, while 'self-standing rights' oblige the government to support, for example, citizens' rights to health where constitutionally established. It is important to assess a government's specific authority to levy an excise tax: while provisions such as those mentioned support the legal basis for health taxation, in most jurisdictions a specific law is still required.



3. **Laws related to impacted sectors:** The third step entails examining laws in related sectors, including agriculture and health. Examples of relevant laws include levies or subsidies on agricultural producers, or environmental or health-related levies on related products which may provide a useful precedent. Identifying related sectors may also provide opportunities to identify additional stakeholders and to introduce greater policy coherence using a whole-of-government approach.
4. **Legal Infrastructure:** The fourth step involves assessing the broader legal infrastructure ('legal ecosystem') needed to support health taxation, including provisions supporting the prevention and control of NCDs: for example, MPOWER for tobacco control, SAFER policies for alcohol, as well as food and nutrient labeling and related monitoring provisions for SSBs.
5. **Process for adoption:** The fifth step focuses on clarifying the processes for introducing or amending a health tax. These may include identifying key policymakers and, for example, whether a parliamentary vote or a public referendum is required.

Assessing the broader legal environment for health taxation and developing policy or policy amendments informed by such an assessment will increase both the potential of successfully producing policy change, as well as defending any such policy against threats of legal action.

3.1.4 Setting policy objectives and framing the tax

Policymakers should set clear and coherent policy objectives, including identification of intended outcomes. It is critical to seek agreement on the objective and outcomes with key stakeholders, cognizant of cross-ministerial priorities and policy dynamics. Toolbox 4 outlines this process in greater depth. There is no substitute for engaging in structured, and to the extent possible participatory, conversations with a broad range of stakeholders to understand and render explicit their goals in their own language, to compare and contrast these goals, and to build a shared vision of how to bring about change in areas of clear (or potential) consensus.

Such a process should permit i) the identification of a core set of policy entrepreneurs, ii) determination of whether there is the necessary coherence and alignment in both the problem stream and the political stream, and iii) the formulation of strategies to counter opposition.

The policy objectives so determined must be supported by an evidence base, where possible adapted to the local jurisdiction. Health taxes should usually define health outcomes as their principal objectives, with revenue generation (and other legitimate social goals) secondary.

That said, although health taxes are first and foremost health protection and promotion measures, their successful implementation nevertheless requires an understanding of fiscal policy, economics, governance, and law.² Such domains are socially important arenas that policymakers need to consider and address actively. For example, understanding that health taxes can also be a mechanism for funding social protection (e.g., by funding health or social programmes) be important in establishing a logical link between revenue collection by the government and expenditure in the public interest, thereby facilitating public support and smoothing the path towards enactment.

Toolbox 4. Setting policy objectives

Health tax policy should be goal oriented. Overall, the tax must be:

- Fit-for-purpose and context appropriate
- Simple
- Clearly defined, with set objectives and targets (e.g. reducing health costs, generating revenue, reformulation)
- Able to decrease affordability of target commodities
- Adjustable to account for increases in consumer prices
- Able to discourage unintended substitution
- Able to withstand opposition from industry and its allies

Policy goals are shaped by the agenda-setting environment and the associated agenda-setting activities of policy arenas.⁵¹ As stated by WHO EURO, good health policy:

"...defines health goals at the international, national or local level and specifies the decisions, plans and actions to be undertaken to achieve these goals. An explicit health policy can achieve several things: it clarifies the values on which a policy is based; it defines a vision for the future, which in turn helps to establish objectives and the priorities among them; and it facilitates setting targets and milestones for the short and medium term. This can clarify the challenges to be faced, why these challenges need to be tackled and feasible and effective ways of doing this. Consensus can then be strengthened, and various groups can understand what might be their expected role in implementing the policy."⁵²

Policy goals should also be SMART: Specific, Measurable, Achievable, Realistic and Time bound. This acronym has been widely used and adapted yet remains a simple and useful way of ensuring policy goals are as effective as possible.⁵³

- Specific: target a specific area of health improvement
- Measurable: identify quantifiable indicators of progress
- Achievable: ensure goals can be reasonably attained within the set timeframe
- Realistic: ensure that the goals are feasible
- Time-bound: set a time limit on achieving the objective

The following five conditions adapted from⁵⁴ may also be helpful to consider:

1. **Theory of change:** the policy is based on a sound theory of change related to target-group behaviour and expected outcomes.
2. **Clear direction:** the policy contains clear and unambiguous directives and structures the implementation to maximise behavioural change in the target population.
3. **Managerial and political skills:** implementing agencies should possess the necessary competencies to achieve success, and they should be committed to the policy.
4. **Support:** the policy should be supported by key constituencies, policy actors and stakeholders throughout its implementation.
5. **Forward-thinking:** the policy should be designed so that it is not undermined by emerging or conflicting policies or by changes in socioeconomic conditions.

3.2. Policy content

The technical content of health taxes is integral to communicating and achieving policy objectives. To the extent possible, health taxes should be developed from a local evidence base, including the health impact of the product taxed and estimated changes in consumer behaviour because of the tax. The proposed health tax should specify the tax structure, base, and effective rate. In addition, it may be helpful to indicate how the revenue from a tax will be used. Although these components are necessarily context specific, common elements emerge from experience in developing and implementing health tax policy across jurisdictions. For example, health tax implementation should be supported by applying principles of effective public financial management and by regular monitoring and evaluation. Each of these common elements is addressed below, alongside key supporting resources and activities that those involved can use.

Figure 7. Steps towards developing robust policy content



3.2.1 Evidence base

A strong evidence base underpins effective health tax design and can be useful for purposes of advocacy and engagement as the tax is implemented. In order to design and implement health taxes that are fit-for-purpose and context appropriate, policymakers should utilise available evidence. The available evidence base includes the observed health and social outcomes of health taxes, as well as their observed effect on purchase price, purchasing behaviour, and consumption. Evidence is not limited to data sets; evidence is also gathered from

real-world experience. The precise evidence required depends on the specific product and its components, on consumption patterns relating to the product, and on the national health and social burdens related to consumption. In addition to these factors, attention also needs to be paid to the political economy environment and evidence for neutralising industry opposition. These elements are summarised in Toolbox 5, below. For governments that do not have the resources to carry out their own research on these elements, evidence from other countries that are relevantly similar can be utilized.⁵⁵

Toolbox 5. Evidence gathering for health taxes

This evidence can be thought of as spanning four categories: the **health effects** of the targeted product, examples of **best practice**, the **political economy** environment, and the anticipated **industry impact** of the health tax:

1. Evidence characterizing the extent of the problem (e.g. consumption patterns, health effects of product use).
2. Relevant examples best practice globally and from comparable contexts.
3. The state of the political economy around health taxes (e.g. the degree to which the government and other stakeholders are supportive of health taxes).
4. The state of the industry for tobacco, alcohol, and SSBs (e.g. the degree to which local companies and other actors may be affected if health taxes are implemented).

Health tax advocates should also be aware of global guidelines relevant to the health taxes of interest. Some WHO resources are summarised below. Further resources will be highlighted in related, product-specific documents.



1. General health tax guidance:

1. World Health Organization (2019). Health Taxes: A Primer. Available at: <https://www.who.int/publications/i/item/health-taxes-a-primer>
2. World Health Organization and United Nations Development Programme (2016). What Ministries of Finance, Tax and Revenue Need to Know. Noncommunicable Diseases. Available at: <https://apps.who.int/iris/bitstream/handle/10665/250227/WHO-NMH-NMA-16.94-eng.pdf?sequence=1>

2. Tobacco tax guidance:

1. World Health Organization (2021). WHO technical manual on tobacco tax policy and administration. Geneva: World Health Organization. Available at: <https://iris.who.int/handle/10665/340659>
2. World Health Organization Framework Convention on Tobacco Control (2014). Guidelines for implementation of Article 6: Price and tax measures to reduce the demand for tobacco. Geneva: World Health Organization. Available at: [https://www.who.int/europe/teams/tobacco/who-framework-convention-on-tobacco-control-\(who-fctc\)](https://www.who.int/europe/teams/tobacco/who-framework-convention-on-tobacco-control-(who-fctc))

3. Alcohol tax guidance:

1. World Health Organization (2023). Technical manual on alcohol tax policy and administration. Available at: <https://www.who.int/publications/i/item/9789240082793>
2. World Health Organization (2018c). SAFER. A world free from alcohol related harms. Available at: https://cdn.who.int/media/docs/default-source/alcohol/safer-brochure.pdf?sfvrsn=c105aaf0_4
3. World Health Organization. (2017). Resource tool on alcohol taxation and pricing policies. Available at: <https://www.who.int/publications/i/item/9789241512701>
4. World Health Organization. (2010). Global strategy to reduce the harmful use of alcohol. Available at: <https://www.who.int/publications/i/item/9789241599931>

4. SSB tax guidance:

1. World Health Organization. (2023). Reducing consumption of sugar-sweetened beverages to reduce the risk of unhealthy weight gain in adults. WHO e-Library of Evidence for Nutrition Actions (eLENA). Available at: <https://www.who.int/tools/elena/interventions/ssbs-adult-weight>
2. World Health Organization. (2022). WHO manual on sugar-sweetened beverage taxation policies to promote healthy diets. Available at: <https://www.who.int/publications/i/item/9789240056299>
3. World Health Organization. (2017). Taxes on sugary drinks: why do it? Available at: <https://apps.who.int/iris/bitstream/handle/10665/260253/WHO-NMH-PND-16.5Rev.1-eng.pdf;sequence=1>

3.2.2 Tax design

This section presents a consolidated discussion of the technical elements of health taxes for policymakers to have a general overview of the design of health taxes that may be applicable to their context and jurisdiction. The following items should be considered when designing the tax and in the policy content:

- Type of tax and structure to be used
- How the tax should be calculated
- Products that will fall under the tax
- Amount of the tax (i.e. how high should the tax be?)
- Who should the tax be levied on?
- General or earmarked tax
- Tax administration capacity

Tax type

Health taxes are largely applied to goods and services (called 'indirect taxes') rather than on specific individuals, businesses, or households ('direct taxes'). Consumption taxes are indirect taxes. They include (i) excise taxes, (ii) value added taxes (VAT), (iii) general sales taxes (GST), and (iv) import tariffs and custom duties.^{8,56} Of these, excise taxes in particular have the potential to increase the price of certain products in a targeted manner by raising the cost of the products relative to other goods, thereby reducing consumption, but other tax types can also achieve this outcome when properly designed. As opposed to import duties, excise taxes are levied on both domestically produced and imported products and do not discriminate based on product origin.

Table 2. Advantages and disadvantages of different tax types relevant to health

Tax type	Definition	Advantages	Disadvantages
Value added tax (VAT)	A percentage of value added at every stage of production/distribution and ultimately paid by the consumer at point of purchase.	Usually reflected in shelf price (unlike most sales taxes)	<ul style="list-style-type: none"> • Tends to be applied generally across a broad base of products • Challenging or potentially inefficient to vary VAT rates by product type • High administrative burden to change
Import tax	Only applied on imported goods.	Less pushback from domestic companies	<ul style="list-style-type: none"> • Misses locally produced products and incentivizes local production • Risk of violating international trade agreements
Sales tax	A percentage of the product's value paid by consumers at point of purchase.	<ul style="list-style-type: none"> • Possibly less politically challenging to introduce • Can be used in settings in which other types of taxes are not feasible (e.g. some US cities) 	Less likely to be reflected in shelf price and therefore less likely to impact consumer behaviour (lower salience)
Excise tax	Applied on selected goods and usually collected directly from manufacturers or distributors.	<ul style="list-style-type: none"> • Reflected in shelf price • Relative ease of administration • Target specific products 	Can be politically challenging to implement

Excise taxes can be applied as a specific tax or an ad valorem tax (or a mix of the two). A specific tax is levied on the quantity of the product, i.e. a fixed amount per cigarette or weight of tobacco, per amount of ethanol in an alcoholic beverage, or per sugar content of sugar-sweetened beverages.

An ad valorem tax is levied on the value of the product and is calculated as a percentage of the factory or retail price.^{57,58} An ad valorem tax leads to a price differential between high- and low-priced products and may induce substitution from high- to low-priced products.^{2,59}

Specific excise taxes are levied on the volume, unit, or weight of the product. Quantity discount will be discouraged due to the specific (per unit) tax. Depending on the market structure, specific taxes can reduce incentives to switch to less expensive products. Specific taxes are relatively easy to administer and are not as susceptible to tax avoidance or evasion, for example, by under-invoicing bills of lading in countries which use the Cost, Insurance, and Freight (CIF) tax base or by using the ex-factory price as the tax base for ad valorem taxes. Specific taxes also generate stable tax revenues as they are not as subject to price manipulation.^{8,60,61}

Under an ad valorem tax structure, the administration of the tax depends on prices declared by the producers at the manufacturing or retail level. An ad valorem excise tax has variable impacts on prices, depending at what stage of value chain it is levied. An ad valorem tax applied on the retail price corresponds to different per-unit price increases across product types. When this tax is levied on a price early in the value chain, it will have a smaller impact on retail prices compared with applying the ad valorem tax on the retail price. The impact of ad valorem taxes will also vary based on mark-ups. Ad valorem taxes levied earlier in the value chain are subject to transfer pricing, where producers or distributors set artificially low prices at the point where the tax is applied and then compensate by raising the price further along the distribution chain. Transfer pricing is particularly challenging in an industry that is vertically integrated. Vertical integration creates an opportunity for transfer pricing (i.e. tax avoidance) or even tax evasion.^{56,60}

Ad valorem taxes are less weakened by inflation than specific taxes. An ad valorem tax maintains its real value with inflation because the tax increases as the price increases. It is important to keep in mind that specific taxes need to be periodically increased (or have inflation adjustments in place); otherwise, specific taxes will be eroded by inflation and their effectiveness reduced. It is important to underscore that specific taxes should also be adjusted for income growth, as rapid income growth in low- and middle-income countries has rendered tobacco, alcohol, and sugar-sweetened beverages more affordable.

Insight 2.

Further reflections on excise taxes

Governments levy a variety of taxes on tobacco, alcohol, and sugar sweetened beverages including customs duties, value added tax, general sales tax, and excise taxes. As a general rule, excise taxes are the most effective for promoting health because they change the cost of the taxed products relative to other goods. Excise taxes are applied uniquely to these targeted products. The effects of excise taxes on consumption and health are proportionate to their size.

Excise taxes may also be attractive for countries with less developed tax administrations, as they can be less costly and require less administrative capacity to implement. Excise taxes can be set at higher rates than more broadly-based taxes, such as VAT or GST. Specific taxes (i.e. those based on some measure of product quantity) have advantages over taxes based on value or price (i.e. ad valorem taxes). Specific taxes are easier to administer and tend to produce more stable revenues as they are not as subject to price manipulation or fluctuations. The main disadvantage of specific taxes is that they need to be increased regularly or their value will be eroded by inflation or income growth.

Some considerations in excise taxation may be driven by country context: such as determining precisely which products to tax, how the tax is calculated, and at what rates. A related issue concerns ingredient-based taxation, which certain jurisdictions may want to consider. Taxing ingredients rather than quantity or volume can directly reflect the harms caused by the consumption of those ingredients. Taxing alcoholic beverages on ethanol content, the primary driver of the adverse consequences of excessive drinking, may promote health more effectively than taxing volume. The same is likely true for sugar-sweetened beverages taxes levied on sugar content rather than volume. Ingredient-based taxation is not without intricacies but is more likely to produce targeted health outcomes.

When considering ingredient-based taxation, it's essential to evaluate whether the government has the necessary administrative capacity to accurately measure, monitor, and enforce taxes based on specific ingredients. This involves:

Measuring accuracy: Can the government accurately determine the alcohol or sugar content of products subject to taxation? This may require sophisticated testing equipment and trained personnel.

Monitoring compliance: Can the government effectively monitor producers and retailers to ensure they are accurately reporting the ingredients and paying the correct amount of tax? This may involve audits, inspections, and data analysis.

Enforcement: Can the government enforce penalties and sanctions against those who attempt to evade or underreport taxes based on ingredient content? This may require legal frameworks, enforcement agencies, and judicial support.

If the tax administrative capacity is insufficient, it could lead to challenges such as tax evasion, inaccurate reporting, and administrative inefficiencies, undermining the effectiveness of the tax system. Therefore, policymakers need to carefully assess the administrative capacity before implementing ingredient-based taxation and consider investing in capacity-building measures if necessary.

Tax structure

Specific and ad valorem excise taxes can be applied as either a (i) uniform tax structure with a single tax rate or as (ii) tiered tax structure where the tax rate varies based on price and/or product characteristics.

Price-based tiered taxes will widen price gaps between products (or brands) and facilitate tax avoidance by manufacturers who may manipulate their products' prices to reduce their tax liabilities while retaining sales. Uniform and tiered taxes based on product ingredients such as sugar for sugar-sweetened beverages or ethanol content for alcoholic beverages can induce reformulation towards healthier products. The industry's response can add to the health impact of ingredient-based excise taxes.

For tobacco, countries have experienced best results in implementing uniform specific taxes; for alcohol and sugar-sweetened beverages, the appropriate tax structures are more nuanced. Toolbox 6 outlines some typical tax types and structures according to product.

Toolbox 6.

Tax types and structure applied to various products

A simple tax structure will reduce the opportunities for tax avoidance as well as the monitoring costs per unit of revenue raised. For tobacco, a uniform specific excise tax reduces price variation between brands and across tobacco products, minimizing substitution among brands and products. Countries with multiple tax tiers based on price have experienced good results with reducing the number of tiers over time, with the goal of achieving a uniform specific tax. Similarly, countries that levy different taxes based on tobacco product characteristics have experienced good outcomes by reducing and eventually eliminating differential taxes.^{1,8}

The tax structures for alcohol and sugar-sweetened beverages are more nuanced.

In some high-income countries with a high prevalence of drinkers it has been found that specific alcohol taxes may be appropriate because they promote the consumption of lower alcohol-content beverages, reducing total alcohol consumption. On the other hand, mixed specific and ad valorem taxation and ad valorem with specific floor taxation of alcohol may be appropriate for low- and middle-income countries because they promote the consumption of medium alcohol content beverages, which is expected to reduce total alcohol consumption among heavy drinkers and prevent drinking initiation among young people.²

For sugar-sweetened beverages, both content-based and volumetric taxes tend to be preferred because they create a higher relative price increase in cheaper goods, discouraging consumers from choosing less costly but equally unhealthy products. Content-based excise taxes have the advantage of targeting the amount of sugar in a product and can encourage product reformulation. The World Health Organization urges countries that have strong tax administration to consider **specific taxes based on ingredient content of SSBs.**⁶³

Insight 3.

Restructuring excise taxes for more successful implementation: lessons from the Philippines

The Philippines' experience shows that restructuring tobacco and alcohol excise taxes by reducing the number of tiers, indexing tax rates to inflation, and substantially increasing the tax rate to have a public health impact is good for both fiscal and public health. In 2012, the Philippines' Sin Tax Law brought about overdue reforms to tobacco and alcohol taxation. Prior to 2012, tobacco products were widely accessible and affordable largely due to falling real tax rates and increasing incomes. The previous excise tax regime lacked inflation indexing, resulting in a decline in revenues equivalent to 'losses' of over US\$ 2.5 billion annually in 2012 terms. The previous excise tax also featured multiple excise tiers varying by price leaving producers open to downshifting or reclassification to lower prices to avoid taxes. The political economy of the prevailing alcohol and tobacco taxation system was characterized by rent-seeking, elite capture, and monopolisation. The Sin Tax Law restructured the excise system so that excise taxes were simplified and increased, particularly on cigarettes. The key factors in this restructure included:

- **Simplifying and increasing excise taxes on cigarettes** by overhauling the complex tax tiers and shifting to a unitary specific structure over a period of five years, raising the lowest tax rate by 341% from 2012 levels in the first year of implementation, and reducing tax evasion and smuggling through holographic security stamps.
- **Simplifying taxes on spirits and beers** by introducing a ₱20 specific tax-per-proof litre and 15% ad valorem tax on spirits (which increased from 2016) and by reducing the number of tiers and doubling the nominal rate of tax on beer to a unitary specific excise of ₱23.5 per litre, to ensure a suitable floor price on alcohol and sufficient revenue generation.
- **Earmarking incremental tax revenue for health initiatives**, particularly in tobacco-growing regions, to enhance political popularity of the taxes as well as to enhance government commitments to deliver on the administration's 'Social Contract.'

Overall, this reform simplified tax administration and strengthened governance through a law that was simple and transparent.

Tax base

Tax base refers to the amount of income, assets, consumption, units of product, transactions, or other economic activity subject to taxation by a tax authority. The design and implementation of excise taxes should consider how the excise tax is calculated, including the exact nature of the tax base, particularly for sugar-sweetened beverages. There is a wide range of tax bases that ad valorem taxes can be applied to, such as manufacturer's price, wholesale price or retail price. For alcoholic beverages, the volume of beverage can be the tax base instead of the volume of ethanol (i.e. unitary excise). Table 3 below presents a summary of tax bases under specific and ad valorem excise taxes.

Table 3. Summary of tax bases under specific and ad valorem excise taxes

Products	Specific taxes	Ad valorem	Volumetric/unitary taxes
Tobacco	The unit of product (e.g. 1000 cigarettes)	The value of the product. (e.g. retail, wholesale or manufacturer price)	
Alcohol	Volume of ethanol	Beverage price (e.g. retail, wholesale or manufacturer price)	Volume of beverage
Sugar-sweetened beverages	Volume of beverage or quantity of sugar per 100ml	Beverage price	

Effective tax rates

The effective tax rate is a key determinant of both the revenue and health effects of health taxes. Tax rates should decrease the affordability of target commodities and should be adjusted to increases in consumer prices and incomes.^{56,60} The revenue-maximizing tax rate and the socially optimal tax rate in health terms are unlikely to be the same. Political economy considerations may suggest another reference rate to keep in mind, i.e. the rate that is most politically acceptable. How much and how products are taxed is explained as much by history, revenue needs, and the need to satisfy political constituencies as by economic analysis or the importance attached to improving health or maximizing social welfare.

3.2.3 Public financial management and tax administration

Effective tax administration can maximize the benefits of health taxes. Effective tax administration depends on the technical capacity of tax and revenue authorities, particularly to monitor tax compliance. Effective tax administration generally includes regulatory measures, enforcement activities, and penalties to stem illicit trade and discourage tax avoidance and tax evasion. Some countries have found technological solutions such as track and trace systems (T&T) effective to respond to illicit trade. However, tax design should also render tax administration manageable and uncomplicated. Experience suggests uniform specific taxes are easier to administer than multi-tiered or ad valorem taxes. It is useful to consider the extent to which illicit products – whether smuggled or illegally produced in the country – can be substituted for taxed products. Approaches and mechanisms to verify the product's composition must also be in place for an 'ingredient-based' tax.⁶⁵

The WHO Technical Manual on Tobacco Tax Policy and Administration contains further guidance on characteristics of good tax administration, considering institutional arrangements, performance and accountability, tax compliance, and control and enforcement.

Figure 8. Tobacco tax compliance cycle



Source: Reproduced from WHO technical manual on tobacco tax policy and administration.

Policymakers may want to consider options around revenue

earmarking. Revenues from health taxes may go to the general treasury, but in certain contexts it is also possible to dedicate (earmark) all or a portion of the revenues collected from health taxes to a specific expenditure programme. That said, the rules and practices of a country's overall public financial management system usually pre-determine to a large extent not only how tax revenues are collected and pooled but also how they can be spent (e.g. through measures such as mandated budgetary and expenditure processes and the associated institutions for their administration).

While earmarking can encourage the establishment of a continuous and regular source of funding for programmes, it is also important to take account of existing systems for the allocation of funds and their disbursement. Insight 4 outlines the difference between soft and hard earmarking. Table 4 summarises the advantages and disadvantages of different approaches to earmarking.

Insight 4.

Soft versus hard earmarking

Various applications of earmarking include:

- additional non-specific budgetary allocations for health,
- the development of health promotion funds or foundations,
- subsidies for healthier alternatives,
- tagged funding for organizational units, and
- specific social protection mechanisms.

While earmarking can generate political support for health taxes by acting as a traceable policy output, it can also be perceived as circumventing public financial management. Earmarking can introduce rigidities into budgetary processes as it constrains the allocation of funds and hampers budgetary control such that, in order to compensate, non-earmarked funds intended for the same purpose can later decrease. There is no single best-practice approach, as different objectives need to be balanced in the light of local constraints and opportunities. However, one approach that blends competing interests is the use of so-called 'soft' earmarks.

'Hard' earmarks occur when the earmarked funds are the main or only revenue source for a particular service or programme, and none of the funds can be allocated to any other purpose. Hard earmarks are usually expressed directly in general legislation or in the specific appropriations act. On the other hand, soft earmarks are non-binding, and might be expressed, for example, in legislative committee reports or in other background documents. Despite being non-binding, and subject to the usual public financial management processes, soft earmarks are generally respected, especially.

Source: 64,65

Table 4. Advantages and disadvantages of different approaches to earmarking

Type of earmarking	Definition	Advantages	Disadvantages
No earmarking	Revenue goes into a general fund	<ul style="list-style-type: none"> • Gives government flexibility • Given an open and transparent budget process that prioritizes health, usually the most efficient 	<ul style="list-style-type: none"> • Limits visibility of tax revenue
Soft earmarking	Revenue goes into a general fund but is committed to specific programs without a binding obligation; funds can be shifted to other purposes subject to the normal budgeting process	<ul style="list-style-type: none"> • Gives visibility to tax revenue • Can increase public support for taxation • Gives government flexibility • Can be used to fund social welfare programs 	<ul style="list-style-type: none"> • Limited government accountability, may undermine public trust
Hard earmarking	Revenue is allocated to specific expenditures outside of the normal budgeting process	<ul style="list-style-type: none"> • Gives visibility to tax revenue • Can increase public support for taxation • Can be used to fund social welfare programs 	<ul style="list-style-type: none"> • Limits ability to shift resources • Can lead to a shortfall if revenue is lower than expected

Source: 64

3.2.4 Monitoring and evaluation

It is helpful to develop a framework for the monitoring and evaluation of health taxes, ideally at the design stage. However, some countries may not have monitoring and evaluation systems set up prior to the implementation of health taxes or may not have routine data collection systems in place. Such obstacles do not need to deter action.

A monitoring and evaluation platform is useful for several reasons. First, it is useful in identifying whether implementation is performing as expected, has unintended consequences, and if any course correction is needed. It is also useful platform for managing compliance and enforcement. A strong monitoring and evaluation framework requires the availability of baseline data, reliable indicators, and opportunities to collect follow-up data. Furthermore, monitoring and evaluation requires dedicated resources, reporting and data collection, and the appropriate skill sets.^{66,67} Strengthening country led platforms for monitoring and evaluation is discussed in more detail in Toolbox 7.

Toolbox 7.

A country-led platform for monitoring, evaluation, and review of health taxes

What is monitoring and evaluation?

To track the progress and performance of national health policies, strategies, and plans, the WHO defines monitoring, evaluation, and review in the following way:

- **Monitoring:** the collection, tracking and analysis of information to determine what happened, where and to whom.
- **Evaluation:** builds on monitoring to assess whether the desired results of a policy intervention have been achieved or not.
- **Review:** building on the evaluation, the identification of problems in order to take corrective action.

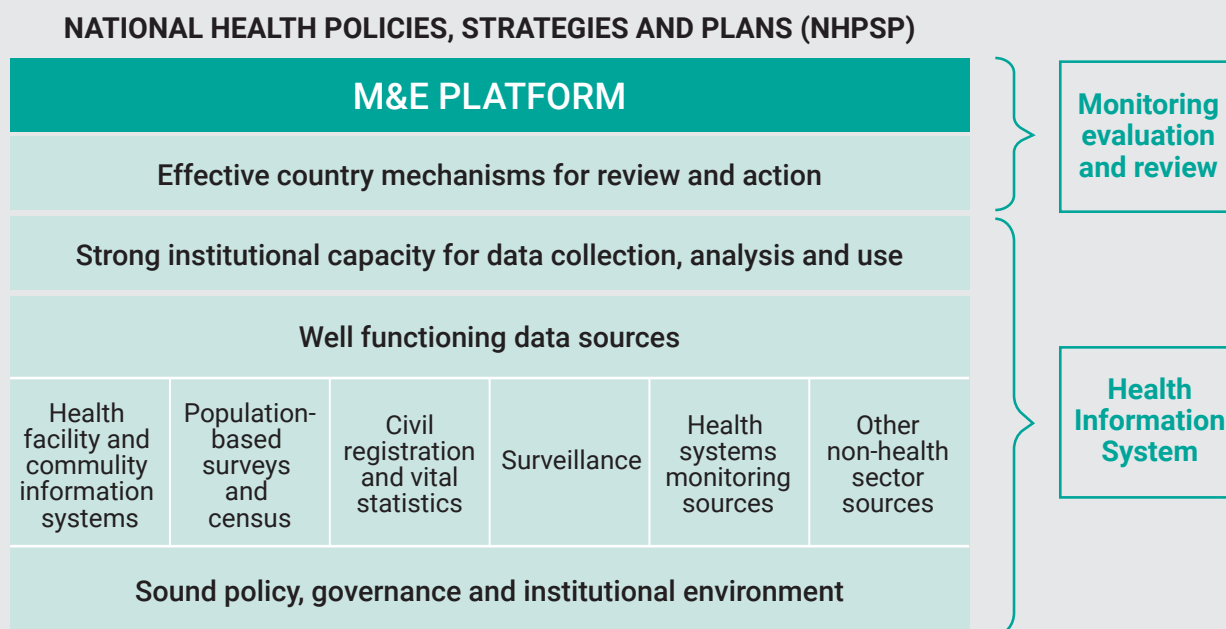
What does a national approach to monitoring and evaluation look like?

A strong country-led platform for monitoring, evaluation and review has four main components.

1. A supportive institutional environment;
2. Functioning data collection;
3. Capacity for data collection, management, analysis, use, and dissemination;
4. Country mechanisms for review and action.

A system of monitoring, evaluation, and review for general national health policies is usually built upon a single platform that gathers information from national data sources and institutions (Figure 9). While health tax policies may be able to use existing monitoring and evaluation infrastructure, in addition, the monitoring and evaluation of health tax policies may need to draw on other information about product price levels, the tax share in retail price, tax revenues collected, the response of patterns of consumption to price changes, and changes in the burden of disease.

Figure 9. A single platform model for monitoring, review and evaluation of health policies, reproduced from WHO 2016⁶⁷



Health tax scorecard

A health tax scorecard may also be a useful way of streamlining approaches to monitoring and evaluation of health tax policies. A health tax scorecard synthesizes best practices in tobacco taxation and requires information on four key components of tax policy: price level, change in affordability over time, total and excise tax share in the retail price and tobacco tax structure. At the moment alcohol and SSBs do not have scorecards as there is a lack of consensus on best practices.

3.3. Political advocacy

The successful implementation of health taxes requires active management of the political environment. Beyond the technical aspects of health taxes, it is crucial for advocates to take a systematic and proactive approach to understanding and engaging with relevant policy actors and other important stakeholders. This section provides practical advice on how policymakers can engage with a range of stakeholders. It also contains a section on managing industry opposition, which can be a significant barrier to developing and implementing health taxes. Strong public and political awareness can help counter such challenges and increase the likelihood of success.

Figure 10. Steps towards effective political advocacy



3.3.1 Stakeholder management

Broad-based support from a range of stakeholders, including civil society, facilitates the successful implementation of health taxes.

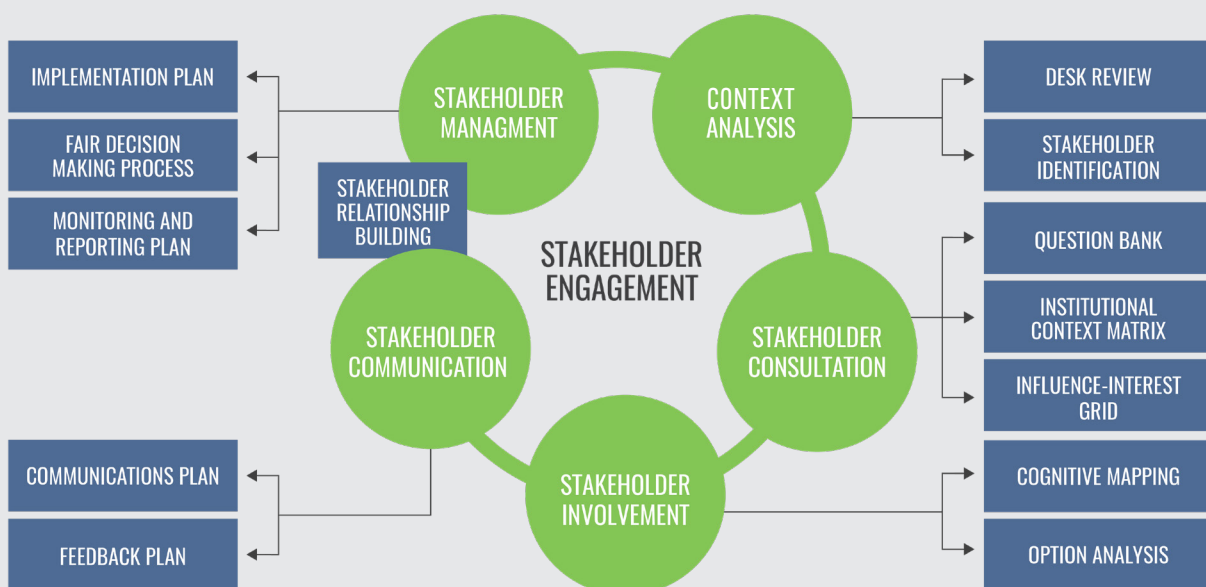
Stakeholder engagement is critical to building cross-sectoral and public consensus and therefore to attaining the desired policy outcomes. When policy advocates do not design processes to consider issues of interest to stakeholders, and to include them in the decision-making process, the chance of reaching the desired outcome is lower. Successful policy implementation requires an understanding of who are the facilitators and who are the opponents of the desired policy and determination of effective ways to reconcile different interests through ongoing engagement. Toolbox 8 below outlines some key approaches in stakeholder engagement. This is represented as a stakeholder engagement cycle that spans context analysis, stakeholder consultation, stakeholder involvement, stakeholder communication, stakeholder relationship building, and stakeholder management.

Toolbox 8. Stakeholder engagement cycle

Stakeholder engagement should be considered across the entire policy cycle, not merely at the end. Below is a graphical representation of different strategies that can be used at each stage of the stakeholder engagement cycle. The blue circles in the graph represent the key stakeholder engagement strategies (analysis, consultation, involvement, communication, management, and relationship building). These strategies are overlapping because the policy process is not linear, and several strategies can and should be used together at any given time. The yellow boxes represent the different types of tools, methods, and techniques available to ensuring stakeholder engagement.

Beginning at 'context analysis', a desk-based review as well as key-informant interviews can help to understand the political environment and identify relevant stakeholders. 'Stakeholder consultation' requires active consultation with identified stakeholders. Developing a question bank to analyse the institutional context is useful here, and the information gathered can be represented as an influence-interest grid. Institutional Context Analysis and the Interest-Influence Grid have been outlined in Toolbox 2 above. 'Involving stakeholders' is an ongoing process that can be enhanced by specific techniques, such as cognitive mapping and options analysis, to understand the criteria and objectives represented by stakeholders. 'Stakeholder communication' can be strengthened by ensuring that a communication and feedback plan is developed. Further, having a clear implementation and monitoring and evaluation plan enhances relationship-building with stakeholders and active management of the stakeholder environment.

Figure 11. The stakeholder engagement process (Source: authors)



3.3.2 Cross sectoral advocacy

The multisectoral nature of health taxes requires bringing together a broad stakeholder coalition. At the intersection of health and other sectors one may find conflicts over policy objectives or even jurisdictions. For example, while the health benefit of health taxes is a priority for health ministries, trade and commerce departments may try to support existing industries and economic entities – including producers of harmful products. Similarly, agriculture departments may advocate for tobacco or sugar farmers. These differing objectives, whether in alignment or in conflict, must be made explicit. One way of doing this is through a stakeholder analysis exercise (outlined in Toolbox 2 above). A related strategy is doing an Institutional Context Analysis.

Ministries of health, ministries of finance, tax and revenue authorities, and other government agencies have critical roles in the design and development of health taxes. Experience suggests that early engagement between health and other government departments, particularly finance departments, allows for priorities to be set and cross-departmental coalitions to be established.^{68,69} Promoting the dual health and economic benefits of health taxes may help to overcome cross-ministerial asymmetries that can favour financial or trade interests over health.

Taking a whole-of-government approach helps build political and public support for health taxes. It is important to ensure that the proposed health tax is feasible, and that implementation is possible within the national context and existing national legal infrastructure. A whole-of-government approach helps to increase the chance of health taxes being enacted and can facilitate addressing any challenges.

3.3.3 Engaging key stakeholders

Public engagement

Public support for health taxes tends to be stronger when there is a link between the use of the revenues and the health goals shared by a broad range of publics. The kinds of partnerships required to enact and implement health taxes tend to be different from those for other forms of taxation, and direct engagement with a range of publics can be helpful. Documenting the experiences of countries and facilitating exchange between countries supports effective action. The support of development partners can also play a role in buttressing the credibility of proposals and discrediting disinformation.

Experiences across a wide range of countries underline the importance of local leadership, locally developed solutions, and the sensitivity of development assistance actors to the local political and social context.

Engaging civil society

Civil society organizations (CSOs) can play a role in raising public and political awareness for health taxes. CSOs can carry out grassroots advocacy, garner support from politicians, academics, members of the public and other CSOs, generate policy-relevant evidence, as well as organise and help finance public awareness campaigns. The involvement of CSOs helps the formation of a strong coalition to withstand challenges and interference from industry. The success or failure of health taxes may depend on public campaigns, underlining the importance of a strong civil society movement. Governments should engage with CSOs to capitalise on these benefits.

The role of UN agencies

United Nations Agencies have played key roles in establishing framework agreements and treaties, setting norms and guidelines, and assembling global evidence. Some of the most critical breakthroughs for global health have occurred as a result of the treaty-making power, agreements, and calls-to-action of UN agencies. For example, the WHO Framework Convention on Tobacco Control, the first international treaty negotiated under the auspices of the World Health Organization, was adopted in 2003 and entered into force in 2005. Through cooperation and collaboration with other international agencies and development partners on the ground, UN agencies can:

- Raise awareness of the need to invest in identified/agreed policy objectives, programmes, and interventions and help ensure the long-term commitment of national authorities;
- Foster collaboration and partnerships among development partners and provide technical support to countries within the purview of their mandate, consistent with national priorities;
- Consolidate and disseminate innovations and lessons learnt through knowledge-sharing activities, information products, and technical resources.

UN Agencies, together with international financial institutions, governments, civil society, academia, and the research community, should support governmental capacity to implement evidence-based health tax policies, to adopt or revise agreements that constrain health tax reforms, to disseminate evidence on the effectiveness of health

taxes, to refute misinformation, and to provide technical assistance and political support to governments that face industry opposition. The role of the country offices of UN agencies can be key in building a multisectoral consensus for health taxes.

3.3.4 Managing industry opposition

Most governments that have implemented health taxes have encountered opposition from industry and from anti-tax lobbyists and campaigners. As industries expand into low- and middle-income markets, they use numerous tactics to dissuade countries from reducing consumption. These tactics can include forming ‘front’ organizations to disseminate biased research, contributing to political election campaigns, attempting to sway public officials to violate provisions of international treaties, and threatening costly lawsuits.^{70,71} Industry-led campaigns tend to either exaggerate the negative economic impacts of health taxes or discredit the science behind health taxes. For example, the tobacco industry’s opposition, and the ways in which industries undermine health taxes, can be summarized as **SCARE** tactics: **S**muggling and Illicit Trade (or, in the case of SSBs, **S**owing Doubt), **C**ourt and Legal Challenges, **A**nti-poor and Regressive, **R**evenues, and **E**mployment.⁵⁶ These tactics, and ways to counter them, are summarised in Toolbox 9 and in Table 5 below. There is evidence that the alcohol and food & beverage industries use similar tactics.

Broad coalitions help defend health taxes against opposition. Public campaigns and awareness strategies can help. Such strategies include the use of: (i) billboards; (ii) TV advertisements; (iii) social media; (iv) reports and evidence countering misinformation; and (v) community mobilization.⁸

There is an inherent conflict of interest in the involvement of industry in health tax policy. For tobacco, **Article 5.3 of the WHO Framework Convention on Tobacco Control** defines the limits as to how much industry can and should engage in policymaking process, expressing that “parties should not accept, support or endorse any offer for assistance or proposed tobacco control legislation or policy drafted by or in collaboration with the tobacco industry.”

Toolbox 9. **Countering SCARE Tactics**

Smuggling and illicit trade

Opponents of health taxes argue that the levy of health taxes results in tax evasion, tax avoidance and illicit trade (including smuggling). Cross-country evidence reveals that increases in tobacco taxes have consistently produced significant revenue gains and reduction in tobacco use, even in the presence of revenue leakages. The Protocol to Eliminate Illicit Trade in Tobacco Products is the first protocol of the WHO Framework Convention on Tobacco Control and presents measures to reduce and prevent illicit trade in tobacco products, including monitoring the supply chain, addressing unlawful conduct; the imposition of criminal offenses through enforcement; and promoting international cooperation. The same approaches apply to alcohol. While concerns about illicit trade do not justify opposing health taxes, they underline the importance of improving enforcement, strengthening governance and coordinating tax policies across neighbouring countries. Note that, for SSBs, S stands for Sowing doubt on the effectiveness of interventions and diverting attention away from SSB taxes to other less effective interventions. For SSBs, the profitability of smuggling is relatively low, so is of less concern.

Court and legal challenges

Health taxes may be challenged in court; and the response to these challenges should be based on evidence. Public awareness needs to be sustained following implementation to ensure continued support.

Anti-poor and regressive

Opponents of health taxes argue that they harm the poor, whereas it is the health and financial consequences of consuming these products are harmful to the poor. NCDs are inherently regressive in that they impact lower-income populations disproportionately. Evidence reveals that the effects of health taxes are progressive. Health taxes also generate revenue that can be spent on reducing health inequalities and improving population health and educational outcomes. Poorer households face greater hardships from the effects of tobacco, alcohol and unhealthy foods than richer households. They also tend to be more responsive to price changes. Multiple studies show that the health benefits accrued over time from reduced consumption by poorer households outweigh the income effects of the taxes on the poor. Health taxes are more progressive when the revenues generated from taxes are spent on interventions that favour the poor and vulnerable.



Revenues

Opponents of health taxes claim that they will result in lower tax revenues. In fact, evidence shows that tobacco and alcoholic beverages are relatively price inelastic, which means consumption decreases but by proportionally less than the price increase. As a result, any tax increase on tobacco and alcohol raises tax revenue in the short-to-the-medium-term.

For tobacco, an overwhelming body of evidence refutes the argument that an increase in the taxes on tobacco reduces tax revenue. A well-designed tax structure can mitigate the challenges of substitution to cheaper products. Sugar-sweetened beverages are characterized by more elastic demand, so these products are more price sensitive. As a result, an increase in taxes for SSBs that leads to an increase in prices likely results in lower consumption and lower tax revenues compared to tobacco or alcoholic beverage products. Recognizing this, the beverage industry will often respond to SSB taxes by product reformulation.

Employment

Opponents of health taxes argue that job losses will result. However, they tend to exaggerate the size of the labour force in affected industries, misrepresent the labour market's response to changing demand patterns, and ignore how shifting demand can increase employment in other sectors. Consumers who reduce spending on taxed products buy more goods and services in other sectors, shifting jobs from one sector to another. Insofar as there may be sectoral impacts and adjustment costs, an appropriate policy response is to provide compensation and support for workers affected by shifting production. Policies that address the distributional impact of health taxes on the labour force can help to manage political opposition to health taxes.

Sources: 2, 9, 21, 24-28, 71-73

Table 5. Possible grounds of legal challenge to health taxes and evidence-based responses

Challenge	Response
<p>1. Breach of international trade agreements on grounds that tobacco taxes are:</p> <ul style="list-style-type: none"> • discriminatory • more trade restrictive than necessary to achieve a legitimate objective • inconsistent with harmonization requirements 	<p>It may be claimed that health taxes do, or will, breach international trade law:</p> <ul style="list-style-type: none"> • To strengthen the government position against claims that taxes are discriminatory, whether on the face of the law or in its application, the tax should be applied consistently to domestic and imported products and across product categories • Ensure that the tax base and structure is justifiable by reference to the health goal to support the conclusion that the tax is necessary to protect health. For example, if a tax with differential rates for different product categories has the inadvertent effect of discriminating against imports, the differential should be justifiable by reference to a government's health objectives. As such, it is important to ensure that the regulatory objectives of the tax are clear, linked to legal and policy support and to evidence supporting the tax as an effective and cost-effective measure in reducing consumption as part of a framework of measures may strengthen the government position against legal claims that alternative, less trade-restrictive measures should have been adopted instead. • To ensure the tax is inconsistent with harmonization requirements, it is important to consider any harmonization requirements under regional or other trade agreements and comply with relevant processes (e.g. for notification) and if necessary align with exceptions allowing regulation to protect public health. <p>The policy content expressed in the policy document should contain this information (as applicable to the country format) and supportive evidence should be collated and publicly available.</p>
<p>2. The government/agency lacked the legislative mandate or authority to introduce the tobacco tax (ultra vires claim)</p>	<p>National/central government typically has the constitutional mandate to introduce taxes and the relevant Constitutional provision should be referenced in the law implementing the tax. Sub-national or local governments or government agencies implementing a tobacco tax must examine any delegated authority they may have under the Constitution or legislation when introducing taxes to be clear on the scope of that authority and any limits on its exercise. Local governments may also need to monitor any change to any national level legislation that may change their ability to enact taxes. It is critical to ensure that constitutional or legislative authority is not exceeded and that required processes are followed in developing and implementing the tax.</p>

Challenge	Response
3. Unconstitutionality	<p>In exceptional situations, taxes may be challenged as unconstitutional:</p> <ol style="list-style-type: none"> 1. on the grounds they impermissibly infringe other fundamental constitutional rights of commercial actors such as rights to trade, property, commercial enterprise or the free movement of goods. 2. If it is claimed that the measure is not a valid, reasonable or proportionate exercise of legislative or regulatory power for a legitimate objective. <p>To strengthen the government's position against such challenges, regulatory objectives should reference the government's constitutional duties to protect public health, legal obligations under international law and state that these taxes are part of a wider framework of policies to achieve a public health objective. Caselaw on decisions of Courts interpreting and balancing competing constitutional rights and duties (e.g. between rights to commercial enterprise and right to health/duty to regulate to protect public health) should also be considered in tax design and drafting the excise tax law.</p>
4. Procedural challenges – failure to afford due process to industry stakeholders	<p>A common ground of legal challenge, particularly in domestic courts, is for failure to afford procedural fairness or follow due process. It is very important to ensure that required procedures for enacting or amending and implementing a law/ legislation are followed, including any requirements for consultation or public comment, while protecting the process from undue industry influence and potential conflicts of interest. Procedures may be set out in the Constitution or applicable legislation, as government policy or established by usual practice.</p> <p>Due process requirements also exist under international law, such as notification procedures under regional trade agreements or customs unions. These must be complied with and documented.</p>

Challenge	Response
5. The tax design is unclear and/or illogical, thus unenforceable	<p>To be enforceable, it must be clear in the implementing tax which products are taxed and how the tax is calculated, applied, collected and enforced, providing sufficient detail to allow compliance. Accordingly, clarity on details such as the categories of products on which the tax is levied, any exemptions from the tax, tax rates (and any mechanism for indexation etc of rates), the point at which the tax is applied and collected, the administering agency or agencies, enforcement procedures and penalties for non-compliance and any mechanisms through which the tax may be reviewed or amended in future, will strengthen the government's position in the event of a legal challenge on these grounds and ensure that the tax can be effectively implemented and enforced.</p>
<p>6. Adverse effect on industry – tax will result in:</p> <ul style="list-style-type: none"> • job losses at local production/ manufacturing companies • industry moving their production out of that country 	<p>This is generally a political or economic argument rather than a legal challenge, but it is common for industry to argue that tobacco taxes will lead to economic losses for the state. The evidence indicates that well-designed health taxes with both revenue and health objectives do not have an overall adverse economic impact. Furthermore, there is no evidence that job losses occur after the introduction of a tax or that small businesses suffer. This argument needs to be addressed carefully, including international evidence. It can also be argued that the direct costs in health expenditure and indirect costs (e.g. through lost productivity and DALYs) caused by NCDs for which tobacco use is a major risk factor, outweigh the economic costs argued by industry and pose a bigger threat to a country's economy and development.</p>
7. Governments should not intervene because individuals are responsible for their own actions	<p>This is generally an ideological argument rather than a legal challenge, though could be framed around rights to freedom of opinion or expression. Evidence shows that industry marketing, particularly marketing to which children and young people are exposed, and the highly addictive nature of tobacco products, strongly influences individual decision-making. The response should be premised on the government's responsibility to protect public health and to respect, protect and promote the right to health of its citizens.</p>

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