Health taxes are levied on goods that adversely affect health, most notably on tobacco, alcohol, non-alcoholic beverages, and certain food (fats, salt, etc.).

The main goals of health taxes are i) to improve health of individuals by changing behaviours, ii) to collect tax revenues.

However, taxation comes at a cost:
- Health taxes are (often) regressive
- Depending on its design, a health tax does not necessarily induce producers to innovate and improve the quality of products
- A change in behaviours will not come about if the tax is not passed through consumers
- Taxes are not necessarily efficient instruments – particularly for goods where excess consumption leads to increasingly negative health effects
- Health taxes can lead to efficiency losses through unintended changes in behaviours – this may offset efficiency gains made through correcting market failures.

FURTHER CONSIDERATIONS

Should we look at health taxes in a static way?
No - if they are successful, in the long run, health taxes may reduce health-related expenditure (and lead to cost savings). Second, they might reduce their own tax base, thereby reducing the revenue potential.

Is tax the only available instrument to change behaviours?
No - to improve health of individuals, other instruments are available, such as information campaigns, cooperation with business sectors (on the use of ingredients, size of products, available alternatives), or regulations (including consumption bans).

How to design health taxes?
Many aspects have to be considered:
- Whether it is a product or a nutrient-specific tax
- Whether it is ad valorem, ad quantum, or both
- The level of the tax rate
- Whether there is a minimum threshold
- The point at which the tax should be imposed (producer, importer, retail level)
- The legal restrictions that come with such a tax
- The interest group pressure
- The distributional effect
- The possibility to earmark the revenues to a specific sector or programme

FURTHER READING
Access the OECD’s work on:
- Tax: www.oecd.org/tax
- Tax policy: www.oecd.org/tax/tax-policy