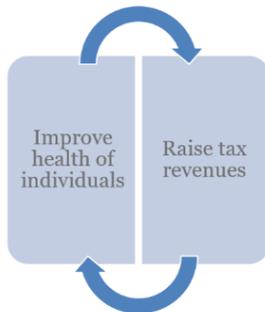


- ▶ Health taxes are levied on **goods that adversely affect health**, most notably on tobacco, alcohol, non-alcoholic beverages, and certain food (fats, salt, etc.).
- ▶ The main goals of health taxes are i) to **improve health of individuals** by changing behaviours, ii) to **collect tax revenues**.



## WHAT ARE HEALTH TAXES?

Health taxes are **levied on goods that adversely affect health**, most notably:

- Tobacco
- Alcohol
- Non-alcoholic beverages
- Certain food (fats, salt, etc.)

They **differ from health-related taxes** - which have direct or indirect link between tax and health, such as:

- Social security contributions levied in relation to health
- Environmentally related taxes

Other consumption taxes, in particular the VAT, interact with health taxes, but they are not classified as health taxes (nor health-related taxes).

## WHY IS THIS IMPORTANT FOR THE HEALTH SECTOR?

Health taxes have two main goals:

- 1) Improve the health of individuals by changing behaviours;
- 2) Collect tax revenues that would reduce other distortive taxes and improve the overall design of the tax mix, whilst also collecting more tax revenues to finance health care systems.

Other reasons for levying health taxes include:

- To correct for **market failure** as the costs of the negative health outcomes are often not fully borne by the consumer
- To correct for **information failures** as consumers have an inadequate knowledge or understanding of the long-term health consequences
- To correct situations of **inequality in health** among population groups

*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](http://www.oecd.org/tax)
- Tax policy: [www.oecd.org/tax/tax-policy](http://www.oecd.org/tax/tax-policy)