

# Tobacco Tax Earmarking

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## What is Tobacco Tax Earmarking?



- Tobacco tax “earmarking”, “hypothecation” or “dedication” of revenues refers to the separation of all or a part of tax revenues for a designated purpose, usually to fund health or other programs. There is a direct link between the payment of the tax or fee and the use of the funds.
- Other examples of earmarked taxes include TV license fees to pay for free content, tolls, or petrol taxes used for road maintenance.
- An increasing number of countries are using some sort of tobacco tax earmark. Of the countries that reported on tobacco control measures in the WHO 2019 GTCR (Table 9.4), 37 used some type of earmark. Most (28) reported a health objective, often combined with tobacco or non-communicable disease control, sports, or culture.

## Two Basic Types of Tobacco Tax Earmarking



- **“Hard”**, or “substantive”, earmarked taxes link an expenditure with a revenue source in legislation. In India, for example, the Welfare Cess for Beedi workers is used for welfare programs.
- **“Soft”**, or “symbolic” earmarked taxes dedicate or commit funds for a purpose, but are not necessarily legally binding. In France, a part of tobacco tax revenues is normally used to fund health insurance and health care with no formal earmark. In the Philippines, the Department of Health must submit an annual budget for covered programs as part of their budget request.

## Why Earmark Tobacco Taxes?



- Tobacco-related diseases cause more than 8 million deaths globally every year. In the long term, reducing tobacco consumption generates savings in public health expenditures.
- However, implementing tobacco control measures requires the allocation of resources in the shorter-term.

## Pros and Cons of Tobacco Tax Earmarking



### Arguments for:

- People are more supportive of tax increases when they know they will be used for targeted social programmes. A survey taken prior to a tax increase to fund a health promotion foundation in the Australian state of Victoria indicated that 47% of respondents were in favour of a tax increase. That figure rose to 84% if the funds were to be used for health or community benefits (Doethinchem, 2010).
- It can help guarantee funding for under-resourced programmes, such as health.
- It can create a closer connection between tax and expenditure and increase accountability, transparency, and efficiency of public expenditure.
- It can be considered a type of user fee, particularly in countries with some level of state provided health care, because smokers will have more health problems.

### Arguments against:

- Earmarking introduces rigidities in the budgetary process.
- It can limit availability of funds for alternative purposes or reduce Ministry of Health funding.
- It can lead to fragmentation of health programs and policy.
- Resources will eventually shrink as consumption of harmful/unhealthy products decreases.

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# Tobacco Tax Earmarking continued...

## Uses for Earmarked Revenues



- In most cases earmarked tobacco taxes are used for tobacco control and health promotion, Universal Health Care (UHC), or health system infrastructure. However, a wide variety of other uses include: youth, sports, social programs and alternative livelihood programs in tobacco growing areas.

## Lessons Learned



- In order to be successful, a consistent, evidence based rationale as to the need and benefits of tobacco control is needed. It should be persuasive for decision makers and the public. A strong inter-sectoral government and NGO partnership is crucial. Support is needed at all levels: from politicians, policymakers, the public, finance authorities. There is generally more support for using new revenue sources rather than redirecting existing revenues.
- Decisions as to structure and management need to be made before implementation. These include:
  - A clear definition of the expenditure purpose.
  - Determination of the management of earmarked funds—this can be through the Ministry of Finance, an extra-budgetary fund, or an implementing agency.
  - There must be institutional preparedness and capacity to implement and manage funds.
  - How long will the earmark be in place?

## Sources

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## Country Examples:



### Australia

- 1987 – The Australian State of Victoria established the Victoria Health Promotion Foundation to administer the use of tax revenues for health promotion and tobacco control programmes following several years of large tax increases. Other States subsequently did the same.
- 1997 – Earmarked taxes ended after a ruling that the constitution did not allow states to collect excise taxes. However, the Federal government then began funding the state health foundations directly.

### Thailand

- The Thailand Health Promotion Foundation (ThaiHealth) was enacted in 2001. It is funded with an additional 2% excise on tobacco and alcohol products ThaiHealth is an independent organization with excise tax revenues remitted directly.
- Operations are supervised by a Governance Board chaired by the Prime Minister. A separate Evaluation Board is responsible for evaluating overall performance. ThaiHealth funds a wide array of projects including research, community programmes, advocacy and mass media campaigns that avoid duplication of work with the Ministry of Public Health.

### Costa Rica

- Costa Rica passed a large increase in tobacco taxes in 2012. All of the new tax revenue was earmarked for tobacco control and other health initiatives. Activities include: treatment and prevention of smoking related diseases, health promotion, research on the prevention and cessation of alcohol and drug dependence, and promotion of physical activity.

### California, USA

- A large state level tobacco tax increase was introduced in 1988. 20 per cent of the new revenue was used to fund a comprehensive tobacco control program. 5 per cent funded a tobacco-focused research program. In the first 10 years, US\$ 2.4 billion was spent on the tobacco control program.

### Philippines

- A comprehensive tax reform of tobacco and alcohol excise taxes was passed in 2012, with the strong support of the President. Taxes were simplified and significantly increased. The main purpose was to fund for universal health care (UHC).
- The Department of Health manages the fund and annual allocations are based on medium term expenditure programs, which are decided by a Development Budget Coordination Committee.

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