FISCAL AFFAIRS

HEALTH TAXES POLICIES IN LATIN AMERICA AND THE CARIBBEAN: ARE WE MAKING PROGRESS?

Excise Taxes and Obesity in the Pandemic Context

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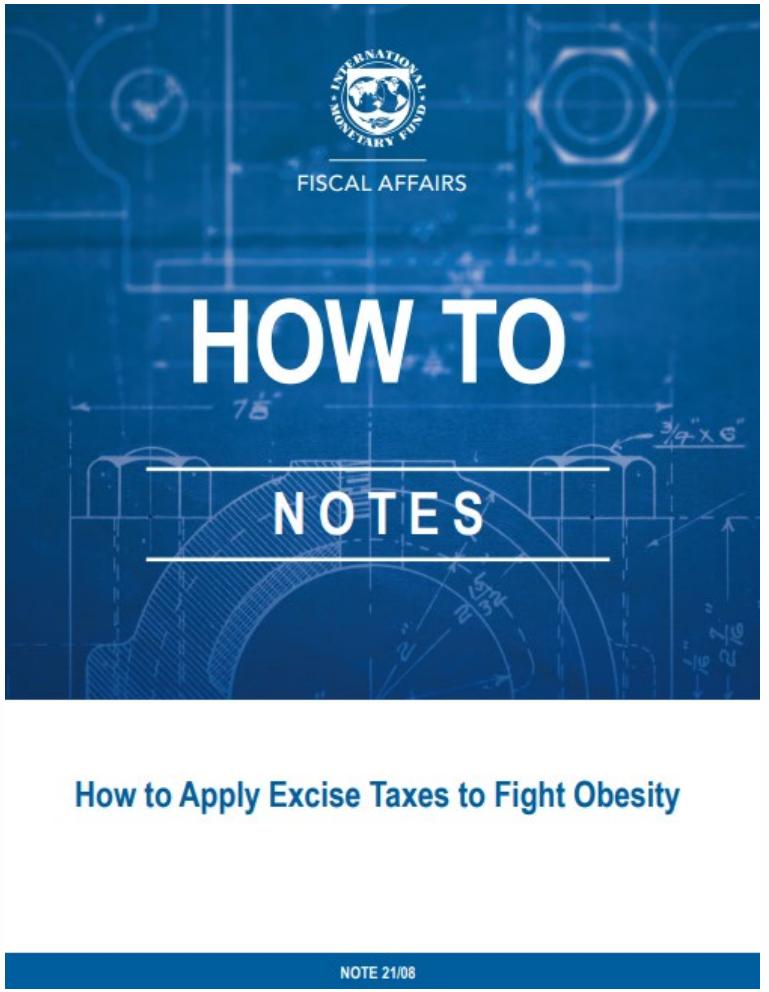
Patrick Petit
Senior Economist
Fiscal Affairs Department

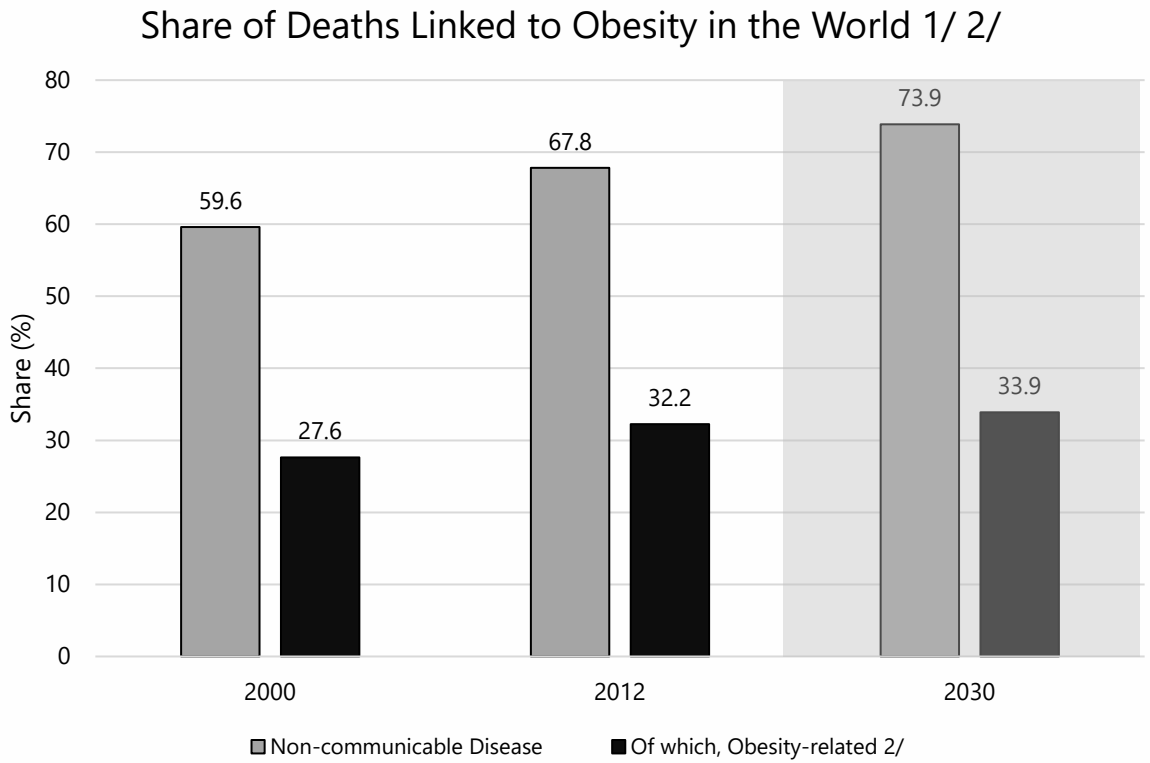
Plan

- The burden of obesity
- The cost of the pandemic and tax policy
- The cause of obesity and excise taxes
- The level, composition and revenue potential of SSB taxes
- Conclusions



THE ECONOMIC BURDEN OF OBESITY IN THE WORLD

- The economic burden of obesity is large and growing
- Direct responsibility for 2.8 million deaths annually
- Economic burden of about 1 percent of GDP in the USA
- Can tax play a role in fighting the obesity epidemic?



1/ Communicable diseases include "Communicable, maternal, perinatal and nutritional conditions".
2/ Main conditions only - this list is not exhaustive. Many of these conditions have additional risk factors, some of which could be more important than obesity.

THE IMPACT OF THE COVID-19 PANDEMIC

- A significant economic impact
  - Economic contraction of 3.4 percent of GDP in 2020
  - Additional burden of 16 trillion USD in direct health spending and other indirect costs
  - Significant fall in tax revenue
- Many additional compounding factors, of which:
  - Stronger impact on lower income groups in a world of already growing inequality
  - Demographic challenges and impact on public finances (revenue and expenditures)

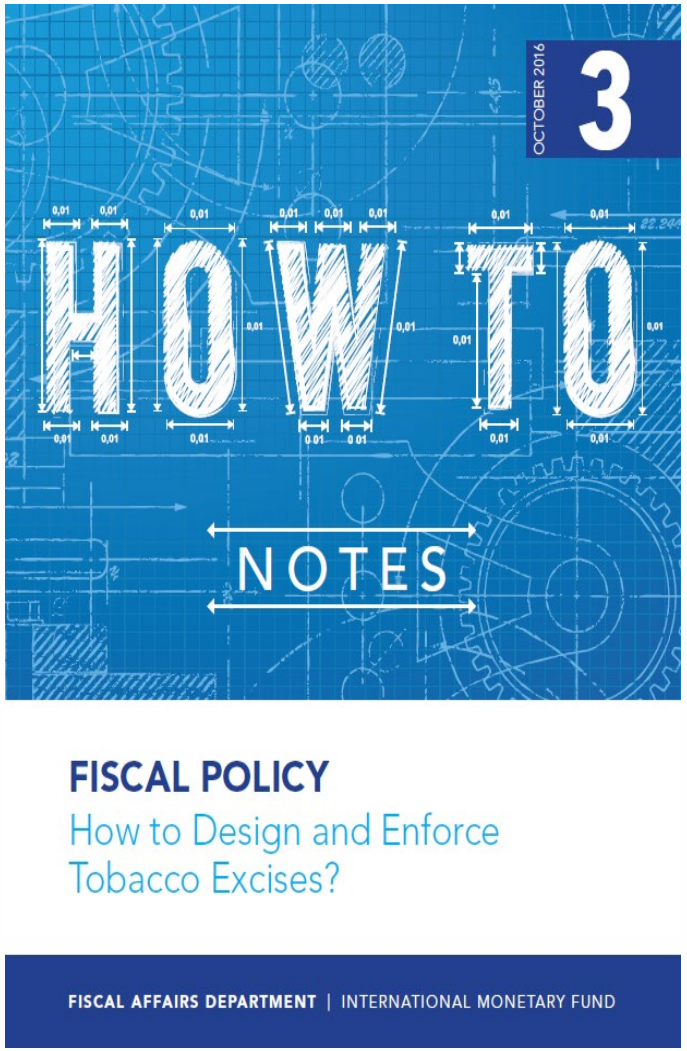
TAX POLICY FOR A STRONG RECOVERY*

- More progressive taxation of income
  - Individualized PIT to decrease the effective tax rate on the second earning
  - Appropriate exemption threshold, rates schedule, and top rate
  - Worker credit for low income, along with simple and limited deductions to improve compliance
- A strong and tight corporate income tax
  - Avoid tax competition through rates and incentives, but also avoid high rates on mobile capital
  - Strong international tax cooperation to avoid profit shifting
- Make full use of property taxes to improve equity
- Simple one-rate VAT with few exemptions and appropriate threshold
- Modernize excises: health and environment

* See: de Mooij, R. R. Fenochietto, S. Hebous, S. Leduc, C. Osorio-Buitron, “Tax Policy for Inclusive Growth after the Pandemic”, Fiscal Affairs Department, IMF, December 2020.

HEALTH TAXES

- Health taxes: no deadweight loss and a WIN-WIN situation
  - Improve efficiency by pricing the negative externalities of harmful behavior
  - Adjust the underestimated personal costs of consuming harmful items (time-inconsistent choices or “internalities”)
  - Significant revenue potential in many countries
  - Tobacco, alcohol…**and SSBs ?**



RISK FACTORS OF OBESITY: CAN THEY BE TAXED?

- Which food items cause obesity?
  - Long-term caloric imbalances: 100-200 kcal/day (one soft drink) = gain of 1lbs / month
  - **Sources of extra calories**: Soft drinks, chips / potatoes, unprocessed red meat, processed meat
  - BUT sugar-sweetened beverages (**SSBs**) represent up to **HALF** of extra calories (mainly US evidence)
- A complex link from tax to obesity
  - Taxes ➔ Higher prices ➔ Lower consumption ➔ Lower caloric intake ➔ Obesity impact
    (**Passthrough?**) (**High price-elasticity?**) (**Substitution?**)
- Strong health impact ➔ Strong reaction to price (HIGH Price-elasticity)

	Andreyeva et al. (2010) (USA)	Cornelsen et al. (2014) (38 countries) Low-income	Middle-income	High-income	Powell et al. (2013) (USA)	Nakhimovsky et al. (2016) 1/	Allcott et al. (2019) (USA)
Soft drinks	-0.79	-0.74	-0.68	-0.56	-1.21	-0.6 to -1.2	-1.37
Sweets/sugars	-0.34						

- Taxes have empirically led to a significant decrease in SSBs consumption …

THE IMPACT OF SSB EXCISES ON OBESITY AND THE LEVEL OF TAXATION

- No empirical link from taxes to obesity outcome…**WHY**?
  1. Too early to conclude ("…*long-term caloric imbalances*")
  2. Substitution effects towards other high caloric foods
     - E.g., Harding and Lovenheim (2017): 20 percent tax on SSBs ➔ purchases down by 10.35 percent, but related caloric intake by only 4.84 percent
     - Important constraints on high ("tobacco-style") excise rates
- Need more evidence / Substitution effects are not well understood

Current proposals suggest use of low taxes in the range of 1 US cent per ounce (equivalent to 15-20 percent of price)

OTHER CONSIDERATIONS ON THE LEVEL OF TAXES

- Excises have a limited and well-defined role in modern tax systems
- Externalities: impact on third party of own-consumption
  - Mainly through the health care system, but dependent on the institutional setup (e.g., out-of-pocket = no externalities)
  - The definition of the externality is not clear (≠ burden of disease, externalities vs risk pooling)
  - Evidence gathering, and point to a tax of 10-20 percent of price on soft drinks (US evidence)
- Internalities: underweighting long-term costs of short-term consumption
  - Technically difficult to assess and therefore limited number of estimations
  - Estimates so far point to corrective taxes higher than for externalities (more research needed)
- Equity issues
  - Lower income households buy more SSBs…but have more long-term gain from reduced consumption
  - Equity is generally related to government spending (redistribution) and to personal income tax

THE COMPOSITION OF TAXES: SPECIFIC VS AD VALOREM

- Specific excise tax: **$ / quantity** vs Ad valorem excise tax: **% of value (price)**
- Health objectives generally motivate the use of specific excises
  - Harm is related to quantity: specific excises
  - Define the base: Sugar content / Ounces of liquid (regardless of sugar content)
  - But inflation can erode the tax ➔ adjust regularly
- The use of sugar content thresholds
  - For example:
    - Tax applies to products with more than X grams of sugar per ounce
    - Higher tax for different brackets of sugar content
  - Better align the tax on the health impact of sugar / Can nudge product reformulation
  - Might be more demanding on administrative capacity: labelling / imports and other considerations

THE REVENUE POTENTIAL OF SSB TAXES

- Convenient / stable revenue raising requires **LOW** Price-elasticity: Not the case
- …But some countries raise significant revenue (…but less than tobacco)

Country	Share of GDP	Country	Share of GDP
Rwanda	0.16 %	Latvia	0.06 %
Cambodia	0.16 %	Mexico	0.10 %

- Ad valorem on SSBs have been used for a long time for revenue purposes in low-income countries
  - Convenience: formal sector is easier to tax
  - Price is easy to observe (limited valuation / transfer pricing issues)
  - Same producers are sometimes already paying ad valorem taxes on other products (e.g., beer)
  - SSBs represent a higher share of government revenue in low-income countries
  - Government spending have a higher marginal value than in high-income countries

CONCLUSIONS

- Very high health and economic burden of obesity
- High revenue needs in the pandemic
- Strong conjunctural and structural rationale for health taxes
- Impact of SSB taxes on obesity still uncertain, but they could be part of a larger policy package
- Revenue potential is small but real
- Taxes should be specific…but can also be ad valorem
- Along with other tax policy measures, these taxes should help increase *budget* allocations for health financing

THANK YOU

References

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SEE ALSO:

- Allcott, H., Lockwood, B. B., Taubinsky, D. (2019), Should We Tax Sugar-Sweetened Beverages? An Overview of Theory and Evidence. Journal of Economic Perspectives 33(3):202–227.

THIS PRESENTATION IS BASED ON THE FOLLOWING TEXT:

- Petit, P., Mansour, M., and Wingender, P. “How to Apply Excise Taxes to Fight Obesity”. Fiscal Affairs Department, IMF, How to notes 21/08, 2021.