Innovative financing mechanisms for South East Asia

POLICY BRIEF 4: DOMESTIC TAXES

Description

These are taxes designed to raise new funds for health, either by increasing an existing tax, or imposing a new tax on the purchase or use of specific goods or services. Common options for raising additional funds include:

- **Broad consumption taxes** (e.g. VAT/GST)
- **Taxes on specific products**, especially those with harmful health effects like tobacco or alcohol (‘sin taxes’)
- **Sector-specific taxes**, generally levied on profitable sectors/larger corporations, especially in the financial, resource and telecommunications sectors

The funds raised can go into consolidated government revenues, or be ‘hypothecated’ (i.e. earmarked) for a specific cause, such as immunisation campaigns or vaccine financing.

Status

There are many examples where domestic taxation schemes have been successfully used to raise new funds for a specific purpose, including in health.¹

**VAT schemes (additional levy on top of existing VAT rate)**

- Chile: uses 1% of its VAT to fund health (total rate 19%)
- Ghana: introduced an additional 2.5% to fund its National Health Insurance Scheme (total rate 15%)

**Earmarked tobacco and alcohol taxes**

- Philippines: 2.5% of the tax on alcohol and tobacco products is used to fund universal health care coverage and its disease prevention programme
- Thailand: applies a 2% surcharge on its excise duty on alcohol and tobacco, which is pooled in the Thai Health Promotion Fund
- Indonesia: directs 2% of total government revenue from tobacco products to the Profit Sharing Fund from Tobacco Excise, which can be used for health and social welfare programmes, tobacco control and enforcement

**Other taxes**

- Gabon: 1.5% levy on the post-tax profits of companies that handle remittances and a 10% tax on mobile phone operators to use for health care for low-income groups²
- Argentina: has instituted a levy on mobile phone subscriptions to fund elite sport
Volume of potential revenue

Tobacco taxes especially have significant revenue potential in many ASEAN countries: as at 2007, revenue from a 50% increase in cigarette excises would be equivalent to more than 25% of current government health expenditure in Viet Nam, or more than 50% in Lao People’s Democratic Republic.iii

Existing domestic schemes

- The revenue of the Thai Health Fund is around US$100m p.a. This is 1.6% of the MoPH budget and 0.6% of total health expenditure.iv
- The Ghanaian scheme raised US$70m in 2010, equivalent to two-thirds of the NHIS budget
- The Indonesian tobacco excise currently generates US$140-160m per year (from total tobacco excise revenue of US$8bn p.a.)

Pros & Cons

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<th>Pros</th>
<th>Cons</th>
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<td>High revenue</td>
<td>Politically unpopular (particularly during recession/slowdown)</td>
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<td>High predictability</td>
<td>Require legislative change</td>
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<td>Low transaction costs</td>
<td>The tax revenues can be difficult to ring-fence to vaccine purchase – may be used for other government priorities.</td>
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<td>Highly sustainable</td>
<td>Consumer-based taxes hit the poorest consumers the hardest</td>
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<td>Knock-on health gains from &quot;sin taxes&quot; on alcohol/cigarettes</td>
<td>Sector-specific taxes may dis-incentivise business investment in emerging economies</td>
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<td>Many SEA countries already have a specific health care tax</td>
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iv World Health Organization, Regional Office for South-East Asia, Tobacco Taxation and Innovative Health-care Financing (World Health Organization, 2012).