

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.ⁱ

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 groupsⁱⁱ
- 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

Pros	Cons
<ul style="list-style-type: none"> • High revenue • High predictability • Low transaction costs 	<ul style="list-style-type: none"> • Politically unpopular (particularly during recession/slowdown) • Require legislative change • The tax revenues can be difficult to ring-fence to vaccine purchase – may be used for other government priorities.
<ul style="list-style-type: none"> • Highly sustainable • Knock-on health gains from “sin taxes” on alcohol/cigarettes 	<ul style="list-style-type: none"> • Consumer-based taxes hit the poorest consumers the hardest • Sector-specific taxes may dis-incentivise business investment in emerging economies • Many SEA countries already have a specific health care tax

ⁱ Consultative Expert Working Group on Research and Development: Financing and Coordination (WHO), “Research and Development to Meet Health Needs in Developing Countries: Strengthening Global Financing and Coordination.”

ⁱⁱ Consultative Expert Working Group on Research and Development: Financing and Coordination (WHO), “Research and Development to Meet Health Needs in Developing Countries: Strengthening Global Financing and Coordination.”

ⁱⁱⁱ Karin Stenberg et al., *Responding to the Challenge of Resource Mobilization - Mechanisms for Raising Additional Domestic Resources for Health*, World Health Report 2010 Background Paper (Geneva: World Health Organization, 2010).

^{iv} World Health Organization, Regional Office for South-East Asia, *Tobacco Taxation and Innovative Health-care Financing* (World Health Organization, 2012).