Brief on ATI partner countries' perspectives from moving towards equitable tax systems

Sin tax reform and revenue raising for access to healthcare in the Philippines

Introduction

Sin taxes are defined as taxes on goods whose consumption is considered to have a net negative effect on society. In the Philippines context, these taxes have been applied on the sale of alcohol, cigarattes, e-cigarettes and sweetened beverages. Although in many countries sin taxes have long provided a dependable and significant source of revenue, and helped promote public policy goals, their application in the Philippines had been relatively modest before 2012.

Background to the reforms

Specific taxes on alcoholic drinks and tobacco products were first introduced in the Philippines in 1996, but were set at relatively low levels, not fully indexed to inflation, complex and advantageous to incumbent firms. Specific taxes on sweetened beverages had not been applied before 2020. More ambitious reforms for all of these products had been constrained in large part by resistance from affected industries.

The initial impetus for increases to and simplification of these taxes came from the need to raise revenue to support the public policy agenda of the incoming Aquino administration (following the 2010 election), but also to reform taxes on spirits which had been challenged as contravening international trade rules. Additionally, strong support for the reforms was mobilised through linking them to the public health benefits that could be secured from disincentivising consumption of sin goods and raising revenues for health expenditure.

The successful introduction of these taxes was secured through a wide coalition of actors – including the President, the Ministries of Finance and Health, civil society (especially health campaign groups) and economic reform groups - supporting them and coordinating their efforts to secure their passage into law.

Technical overview of the reform programme

Extensive analysis was undertaken in 2011 and 2012 – with support from the World Bank and the World Health Organization – to explore potential reform options, model outcomes and understand what approaches would help balance the core objectives of raising revenues and promoting health outcomes.

The tax regime introduced in 2012 focussed on setting higher and simpler taxes on tobacco products and alcoholic drinks. It introduced these new taxes in a phased way over the period to 2017, in response to demands from industry to allow for adjustments. It was also legislated that 85% of the additional revenues from these taxes would be earmarked for health spending, with 80% of these funds in turn earmarked for providing free access to the National Health Insurance Program (NHIP) to low-income households.

Further increases in taxes on alcohol and tobacco products were introduced in 2018 and 2020, and these were added by new taxes on sugar-sweetened beverages and heated tobacco and vapour products in 2020. Provisions were also introduced for 50% of the revenues from the tax on sugar sweetened beverages and all of the revenues from taxes on heated tobacco and vapor products to be allocated to health spending.

Summary of outcomes

Revenues from these sin taxes have increased rapidly and have in turn supported a significant increase in health expenditure. Revenues earmarked for health spending increased from $34 billion (USD 0.7 billion) in 2013 to $93.6 billion (USD 1.7 billion) in 2022, helping health expenditure to increase from $87.2 billion (USD 1.9 billion) to $262.9 billion (USD 4.9 billion) over the same period. Amongst other impacts, these expenditures have helped increase coverage of the National Health Insurance Scheme from 52.6% of the population in 2011 to 89% in 2022.

Over the period 2012-17, the price increases precipitated by sin tax reforms contributed to a 23% reduction in sales volume of cigarettes. Initial market surveillance suggested that taxes on sweetened beverages led to a price increase of 20%, which in turn helped reduce consumption by more than a fifth, with higher reductions noted for amongst males and the poorest quintile.

Key challenges and lessons learnt

This case study illustrates that with support from a broad coalition of actors, a coordinated and strategic influencing effort, a degree of flexibility in the reform approach pursued, and a strong narrative promoting public support (i.e. the health benefits) strong resistance to tax reforms can be overcome. It also illustrates that tax reforms can be used to pursue multiple public policy objectives, including the raising of revenues, changing consumption habits and increasing spending in targeted sectors.

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