

The Effect of the *Disposable Products Tax* in Israel on their Prices

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Test Case for the Effect of a Green Tax on the Good's Price

- Tax of \$4 per kg of plastic disposables (cups, plates, cutlery, etc.) introduced Nov. 2021.
- Study the effect of the tax on the *price* of a specific good: single-use cups in the first month after the tax was introduced.

Main Findings

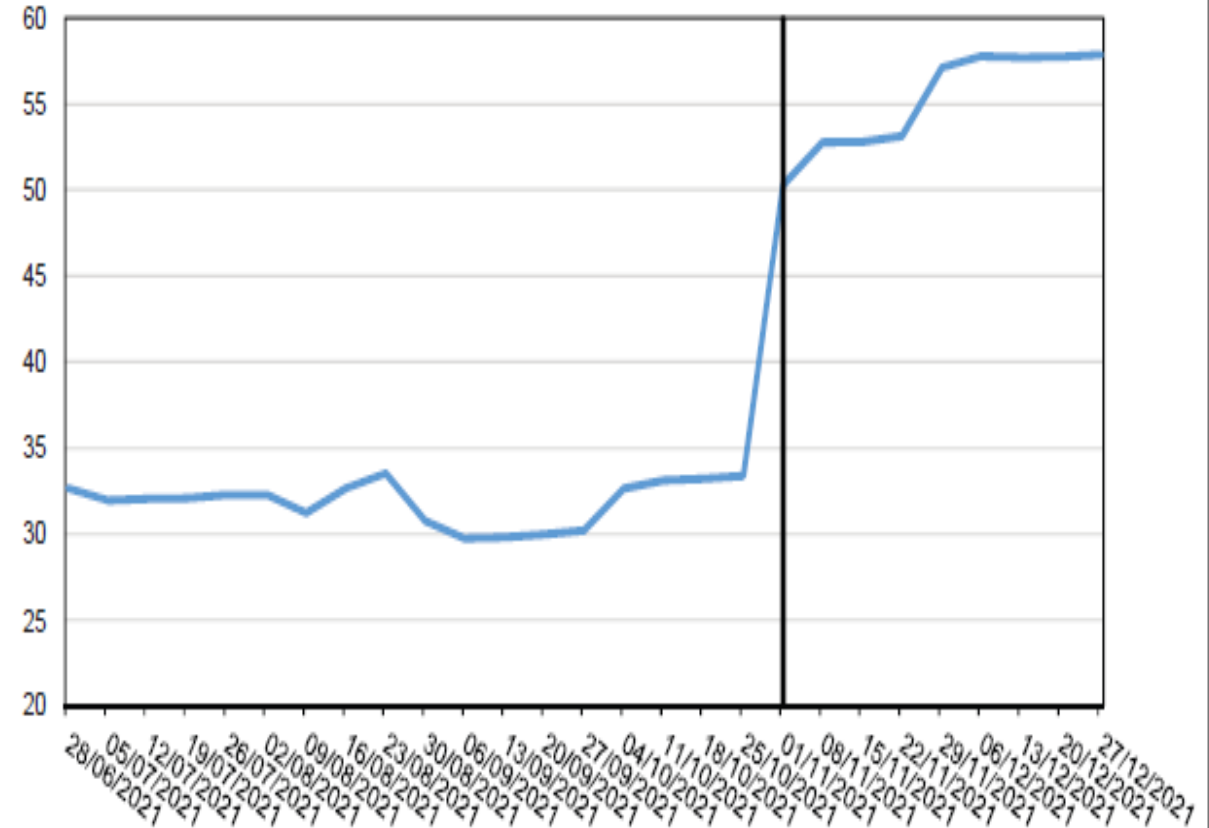
- The **derived tax rate** was high: tax was 37-50% of the pre-tax consumer price of such cups.
- The increase in price was **immediate**
- The actual increase in price was **70% higher** than implied from the tax: the price of 1 kg of cups increased by \$6.8 while the tax was only \$4.
- **Over-shifting** of similar taxes well documented in the literature.

Title



Figure 1

The Price of Single-Use Cups, July–December 2021 (NIS per kg, weekly average)



The vertical line marks the first week of November 2021.

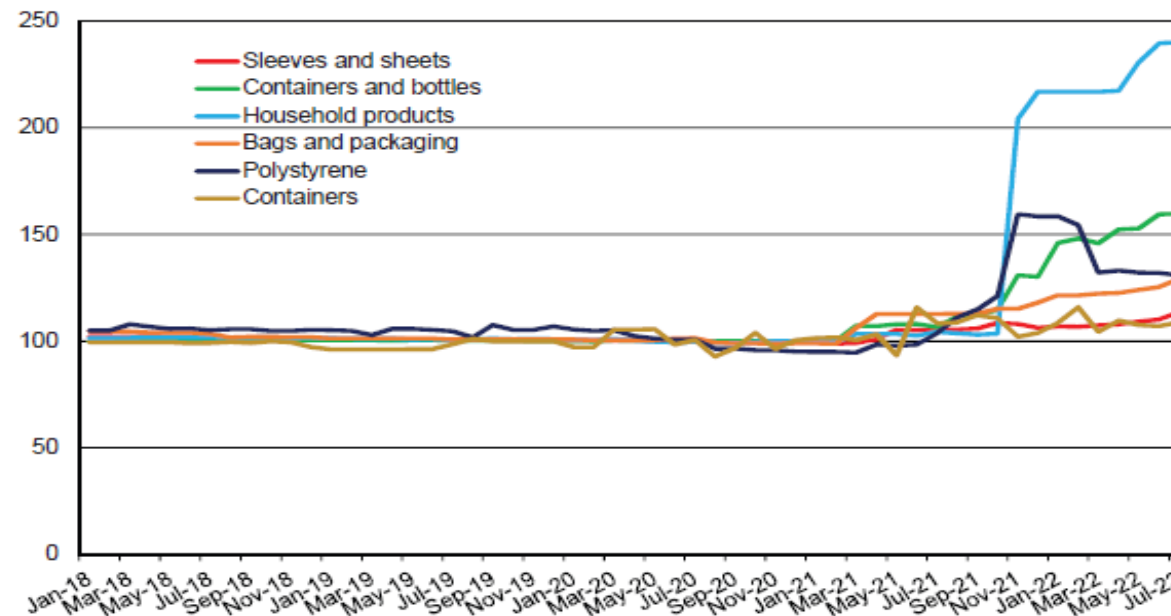
SOURCE: Based on price data published on the supermarket chains' websites.

No similar increase in prices of other (non-taxed) plastic products

hence:

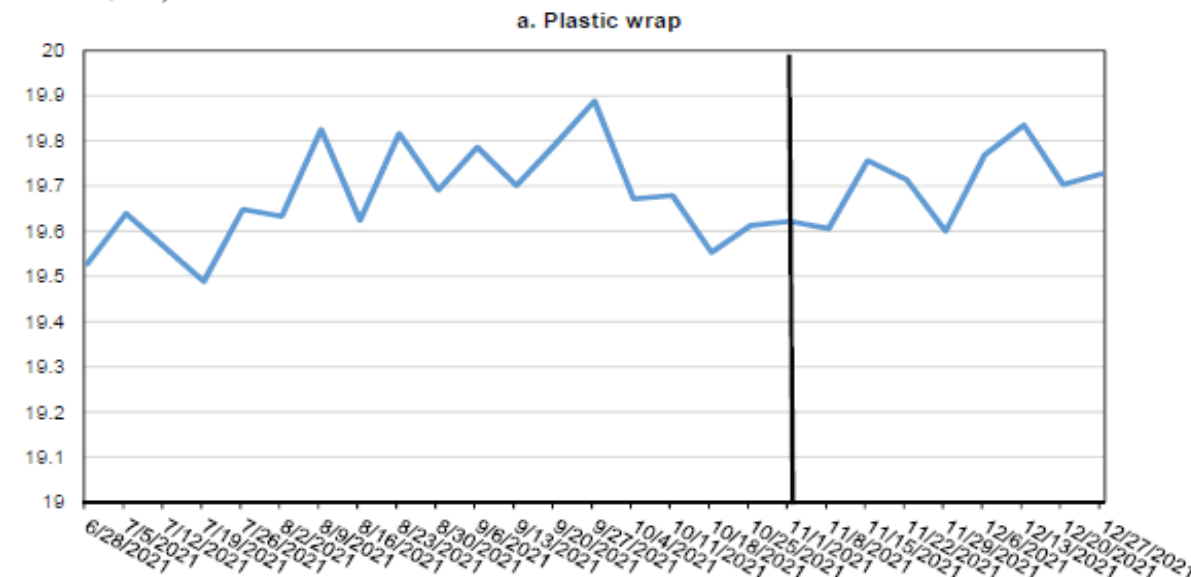
The price increase - probably *not* due to increase in price of raw materials

Producer's Price of Various Plastic Products (index)



SOURCE: Central Bureau of Statistics.

Price Behavior of Selected Products, July–December 2021 (weekly average prices at all stores in the database, NIS)



Distributional Implications – Who Bore the Tax Burden?

- Consumers vs. producers/retailers: Over-shifting
- Among consumers – Low-income (and large) households are heavy users of the taxed disposables
 - *The tax was canceled Jan. 2023*



Tax Features that Likely Facilitated the Excess Price Increase and Potential Solutions

The Problem – Lack of Transparency

Consumers unable to infer the price increase that the tax implies: the tax was based on the weight of product, but the product is never sold by weight and the consumer does not know this weight.

Possible Solutions:

- Set the tax as % of the consumer price (*Ad valorem*)
- Require producers to indicate on the packaging the product's weight or even the exact tax (in dollars) that applies to that product



Thank you.

