Setting the Scene: Health taxes, DRM and UHC

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WHO-ATI workshop on health taxes
July 22-23, 2026

WORLD BANK GROUP

Health Taxes in a Changing Development Finance Landscape

- **Development finance is tightening:** ODA fell 23% in 2025, while debt service costs and fiscal pressures continue to rise.
- **Health financing faces a growing gap:** Development assistance for health is projected to decline by ~20%; 80% of LICs and 40% of LMICs could see declines in combined government and donor health spending by 2030.
- **Domestic revenue mobilization is becoming indispensable:** Countries will increasingly need to finance health and development priorities from their own resources.
- **Health taxes are emerging as a key solution:** From the WHO-led 3 by 35 Initiative at FFD4 to the G20&G7 as well as ATI stakeholder consultations, PCT Tokyo Conference, and the UN Tax Committee work, health taxes are increasingly recognized as a key tool to raise revenue, improve health, and strengthen fiscal resilience. Many countries represented in this workshop are already pursuing health tax reforms and achieving impact.

What Works in Health Tax Design and Administration?

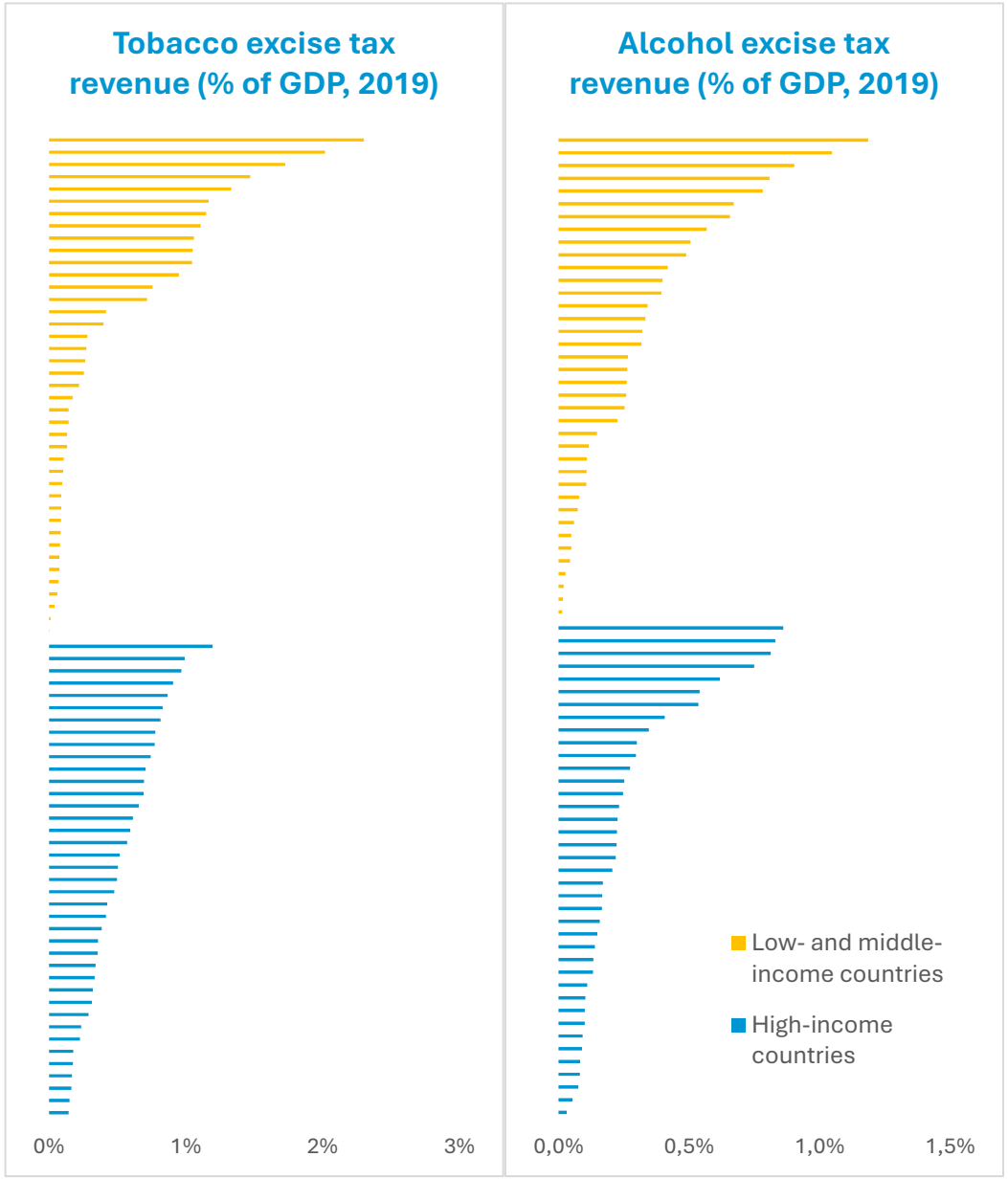
Tobacco: Uniform specific excises deliver the largest health and revenue gains while simplifying administration. More countries are shifting to these more effective structures.

Alcohol: Taxes linked to alcohol content have the strongest impact on consumption and product reformulation but are more complex to administer. Volumetric specific taxes are often a practical alternative where capacity is limited.

Sugar-Sweetened Beverages: More relevant for health impact than revenue. Sugar-content thresholds and tiered rates encourage reformulation, good for health but may impact revenue forecasts.

Excise Tax Administration: Track-and-trace systems can be valuable, but foundations needs to be in place—licensing, supply chain monitoring, risk management, and regional cooperation—to yield faster and more sustainable results.

Complementary Policies: Health taxes are most effective when combined with broader public health measures, including smoke-free policies, advertising restrictions, and front-of-pack labeling.



Note: each bar represents a country (country names have been removed from vertical axis); one outlier has been removed from each figure

Revenue Potential

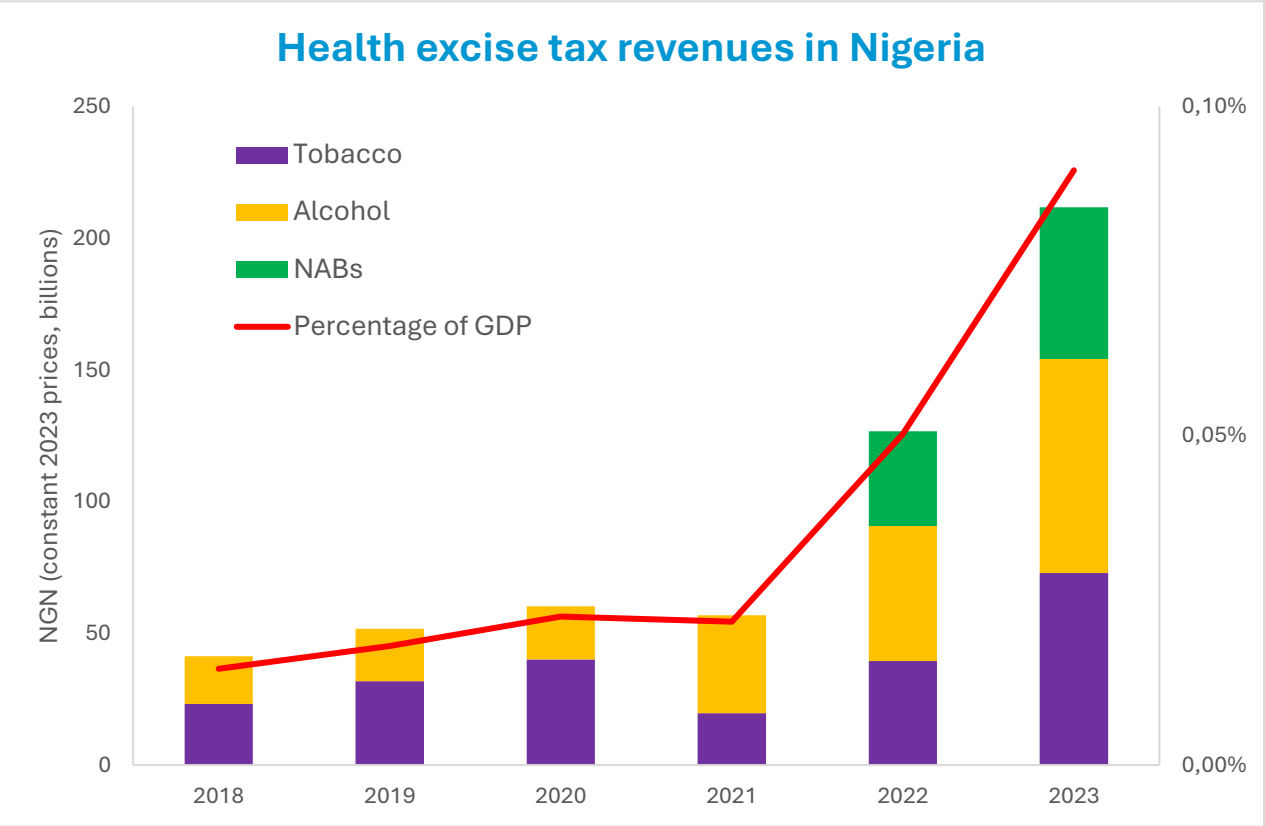
- Magnitude varies between products and countries, but health taxes generate meaningful tax revenues, together close to 1% of GDP.
  - Tobacco on average 0.6% of GDP , alcohol taxes on average 0.3% of GDP
  - Revenue performance broadly similar across between HICs (blue bar) and LMICs (yellow bar)
- While taxes on SSBs significantly less tax revenue*
  - Average of 0.07% of GDP (highest 0.19%); often includes non-alcoholic beverages

*While increasing in popularity, they generate less due to lower tax rates, less inelastic demand, narrow scope of tax and/or tax structures that generate supply side responses

Global Tax Program Health Taxes Knowledge Note: Unpacking the Empirics Behind Health Tax Revenue

Tax reforms and increases in Nigeria have generated significant increases in tax revenue

- 2018-2023: tax revenue from tobacco and alcohol ↑274% in real terms (↑ 413% including new SSB tax)
- Relative to GDP, increased from 0.01% to 0.09%; appears small but is meaningful in Nigeria's DRM context (total government revenue 7.6% of GDP)
- The evidence contrasts with concerns raised by some stakeholders prior to implementation



Source: World Bank staff estimate using MoF and WDI data

Health Tax Revenue Use and Health Financing Link

As World Bank we have been studying health tax revenue use with a dedicated database and a dozen or so country case studies.

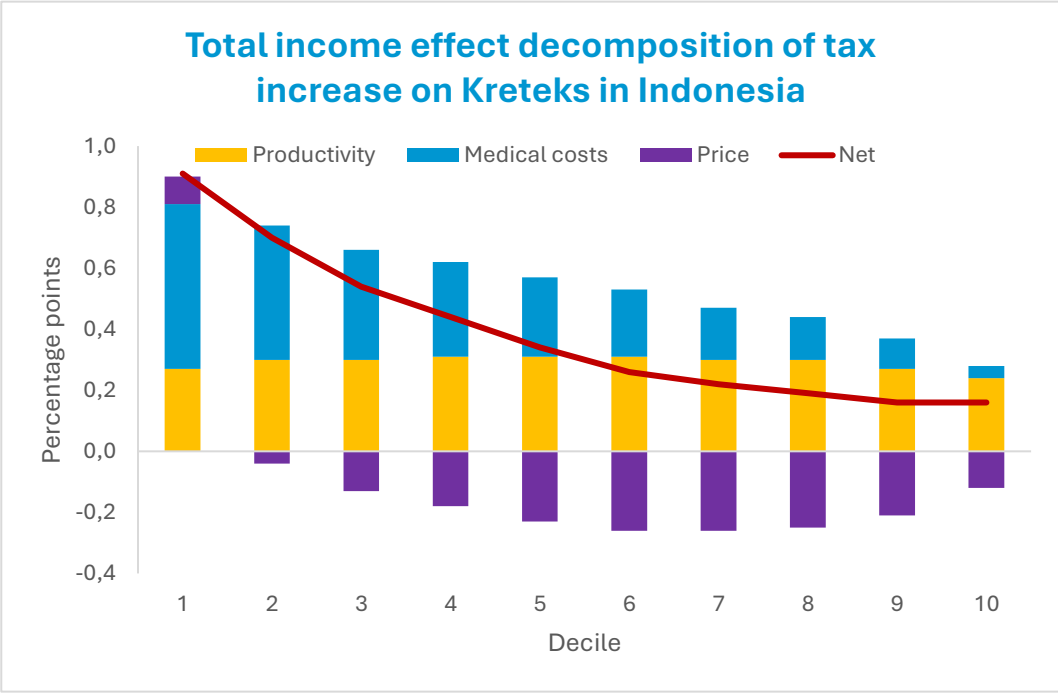
- We identified 72 countries and jurisdictions earmarking health tax revenues across 173 expenditure priorities.
  - From Chad to the Philippines, 26 countries direct health tax revenues to the health sector, including support for UHC programs.
  - From these, health tax revenues commonly channeled to priorities such as health promotion (e.g., Thailand), tobacco control (e.g., Kenya), smoking cessation, and preventive health programs, helping amplify the health impact of the tax.
- Countries have successfully linked revenues to spending priorities through good PFM practices including program budgeting, political commitments bundling reforms and priorities without needing a rigid earmark.
- What matters most is well designed and implemented excise tax; and, public visibility to the effectiveness of tax via transparent revenue tracking and reporting.

Health Taxes Deliver Biggest Gains to the Poor

Once health and productivity gains are included, health taxes can be progressive and welfare-improving for much of the population.

- Lower-income households are more responsive to higher prices, leading to larger reductions in harmful consumption and greater health gains.
- Reduced tobacco use lowers out-of-pocket medical spending, with the largest benefits accruing to poorer households.
- Reduces the risk of catastrophic health expenditures that disproportionately affect low-income families preventing costly chronic diseases
- Fewer tobacco-related illnesses and premature deaths mean more productive years and higher lifetime earnings, with the largest relative gains among lower-income groups. (see Fuchs, 2019)

Source: Fuchs (2018)



- Extended Cost Benefit Analysis of 25% price increase resulting from a tobacco tax increase in Indonesia highlights the net increase in income once long-term behavioral impact is accounted for
- Larger net increases in income in lower income deciles, highlighting the progressive impact of health tax increases

Key Challenges

- Implementation/Revenue Administration
  - Health taxes can work even in low-capacity settings, but the most benefit will come when there is strong implementation and good revenue administration.
- Inflation
  - Inflation and income growth can increase affordability over time, eroding the health and revenue impact of excise taxes unless rates are regularly adjusted.
- Political economy of Tax Reforms
  - Progress is not always linear; economic pressures can lead to delays, rollbacks, or missed tax adjustments.
  - Strong evidence provides the foundation, but reform success ultimately depends on political commitment.

Challenges Are Opportunities

- Improvements to excise revenue administration can generate revenue gains comparable to major policy reforms.
- Inflation indexation protects reforms from erosion and reduces reliance on repeated political decisions.
- Political economy barriers can be overcome through evidence, stakeholder engagement, coalitions, and sustained leadership
- Countries can draw on a growing body of international experience, tools, and practical solutions—we have the evidence, tools, and experience to support successful reform and implementation.
- Today's fiscal realities are making the case for health taxes more compelling, with countries increasingly seeking reforms that deliver multiple dividends.

Global Tax Program Health Taxes Project

The Global Tax Program is one of the World Bank key vehicles for providing advisory and analytic support on Domestic Revenue Mobilization

Launched in April 2021, the Health Taxes Project **provides tax policy and administration** support on **tobacco, alcohol and sugar sweetened beverages** using key Bank entry points like lending operations and public finance reviews, as well as direct support to policy formulation. Since inception, the project has supported **more than 70 countries globally**, including work at the regional level .

The program also generates knowledge notes on pressing topics raised during health tax reform including how much revenue health taxes generate, inflation and health taxes, and country specific briefs.

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Scan here for our knowledge note series and for more information on the project