PHILIPPINE
TAX ACADEMY

Designing Effective Health Taxes

Ma. Teresa S. Habitan
Vice Chancellor, PTA-LGFI
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Health Taxes Defined

Taxes imposed on unhealthy products, such as tobacco, alcohol, or sugar-sweetened beverages.

Consumption of these products is linked with many non-communicable diseases, such as heart diseases, lung problems, cancer, obesity, diabetes

Purpose of Health Taxes

To reduce consumption of these unhealthy products, by changing the relative price of the targeted products relative to other products

* focus on the right rates, structures, base, plus complementary administrative measures

*constitute one of the most cost-effective ways to curb the use of unhealthy products and save lives while raising much-needed revenues to improve and broaden access to public health care systems.

Common Structures of Health Taxes

1. Excise Taxes

- **Specific excise tax**: A fixed amount per unit (e.g., $1 per pack of cigarettes).
- **Ad valorem excise tax**: A percentage of the product's value (e.g., 20% of the retail price).

Often applied at the **manufacturer or importer level**, making them easier to administer.

2. Tiered Tax Systems

Different rates based on product characteristics:

Alcohol: Higher taxes on spirits than beer or wine.

Sugary drinks: Higher rates for beverages with more sugar content

Common Structures of Health Taxes

3. Mixed Systems

Combine specific and ad valorem taxes to balance revenue generation and price impact.

Example: Whiskey might be taxed both per liter and as a percentage of its price.

4. Indexation

Taxes are adjusted regularly for **inflation** or **income growth** to maintain their effectiveness over time.

5. Earmarking revenues

Some countries allocate health tax revenues to specific programs:

- Universal health coverage
- Anti-smoking campaigns
- Health facilities and equipment

The Philippine Story

RA 10351 – the Mother Reform for health taxation

- Unified tax rates for cigarettes, beer
- Introduced mixed system for distilled spirits
- Allocated proceeds for universal health access, health systems

How it happened

- Facts, numbers, research, studies
- Coalition of stakeholders
- Political support at highest level

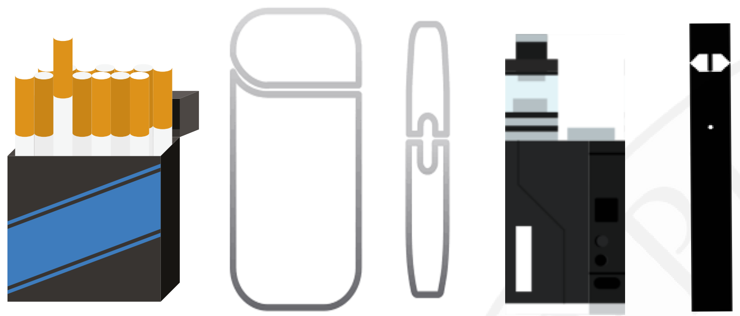
Some examples

Philippines tobacco tax revenue rose 6-fold from $1B in 2012 to $5.6B in 2023, helping fund universal health insurance. *

Lithuania doubled alcohol tax revenue per capita between 2015 and 2022

1. Health taxes in the Philippines

Cigarettes, heated tobacco products, and vapor products



Alcoholic beverages (fermented liquors, distilled spirits, and wines)

Sweetened beverages (carbonated beverages, fruit juice, etc)

Policy objectives

1. Attain better health outcomes

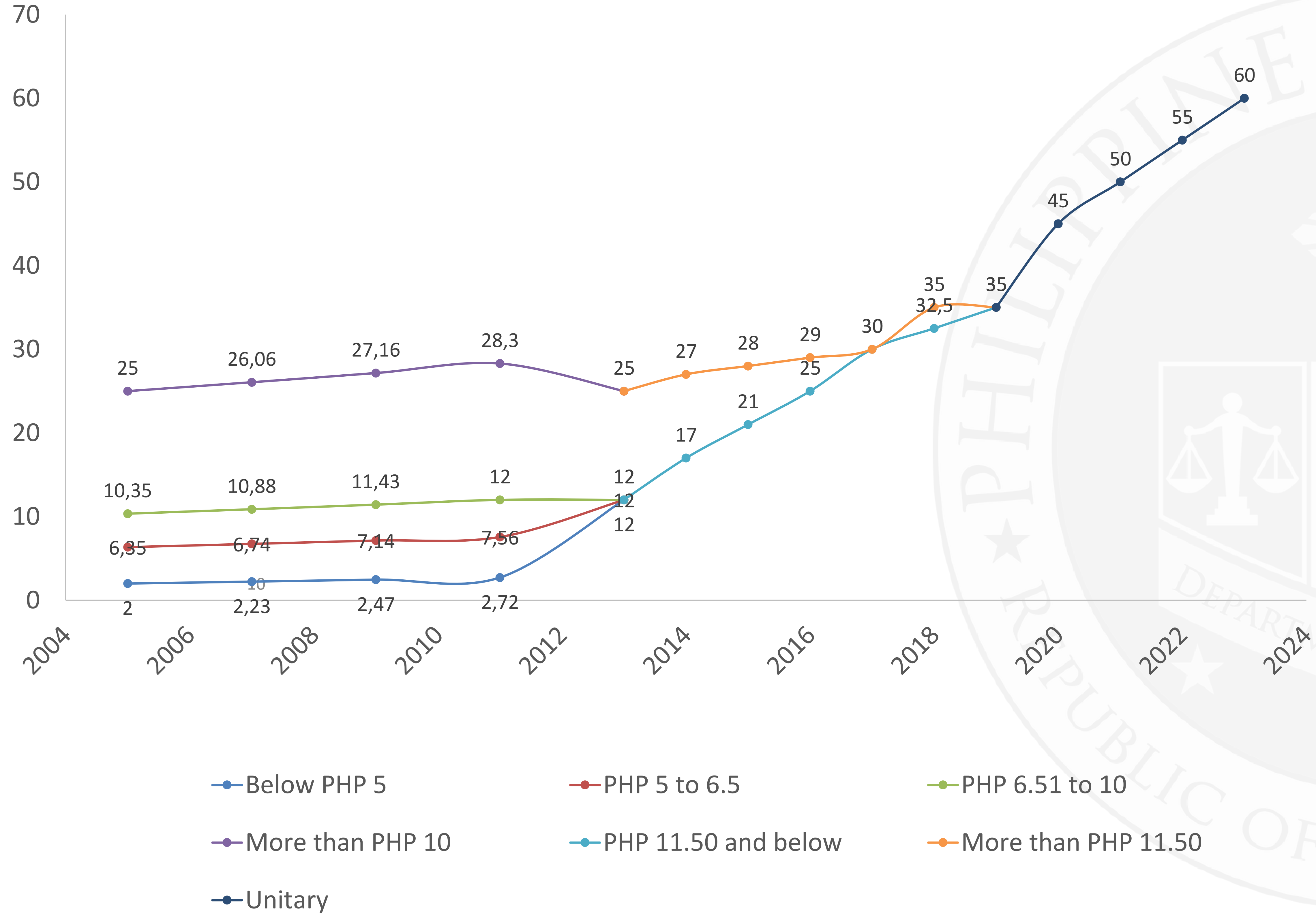
a. Achieve smoking prevalence of 15 percent
b. Avert more than 0.5 million smoking-related deaths
c. Achieve 10 percent reduction in harmful alcohol consumption
d. Reduce overweight and obesity rates

2. Raise revenues for Universal Health Care

a. Sustain 100 percent PhilHealth coverage for all Filipinos
b. Provide better outpatient check-ups and medications

Excise tax rates of cigarettes

1. Removal of price classification freeze and tax advantages of legacy brands.
2. Unitary tax structure and tax rates indexed to inflation by 2017.



Excise tax rates of HTPs and vapor products

Excise tax rates of heated tobacco products for pack of 20 (PHP per pack)

2020	2021 onwards
10	10.5

5 percent indexation every year thereafter (10.5 in 2021)

Excise tax rates of vapor products

Volume (in ml)	2020	2021 onwards
0.00 to 10.00	10	5 percent indexation every year thereafter
10.01 to 20.00	20	
20.01 to 30.00	30	
30.01 to 40.00	40	
40.01 to 50.00	50	
more than 50.00	50 + 10 for every additional 10.00 ml	

Current proposal under P2+: increase to 45 pesos per pack in 2020, and further increase by 5 pesos per pack per year like regular cigarettes.

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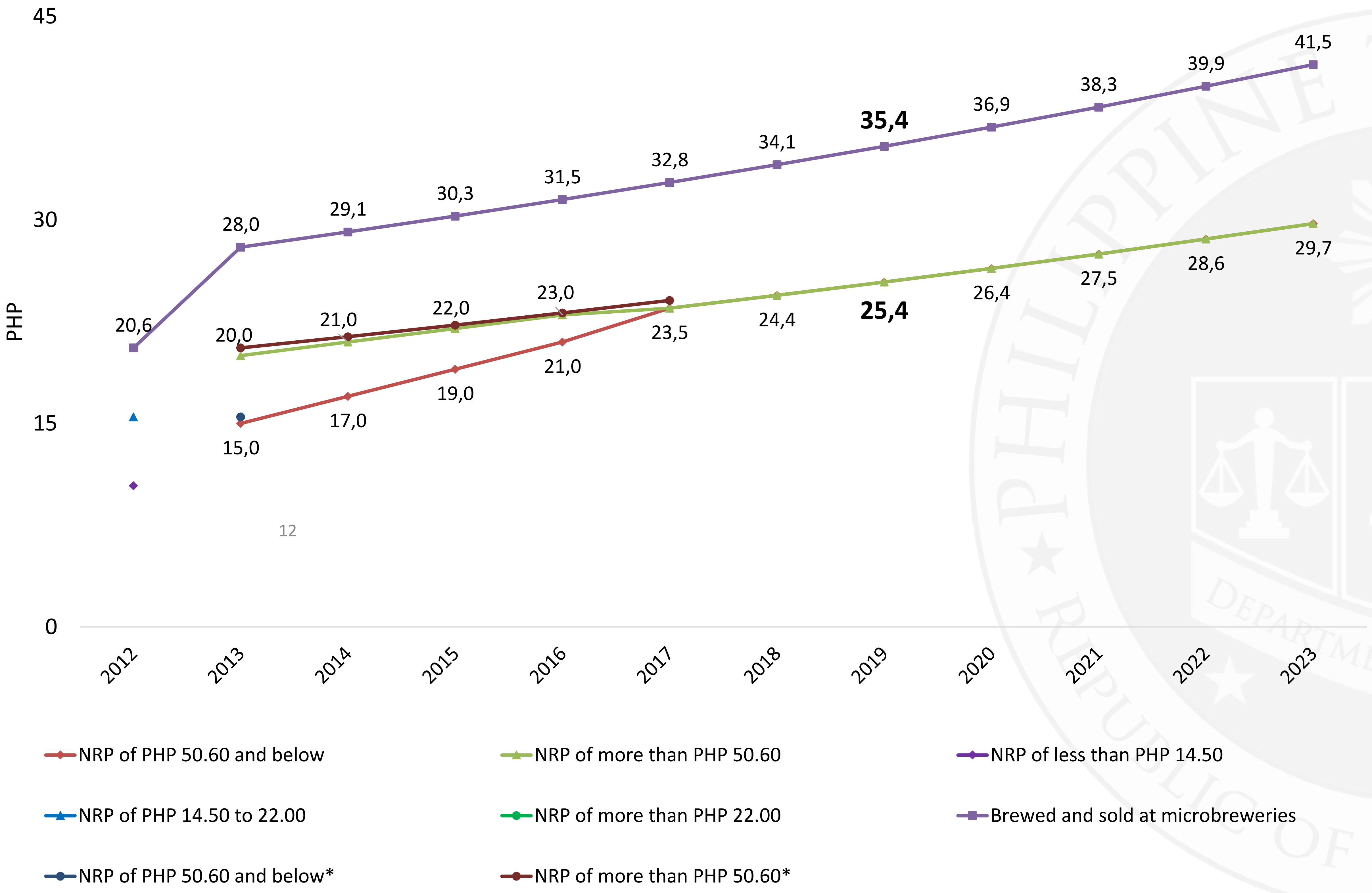
Excise tax rates of fermented liquors

1. Fermented liquors are **taxed based on the whole volume** regardless of alcohol content.
2. **Move from multi tiered to unitary**
3. Fermented liquors brewed and sold microbreweries account for **less than one percent** of the total beer market.



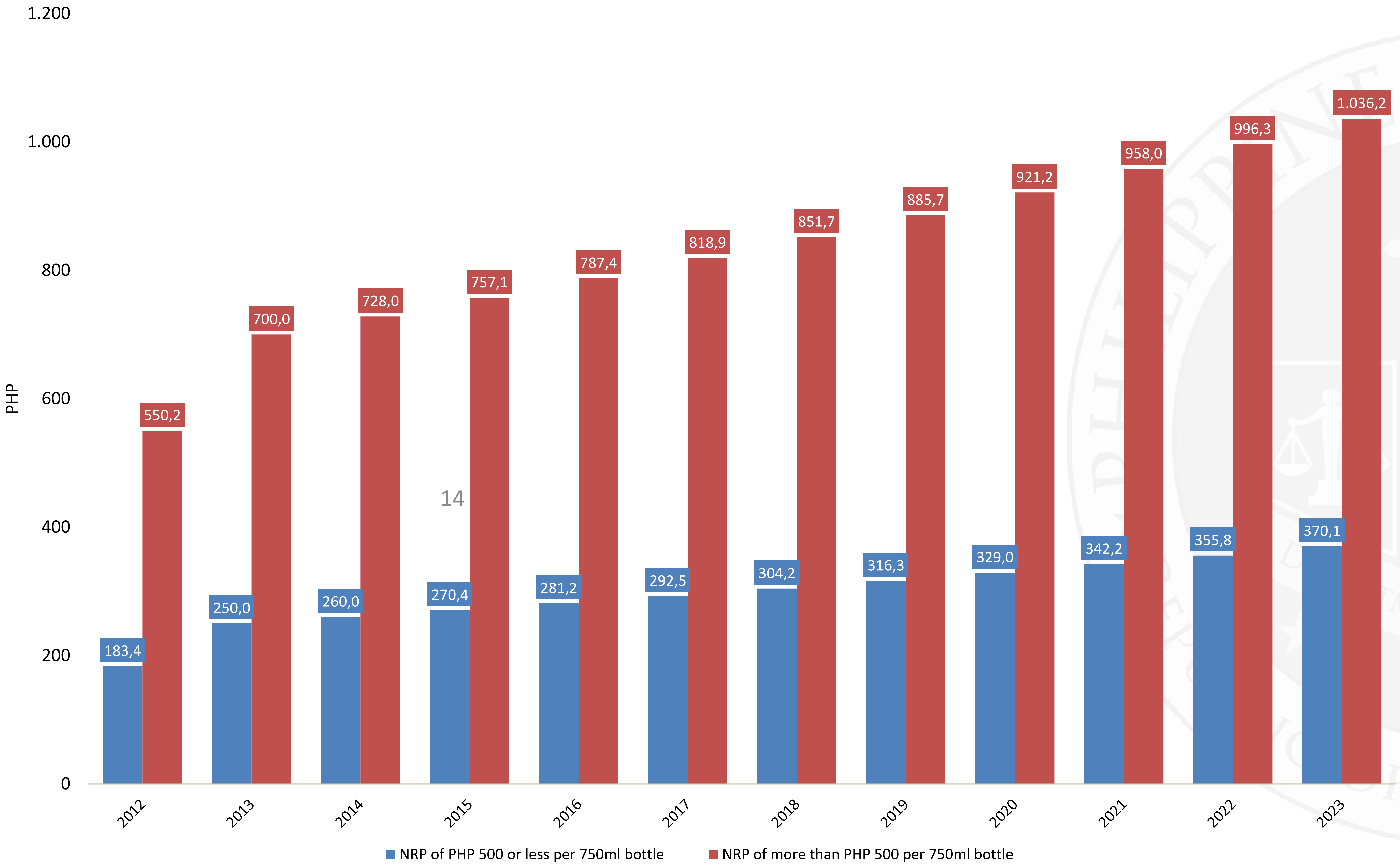
*As a result of no downward reclassification under RA 10351

Excise tax rates of distilled spirits (whisky, brandy, vodka, gin, and rum)

1. Distilled spirits have **higher alcohol content** ranging from 10 to 40 percent or more.
2. Moreover, they also have **varied prices** with local spirits cheaper than imported ones.
3. These are **currently taxed under a mixed structure from a four-tiered structure** before 2013 to be compliant to World Trade Organization (WTO).

Excise tax rates of sparkling wines

Sparkling wines have this **specific tax structure based on NRP since 1997.**



Excise tax rates of sweetened beverage

PHP 6.00
or
USD 0.12
per liter volume

Purely-Caloric or Non-Caloric Sweeteners-Sweetened Beverage

PHP 12.00
or
USD 0.23
per liter volume

High-Fructose Corn Syrup-Sweetened Beverage, or mixed with Purely-Caloric or Non-Caloric Sweeteners

Health taxes can play an important revenue boosting role

1. **Hitting 3 birds with 1 stone:** Win-win-win for health, equity, and revenues
    a. One of the most effective tools to reduce consumption of harmful products, and helps prevent death and disability
    b. Healthier population, which means lower healthcare costs in the future, with the poor benefitting more due to price sensitivity
    c. Can generate substantial revenue now

2. **Health taxes are underutilized:** there is huge potential for revenue growth in many countries

3. **These are relatively popular measures:** health taxes usually gain the support of the majority of the population

Key tax design considerations

1. **Best practice examples.** Consulted WB, WHO, IMF and academe
    1. Keep it simple – uniform specific
    2. Adjust tax rates for inflation and income effect

2. **Political economy.** Need for strong public support.

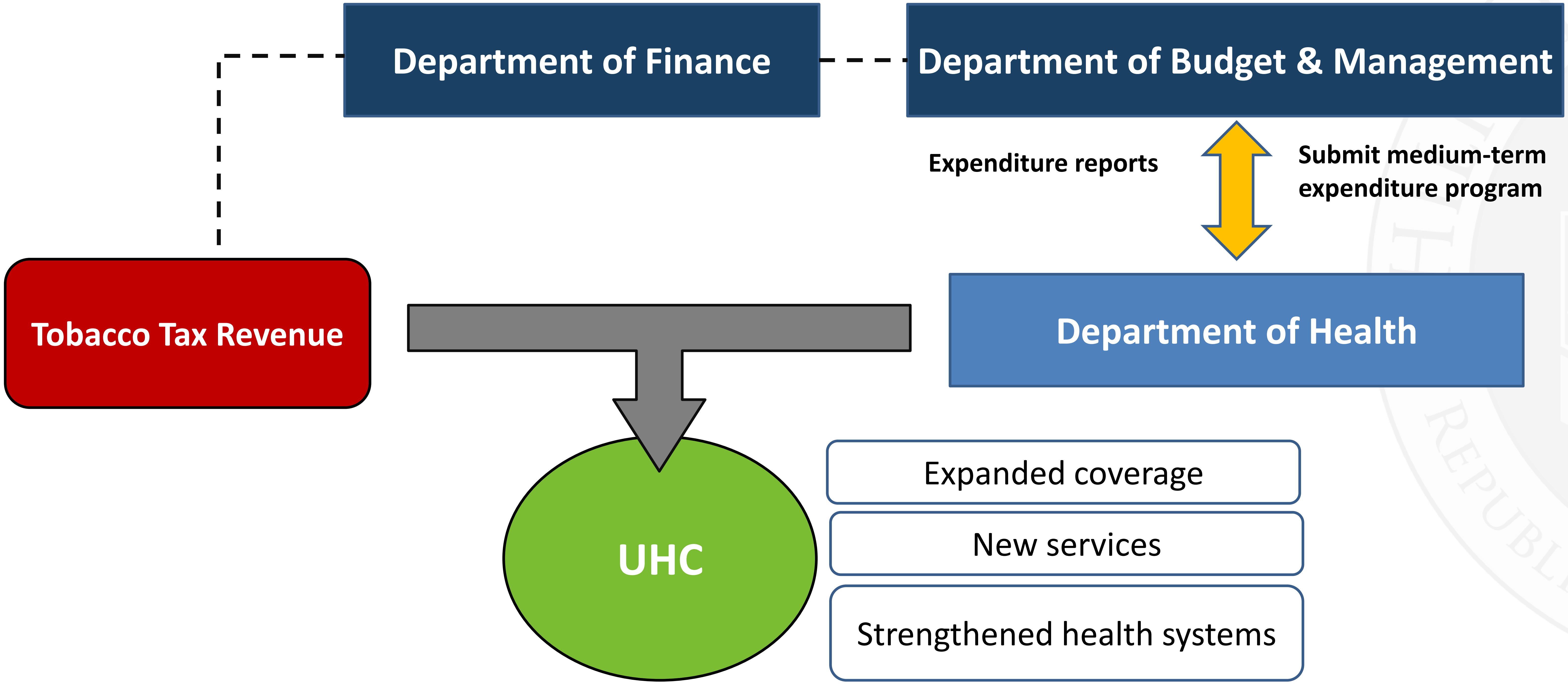
3. **Health objective a key consideration when setting tax rates.** Aspire for 70 percent excise tax share in retail prices.

4. **Tax Free/Duty Free Sales:** Remove excise tax exemption.

5. **Plug loopholes.** e.g. exports and transshipments; require fiscal marks

Incremental revenues earmarked for health

"Soft-earmarked" a significant portion of incremental revenue from higher sin taxes went into funding Universal Health Care (UHC)



Excise systems can also be *Uniform* or *Tiered* (several rates according to some characteristic of the product)

BASE OF TIERS		COUNTRY
Retail price		Bangladesh, Belarus, Indonesia, Jordan, Mozambique, Myanmar, Pakistan, Thailand
Cigarette grade (e.g. premium, mid-grade, economy)		Egypt, Japan[a], Mali
Producer price		China, Lao People's Democratic Republic
Production volume		Indonesia
Type	filter/non-filter	Belarus, Georgia[a], India, Kenya, Republic of Moldova, Nepal, Papua New Guinea
	hand/machine made	India, Indonesia
	kretek/white cigarette	Indonesia
	tobacco content (dark/blonde or dark/light)	Algeria, Bolivia (Plurinational State of)
Packaging	soft/hard	Mozambique, Uganda
Cigarette length		India, Nepal, Sri Lanka
Trade (domestic/imported)		Iran (Islamic Republic of), Lebanon, Myanmar, Solomon Islands, Tonga, Uzbekistan
Leaf content (domestic/imported)		Fiji, United Republic of Tanzania

Source: WHO report on the global tobacco epidemic (2025).

Strategic Considerations

Affordability: Taxes aim to make harmful products less affordable, especially to youth and low-income groups.

Simplicity: Clear and predictable tax structures help reduce evasion and improve compliance.

Equity: Some systems include subsidies or exemptions for healthier alternatives

In summary ….

Health taxes are excise taxes imposed to reduce consumption of products that have a negative public health impact.

More than 11 million preventable premature deaths occur each year due to consumption of tobacco, alcohol, and diets high in sugar-sweetened beverages (SSBs). (Institute of Health Metrics, 2019).

Health taxes are one of the most cost-effective policy measures for reducing consumption of these products and associated mortality and morbidity.

The economic framework for health taxes has three goals: to reduce externalities related to consumption, e.g., publicly funded healthcare costs, traffic accidents, and secondhand smoke; to cut “internalities” related to individual harm, including death and disability; to generate revenue to meet fiscal needs.

Health tax design and tax administration are critical to achieving positive health and revenue impact.

To do so requires tax design that leverages economic principles to make good use of the special nature of health taxes, build effectively on countries’ existing tax environments, and account for administrative capacities.

Thank you.