

Alcohol and SSB taxes: Country experiences

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

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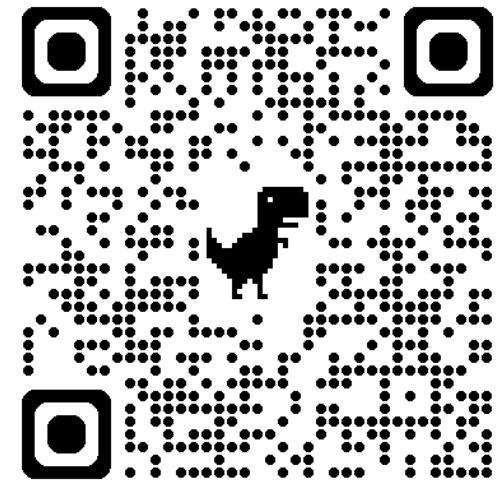


Global Tax Program Health Taxes Project

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

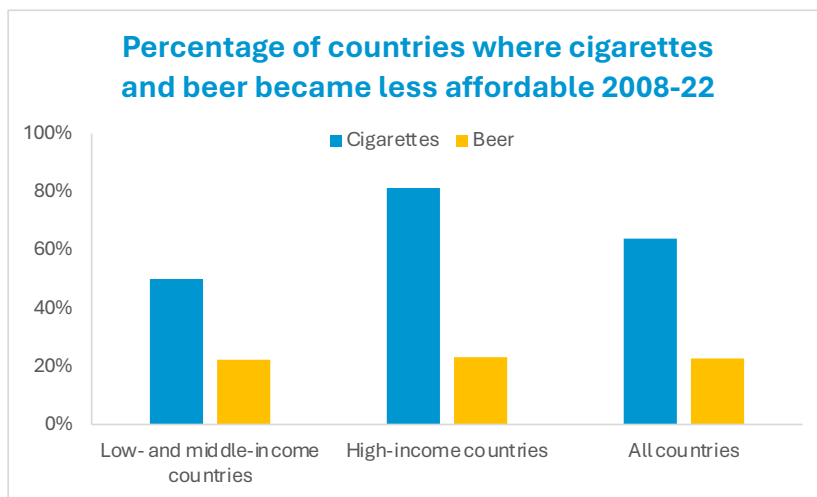
- Launched in April 2021, the Health Taxes Project provides tax policy and administration support on tobacco, alcohol and sugar sweetened beverages using key Bank entry points like lending operations and public finance reviews, as well as direct support to policy formulation. Since inception, the project 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](#).
- Contact Task Team Lead and Senior Economist Ceren Ozer for questions: cozer@worldbank.org

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



Alcohol taxes: more than just technical challenges

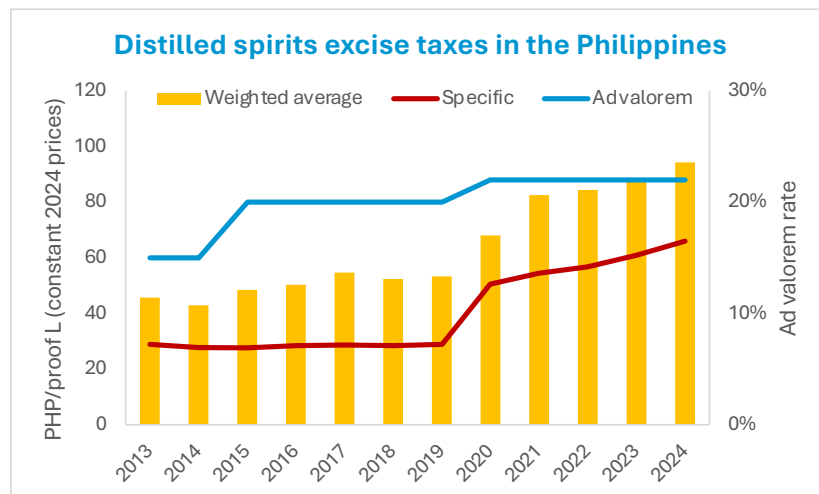
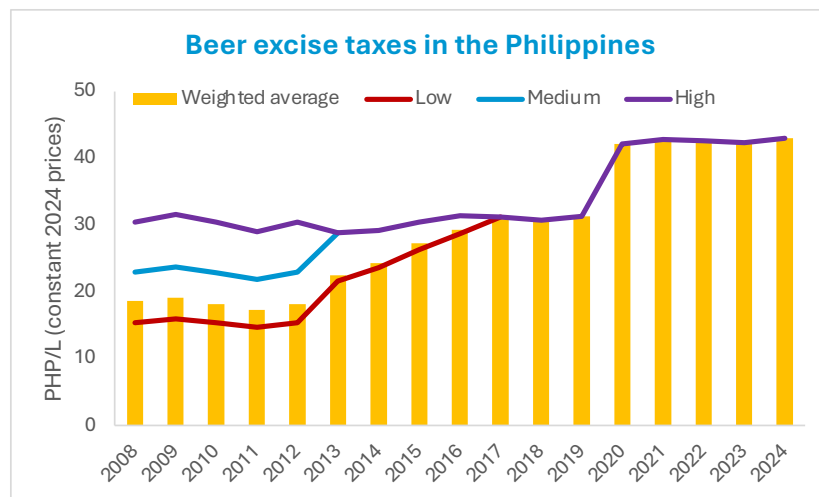
- Alcohol taxes are more complicated than tobacco, generating challenges in tax design; this is due to:
 - Variety of products on the market with different value chains and alcohol strength
 - Externality directly linked to volume of alcohol rather than volume of beverage
 - Externality has multiple pathways (total consumption and concentration of consumption)
- Ensuing technical challenges in tax design (i.e., type of tax, tax base, tiers, thresholds, etc) must be considered in the context administrative capacity and country needs



Source: World Bank staff estimates using EIU and WDI data

Yet, implementation of alcohol tax reforms lag tobacco (and even SSB taxes):

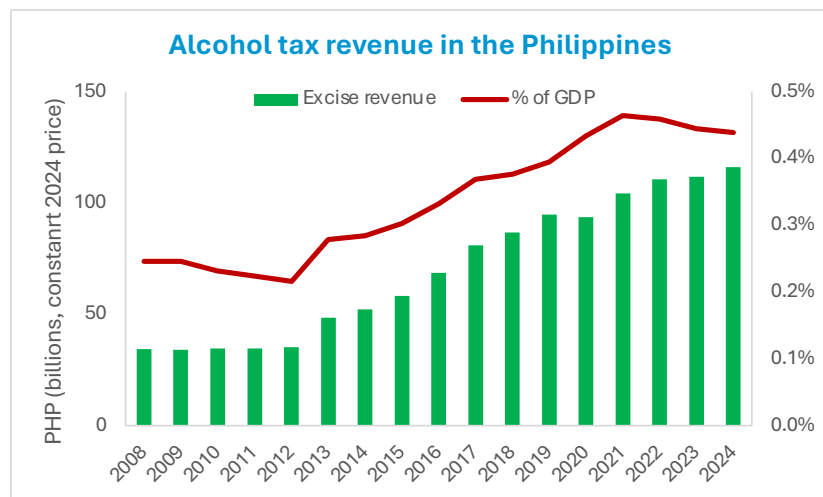
- Recent tobacco tax reforms in Ghana, Gambia, Senegal, Solomon Islands, Rwanda (mostly) ignored alcohol tax reforms
- Yet other countries like Mongolia, Nigeria, and the Philippines have either reformed alcohol taxes independently, or accompanied them with tobacco tax reforms



Source: World Bank staff estimates using BIR Annual Reports and WDI

Alcohol tax reforms in the Philippines led to significant increases in alcohol tax revenue, but did it improve health?

- Beer:
 - ▶ Reform of the tax structure removing price-based tiers in an upward manner from 2012, reaching uniform specific tax in 2017; subsequent increases in volumetric specific tax
 - ▶ 2012-2024: 137% increase in weighted average excise (inflation adjusted; 179% increase on the lowest tax category)
- Distilled spirits:
 - ▶ Mixed system with specific tax on alcohol content (proof liter) and ad valorem on net retail price; increases in both ad valorem and specific taxes
 - ▶ 2013-2024: 106% increase in inflation adjusted weighted average excise



Source: World Bank staff estimates using BIR Annual Reports and WDI

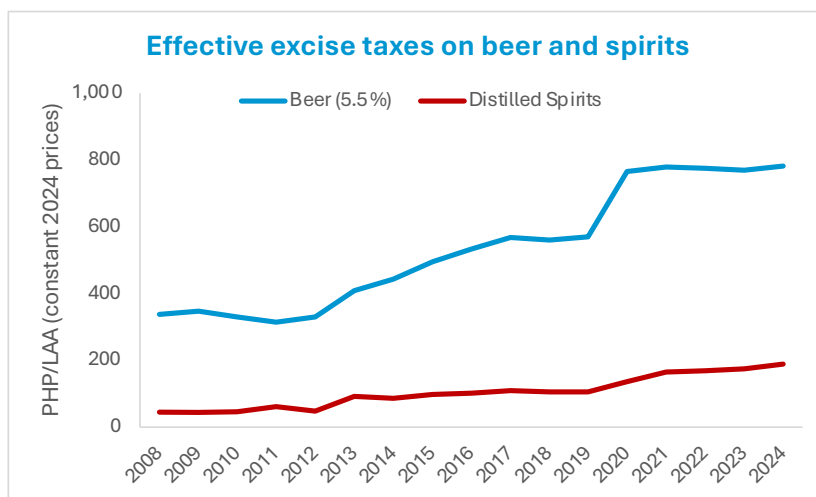
Impact on tax revenue and alcohol sales (2012-2024):

- Tax revenue

- Increased by 228% in inflation adjusted terms; from 0.22% to 0.44% of GDP, resulting in a doubling of the fiscal space
- Rate of increase has slowed leading to a decline in fiscal space from a peak of 0.46% of GDP in 2021

- Alcohol sales

- Tax-paid sales increased 23% (2.4 to 3.0 LAA/person) despite flat sales in volumetric terms meaning that the proportion of stronger alcohol increased
- Beer sales declined 15% while spirit increased 45%; share of total consumption from spirits increased from 62% to 74%
- Sales data indicates a substitution effect from beer to spirits; what is driving this?



Source: World Bank staff estimates using BIR Annual Reports and WDI



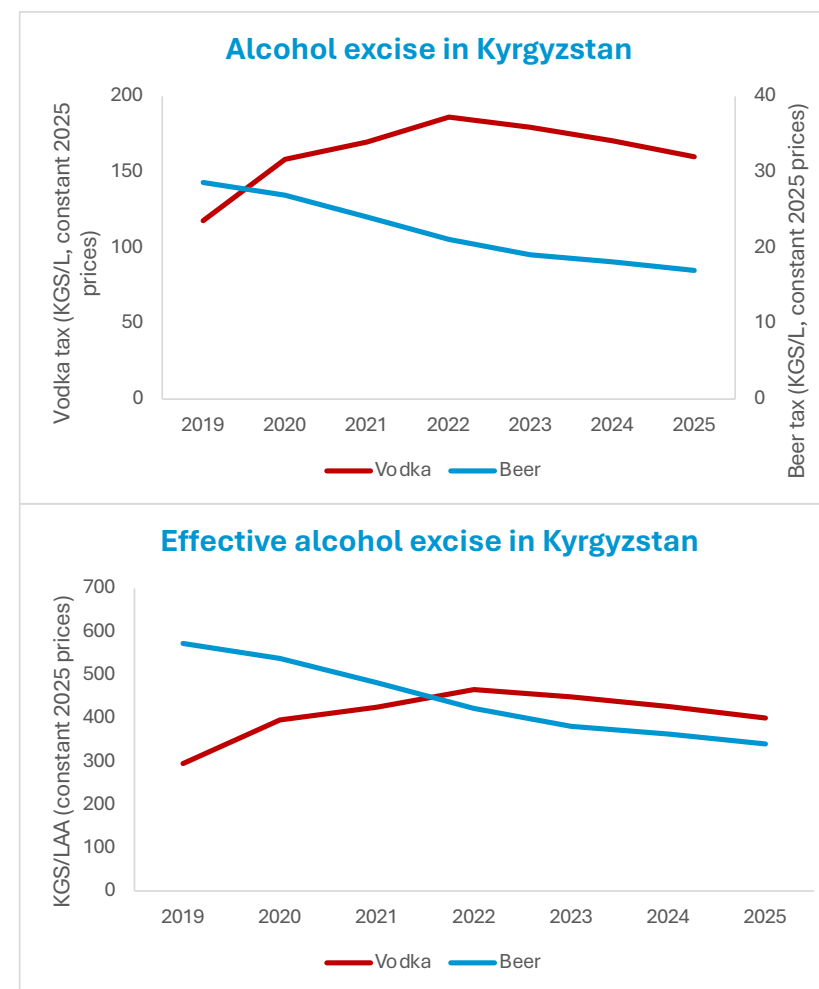
Source: World Bank staff estimates using Philippine Statistics Authority data

What is driving substitution from beer to spirits?

- Effective taxes on spirits are lower than beer, and the gap has increased significantly since 2012
 - Ratio of effective tax on spirits to beer is 0.24 meaning that excise/LAA on spirits was 76% lower than beer
 - Amongst the lowest in the world (global average is 2.54 across 40 countries; effective tax on spirits was 154% higher than beer on average)
 - Increasing gap increases incentives for substitution from beer to spirits; substitution to stronger alcohol led to increase in total alcohol consumption despite flat sales in volumetric terms
 - Somewhat obtuse since spirits contribute to a higher share of total consumption compared to beer (beer is the largest contributor in most countries)
- Supported by variation in effective prices of different products highlights how spirits are significantly cheaper compared to beer

Kyrgyzstan shows the opposite: increasing spirits taxes while not increasing beer taxes

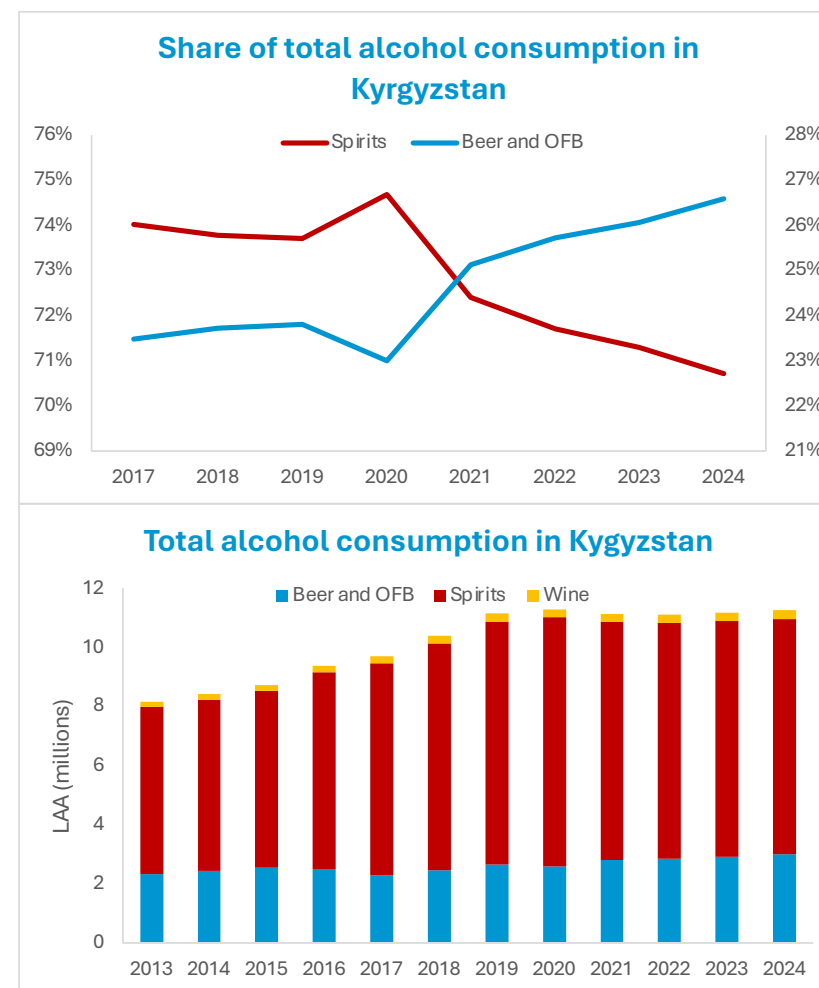
- Important to focus on vodka and beer as they represent overwhelming proportion of alcohol consumption (approximately 66% and 26% of total consumption)
- Spirits taxes have increased 129% in nominal terms (36% in real terms), while no nominal tax increases on beer leading to 41% decline in real value
- Relative effective tax of vodka (i.e. per LAA) has increased relative to beer encouraging substitution away from stronger alcohol



Source: World Bank staff estimates using State Revenue Office and WDI data

Impact of tax changes on prices drives consumer behavior

- Vodka: increases in taxes has led to increasing prices; tax increases have been over shifted meaning that prices increased more than the increase in tax (27% increase in real terms 2017-2024)
- Beer: declining real values haven't led to declining prices; in fact, beer prices have been increasing (3% increase in real terms 2017-2024)
- The relative share of total alcohol consumption shows a significant substitution from spirits to beer, with an acceleration of the trend since 2020
 - Spirits: 75% to 71% of total alcohol consumption
 - Beer: 23% to 27% of total alcohol consumption
 - Note that the changing shares doesn't imply total consumption is declining



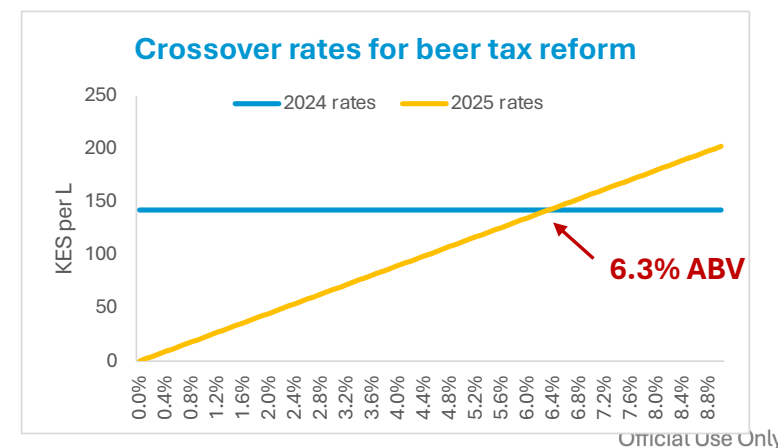
Source: World Bank staff estimates using Global Data data

Recent alcohol tax reforms in Kenya unlikely to be effective

2025 reform changed the tax base from beverage to alcohol volume, generating incentives for firms to reduce alcohol content to reduce tax liability

- Challenge when implementing these reforms are the calibration of effective rates before and after reform
- Tax on beer increased from Ksh 142.44/L to Ksh 22.50/cLAA, meaning that the actual tax per liter paid on most beers declined
- Very high crossover rate of 6.3% ABV (beers <6.3% ABV will see effective tax rate decline)
- No incentive for many brands to reduce alcohol content or shift consumers to lower strength alternatives to reduce tax liability
- Resulting in negligible health impact (possibly worsening), and expect significantly declining tax revenue

Volumetric tax per liter of major beer brands in Kenya before and after reform				
Brand	ABV	2024	2025	Difference
White Cap Crisp	3.0%	142.44	67.50	-53%
Guinness Smooth	4.0%	142.44	90.00	-37%
Tusker Lite	4.2%	142.44	94.50	-34%
Summit Lager	4.2%	142.44	94.50	-34%
White Cap	4.3%	142.44	96.75	-32%
Balozi Lager	4.5%	142.44	101.25	-29%
Tusker	4.5%	142.44	101.25	-29%
Pilsner Lager	4.7%	142.44	105.75	-26%
Tusker Malk	5.0%	142.44	112.50	-21%
Senator Keg Lager	6.0%	142.44	135.00	-5%
Castle Milk Stout	6.0%	142.44	135.00	-5%
Guinness	6.5%	142.44	146.25	3%



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Mongolia shows us how alcohol content tiers can simplify volumetric systems, but not without difficulties

Mongolia applies volumetric taxes with different rates on different products, and different rates within sub-categories using alcohol-content tiers; leads to variation in effective taxes between and within products

- Distilled spirits, particularly vodka accounts for two-thirds of total alcohol consumption
 - Vodka is typically 40% ABV (or higher), leading to a significant incentive to reduce ABV below 40% ABV
 - Relative incentive is a 53% lower effective tax, and 56% lower volumetric tax
- What is the impact of these taxes on the market?
 - It's incredibly easy to dilute vodka! More than 99% of vodka fell below the 40% ABV threshold, however not by much since you only need to water down to 39% ABV to achieve lower tax rate

Distill spirits excise in Mongolia (2015)				
Sub-category	ABV	MNT/L	Assumed ABV	MNT/LAA
White alcohol, liqueurs, cordials, and other spirit drinks	<25%	3,941	24%	16,421
	25%-40%	7,881	38%	20,739
	>40%	17,733	40%	44,333
Brandy, whiskey, rum and gin	<25%	9,852	24%	41,050
	25%-40%	19,703	38%	51,850
	>40%	23,644	40%	59,110

Source: Mongolian Excise Law; WHO analysis

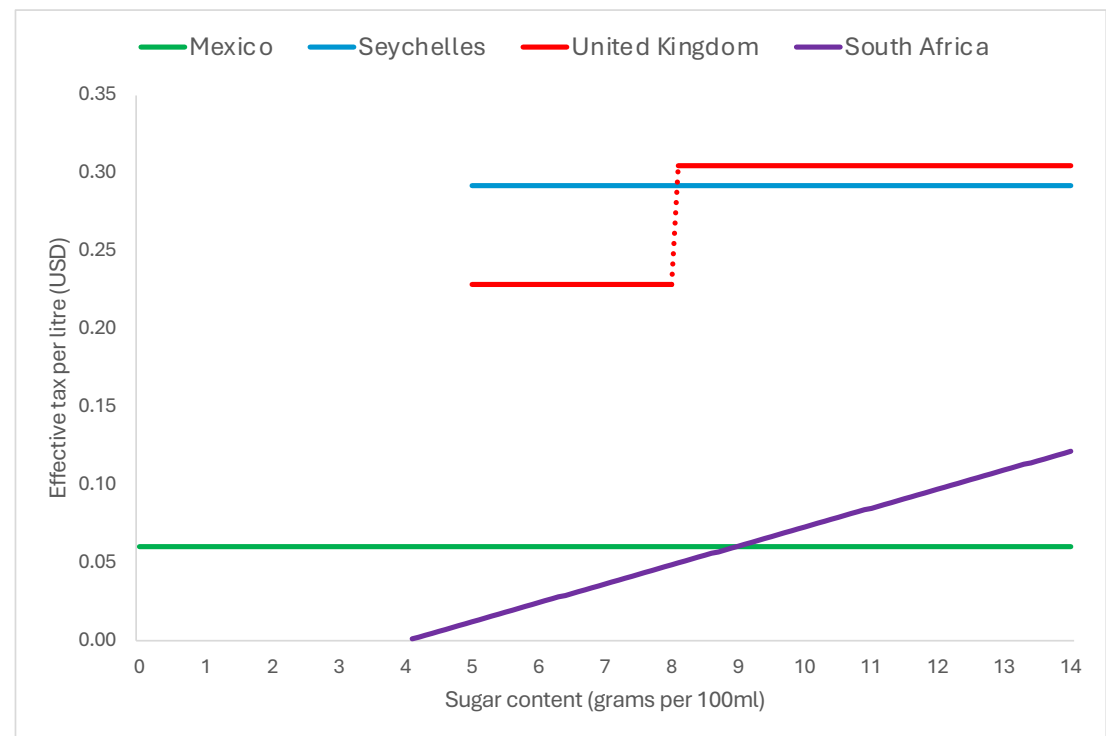
Market share of vodka tax categories in Mongolia in 2015		
Product/sub-category	ABV	Market share
White alcohol, liqueurs, cordials, and other spirit drinks	<25%	0.3%
	25%-40%	99.6%
	>40%	0.1%

Summary and key messages: alcohol taxes

- **Philippines**: Reforms to consolidate price-based tiers on beer and increase taxes have been effective at increasing tax revenue; increasing effective taxes on beer more rapidly than spirits generated substitution from beer to spirits, limiting the health impact of the reforms
- **Kyrgyzstan**: Increasing effective taxes on spirits (most consumed product) more rapidly generates stronger incentives within the market, while increasing tax revenue
- **Kenya**: Reforming the tax base from volumetric to alcohol-content specific taxes can generate strong incentives within the market, but poor calibration of tax rates won't generate expected impact
- **Mongolia**: Alcohol-content based generates discrete rather than continuous incentives, however positioning of thresholds need to be carefully considered, and difference in magnitude of taxes need to be large enough to ensure effectiveness
- **Key messages**
 - Getting the tax design right is incredibly important and poor tax design can undermine well-intentioned reforms and tax increases
 - While specific taxes and focusing on alcohol content is necessary for generating impact, there is an underappreciated need to assess impact on effective taxes and prices, and variation between and within products

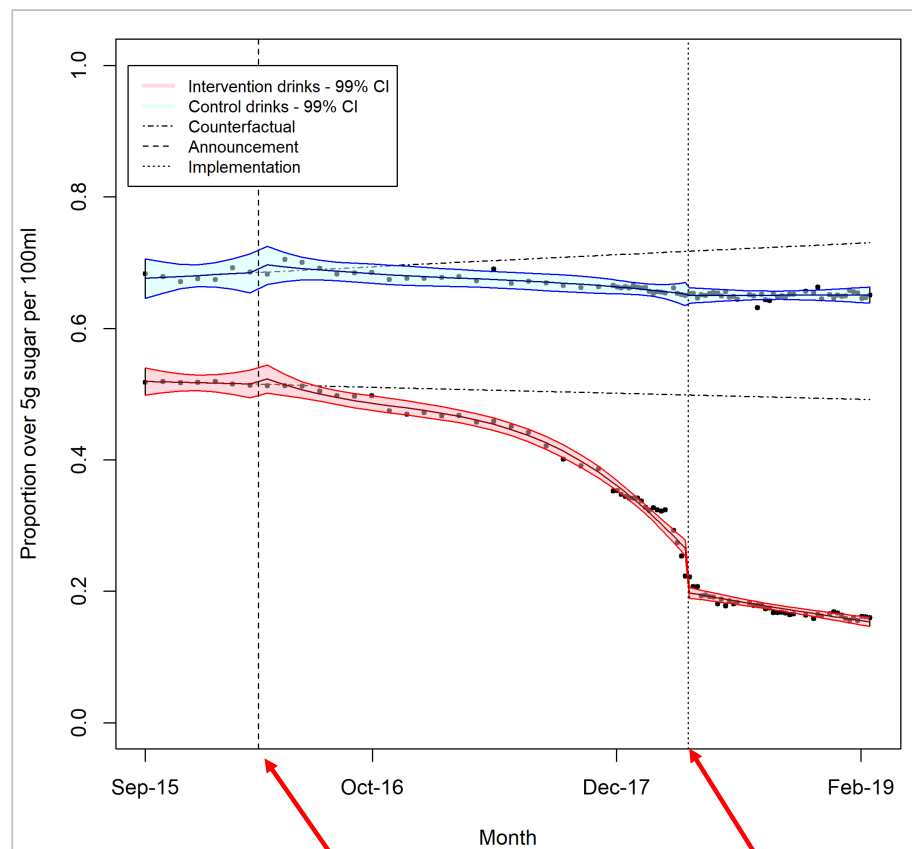
Extraordinary innovation is occurring how countries are designing SSB taxes

- Many countries are using sugar content as the tax base for their SSB taxes
- Utilizing tax per gram of sugar (linear tax) and/or sugar content-based tiers
- Example shows four different designs, three of which use sugar content as the base, while Mexico applies a volumetric tax and used as a counterfactual example



Source: World Bank staff estimates

Linear with threshold	South Africa	ZAR 0.021/g/100ml where sugar content > 4g/100ml
Tier with threshold	United Kingdom	GBP 0.18/L (sugar > 5g/100ml and < 8g/100ml); GBP 0.24/L (sugar > 8g/100ml); no tax (sugar < 5g/100ml)
Volumetric tax with threshold	Seychelles	SCR 4/L where sugar content > 5g/100ml
Volumetric tax	Mexico	Uniform specific volumetric tax (MXN 1/L)



Source: Scarborough et al. (2020)

Announcement

Implementation

Instead of using a linear tax, the United Kingdom targets the sugar content using a threshold and a tier

- This system has two discrete incentives; in a manner of speaking the tax draws two lines in the sand
 - Threshold applied at 5g, rather than 4g of sugar per 100ml; SSBs with sugar content >5g/100ml are charged a volumetric tax of GBP 0.18/L
 - However, SSBs with sugar content >8g/100ml are charged a higher volumetric tax of GBP 0.24/L
- Tax was announced in 2016, well before the implementation in 2018; this intentionally provided manufacturers with a very long lead time
 - Manufacturers began reformulating products well before the implementation of the tax, although this gain momentum as the implementation date approached
 - Reformulation larger and more rapid than expected: Treasury revenue estimates revised downwards (even before implementation)

Scope of SSB taxes: drawing a distinction between SSBs and non-alcoholic beverages

- SSBs are defined as all non-alcoholic beverages containing **free sugars**; but what about other non-alcoholic beverages that do not contain free sugars?
 - Not SSBs: water (e.g. mineral waters, sparkling waters, bottled waters, etc); artificially sweetened beverages (using non-caloric sweeteners like aspartame, sucralose, stevia, etc); dairy products without added sugars (e.g. full cream milk)
 - SSBs: carbonated drinks with added sugars; fruit juices (whether or not they have added sugar); dairy products with added sugars
- What do we tax?
 - Consensus: SSB taxes should apply to all SSBs since externalities are generated by free sugars and added sugars
 - Applying tax to non-SSBs will reduce the effectiveness of tax since it will not induce price differentials between SSBs and non-SSBs
 - ASBs: some argue that SSB taxes should apply to ASBs as they aren't a healthy alternative, however this reduces the tax's potential impact on reducing consumption of SSBs
 - Water: applying SSB taxes to water is poor policy
 - Importantly, many of these considerations are moot if using sugar content as the tax base!

Examples of older generation non-alcoholic beverage excise taxes: opportunities for health focused reforms

Country	Currency	Soft drinks (with sugar)	Soft drinks (without sugar)	Water	Fruit juices
Kenya	Kshs/L	5	5	5	10
Tanzania	Tshs/L	61	61	58 (local)	9 (local)
				64.05 (imported)	232 (imported)
Uganda	Ushs/L	12% or 200	12% or 200	10%	13% or 300*

Note: * >30% local content exempt

- Water is taxed in all these countries; even if it is at a lower rate than SSBs it undermines the effectiveness of the tax as a public health policy and should be avoided; ensure products that you want people to substitute to are not taxed
- ASBs are taxed at the same rate as SSBs: reduces incentives for producers to reformulate or shift marketing, doesn't generate price differentials
- Fruit juices are often taxed at higher rates, likely due to higher initial prices
- Opportunities for reform: removing taxes on water (and ASBs) and increasing taxes on SSBs to replace lost tax revenue

Shouldn't we just tax sugar? Example from Uganda

- Uganda has an excise tax on (raw) sugar: “Cane or beet sugar and chemically pure sucrose in solid form”
- Taxed at a rate of USh 100 per kg (doubled from Ush 50 per kg in 2023/24)
 - Effective tax on Coca Cola would be Ushs 10.6/L(\$ 0.00276/L) or Ushs 3.50 per can (330ml) assuming sugar content of 10.6g/100ml
 - Price of a can of Coca Cola in Uganda is USh 1320/L (WHO, 2023), highlighting how the impact of the raw sugar tax on the price of SSBs is negligible
- Yet, regular non-alcoholic beverage tax is levied at the higher of 12% (CIF/ex-factory price) or USh 250/L (reported tax value of the can of Coca Cola is Ush 104.15; WHO, 2023)
- The reason we focus on SSB taxes rather than taxing raw sugar is impact!
 - Non-alcoholic beverage tax accounts for 7.9% of the price
 - Sugar tax accounts for 0.3% of the price

Summary and key messages: SSB taxes

- A lot of innovation is occurring in SSB tax design; countries are finding important impacts from utilizing the sugar content in tax design
- Scope of tax is important, covering as broad a range of SSB as possible to maximize impact and limit unintended consequences; but how broad?
 - Taxing raw sugar isn't particularly useful
 - Taxing water is a very poor practice
 - Taxing ABSs and fruit juices are more complicated
- Don't expect as large a revenue impact as tobacco and alcohol taxes