

A TAXING ISSUE?

The Tax System and Healthier Lifestyles in Wales
Executive Summary



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EXECUTIVE SUMMARY

This report has two main aims:

1 To increase knowledge and understanding of the range of taxation options available to promote health and influence change in unhealthy behaviours.

2 To provide Welsh policy makers with current health evidence related to these options, detailing why fiscal measures are a mechanism for improving health.

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REMIT AND SCOPE

The report focuses on contemporary population health concerns related to diets where taxation has been considered or implemented elsewhere, and/or is a viable innovation within the Welsh context.

Excluded from the scope of this report are topic areas where taxation and other fiscal policy approaches are already in place by UK Government (for example, on alcohol and tobacco) and environmental-related taxation.

Novel fiscal approaches to addressing the impacts of health-harming commodities have had positive outcomes:

- At the immediate outset of the Hungarian Public Health Product Tax (PHPT), the consumption of products within the scope of the tax did not change significantly, and increased in the case of pre-packaged sweets. With time, since the introduction of the tax in 2011, the policy measures introduced in Hungary have resulted in successes such as:
 - reduced consumption of the products party to the tax, for example pre-packaged sweets and salty snacks, with greater change seen amongst overweight and obese adults;
 - the reduction or removal of particular unhealthy ingredients in food products;
 - consumers substituting taxed products for healthier options, with fresh fruit and vegetables acting as substitutes in 82-86% of cases. Some consumers resorted to substituting with products such as home-made sweets or home-made salty snacks;
 - Higher prices were cited as the main reason for changes in consumption of salty snacks by 81% of people in 2012, and by 56% in 2014.
- The introduction of a tax in Mexico similarly demonstrated changes in purchasing behaviour.
 - Comparing purchases prior to, and over, the first year of the tax, researchers found a reduction of -25g per capita per month of purchases of taxed foods in 2014.
 - Stratified by socio-economic status (SES), lower SES households purchased on average 10.2% fewer taxed foods than expected, with medium SES households purchasing 5.8% fewer taxed foods than expected.
 - Purchasing of cereal-based sweets showed a decline in purchase of 5.2% beyond the expected decline following the introduction of the tax. Purchases of salty snacks showed the biggest decline (-6.3% 'beyond expected').
 - After two years, a reduction in the volume of taxed food purchases (1607g, per capita, per month, compared to 1798g prior to the tax) were also observed.
 - The unhealthiest group (those who purchased more of the taxed products, and less of untaxed products – purchasing nearly 40% of taxed products) showed the largest relative decline in their purchases of taxed foods (-12.3%)

- Fiscal policies aimed at reducing consumption of some health-harming commodities are relatively novel. As such, evidence on their impact – on health, on consumption and on the wider economy – is still emerging. Nevertheless, the long history of taxation on alcohol and tobacco has demonstrated clear impact on consumption levels and health outcomes, indicating that fiscal policies have potential for changing behaviour. We cannot, however, assume that the observed impacts on one product group will be directly transferable to other product groups.

Taxation alone is unlikely to be a solution in itself to public health concerns – a range of interventions need to be in place.

NOURISHING stands for:

- **N**utrition label standards and regulations on the use of claims and implied claims on food
- **O**ffer healthy food and set standards in public institutions and other specific settings
- **U**se economic tools to address food affordability and purchase incentives
- **R**estrict food advertising and other forms of commercial promotion
- **I**mprove nutritional quality of the whole food supply
- **S**et incentives and rules to create a healthy retail and food service environment
- **H**arness supply chain and actions across sectors to ensure coherence with health
- **I**nforn people about food and nutrition through public awareness
- **N**utrition advice and counselling in healthcare settings
- **G**ive nutrition education and skills.

- In the Hungarian example, the product tax was complemented by a strengthened regulatory framework, which, for example, prohibited the food industry from releasing a food product containing more than 2% of trans fats within its total fat content. Policy makers should look to the NOURISHING framework for examples of a broad range of policy options, ranging from regulation to information campaigns. Taxation interventions should be supported with subsidies for healthier options – this would help to negate any regressive effects of taxation on those of a lower SES, and guide consumers towards healthier consumption. This is particularly pertinent in relation to food taxes. In the Stay Well in Wales survey, which asked the Welsh population for their views on

a range of public health matters, over 8 in 10 (82%) agreed that healthy foods should cost a bit less and unhealthy foods a bit more – only 6% disagreed.

- In relation to dietary-related taxation and subsidies, the balance of evidence supports Niebylski et al.’s assertion that ‘maximum success [is] achieved when food taxes/subsidies are at least 10-15% and used together.’ The evaluation of the Hungarian PHPT recommended that, as a next step, consideration should also be given to introducing price subsidies for healthy food products, such as fruits and vegetables.

It is important to learn from the lessons of policy development and implementation to date if policy-makers are to consider introducing a new tax aimed at improving health.

- If taxing specific products or ingredients, policy makers should engage with experts on the topic prior to developing the policy, to ensure that the right nutrients/ingredients/products are targeted by the proposed tax.
- Consideration of the absolute amount that those with lower income would pay after the introduction of a tax is essential. It is important to note that the World Health Organization considers that the potential health gains from food taxes ‘may be progressive and contribute to reducing health inequalities’ and cites evidence which indicates that ‘higher price sensitivity among low socioeconomic groups means that they may be more responsive to the tax and more likely to reduce their consumption as a result.’
- Any new tax should be introduced with a mid – to long-term commitment to keep it in place, so that the impact of the tax can be properly evaluated. Evaluation should be embedded from the start, with sufficient resource allocated to undertake the evaluation effectively.
- If considering the introduction of a new tax, efforts to explore any unintended consequences must be undertaken in the early planning stages. This should include balanced consideration of the potential impacts outside of the health sector, for example on industry, employment, the wider economy, and other relevant aspects of public life. As such, we strongly recommend a Health Impact Assessment approach from the outset.

WHAT DO WE KNOW ABOUT TAXATION FOR HEALTHIER LIFESTYLES?

In most countries, taxes linked to health-harming commodities have been introduced with the aim of influencing specific choices people make, in order to promote healthy behaviours and reduce any detrimental impacts on health. The most common global examples of this are tobacco and alcohol taxation, which have existed for many years.

In the case of alcohol, taxes have been shown to be effective at reducing alcohol-related harms, and the effects of alcohol pricing strategies tend to be observed over the long term, rather than the short term.

An emerging development in the last decade is the introduction of sugar-sweetened beverage taxation in numerous countries. Where levels of soft drink consumption and obesity prevalence are high, the introduction of a 'sugar tax' for beverages may be effective at reducing consumption and obesity prevalence.

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WHAT ARE THE EVIDENCE GAPS?

In the existing international examples of novel food taxes in the 21st Century, whilst data on consumption has highlighted reduced levels of purchasing of taxed products, there is still only limited evidence of direct health impacts, at least impacts that can be explicitly linked to the introduction of a tax. We know that health-related taxation with a long history (tobacco and alcohol) have had demonstrable impacts, however it is not clear that these effects are directly transferable to other products due to differences in price elasticities and consumer demand. Any future tax proposal needs to commence with a clear understanding of the current baseline for the purchasing and consumption level of the product(s) to be taxed, and the current baseline for the health impact that the tax is aiming to address. This can only aid decision making and ongoing evaluation and monitoring of the implemented tax.

SUMMARY CONCLUSION

There can be no greater example of the need for well-designed, well-planned policy making than in the potential introduction of health taxes, especially in the example of diet-related taxes; we all eat and drink, and very few of us would be unaffected by some of the policy measures discussed in this paper.

Evidence of impacts on purchasing behaviour, the consumption of health-harming products, increased purchase and consumption of healthier options have been noted in international examples of implementation, notably in Hungary and Mexico.

There are policy lessons to be learned from the design and implementation of such taxes. Numerous examples in this report demonstrate that whilst fiscal approaches to reduce health-harming behaviours are well intentioned, some have been flawed in their execution. To reduce the chances of this, policy-makers need to have clear baseline figures of the health outcome(s) targeted by the proposed tax and associated consumption levels of the tax-targeted product/ service prior to introducing a tax to ensure effective evaluation. Furthermore, policy-makers need to be committed to implementing the tax over the mid- to long-term to be able to observe and record any positive health outcomes – it is unlikely that significant health impacts will be observed in the short-medium term. Engaging with stakeholders from the outset of the proposal, through a Health Impact Assessment approach, can increase the likelihood of support, and the aims of the proposed tax should be clear and consistent – with the envisaged health benefits emphasised – to enhance the chances of widespread consumer support for the policy.



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