

TAX REFORM IN FAVOR OF HEALTH

Due to Covid-19 pandemic and the even more evident exposure of our enormous economic and social inequality, public debate on how tax reform should contribute to promoting equity, the well-being of society and the improvement of the population health has expanded, ultimately aiming at a better economic efficiency.

In order to address such discussion, we need to focus on a more burdensome taxation on products that are harmful to health, such as tobacco, sweetened beverages, alcohol and pesticides, which overburden the Unified Health System (SUS). Harmful products should not be subsidized. On the contrary, they need to be taxed, so that the price is increased causing consumption to decrease, while promoting the population health.

The revenue arising from the taxation of unhealthy products contributes to the urgent need of the federal government to keep the State running and guarantee public policies in key sectors to the population.

BRIEF NATIONAL AND INTERNATIONAL OUTLOOK

The [Taxes in Favor of Health to Save Lives](#) study, drawn up by an international task force on Fiscal Policy for Health, warns of the urgency of adopting taxation measures on alcohol, tobacco and sugary drinks, under the risk of seeing an increase in the diseases attributable to these products. The study indicates that the reduction of this type of consumption can also prevent the impoverishment of families exposed to high health costs associated with CNCDS.

In low and middle-income countries, a 10% increase in the prices of tobacco, alcohol and sugary drinks results in a decrease of 5%, 6% and 12% in the consumption of these products, respectively.

The study shows that if all countries raise taxes to bring up prices for tobacco, alcohol and sugary drinks by 50%, more than 50

million premature deaths can be prevented worldwide in the next 50 years, raising an estimated US\$ 20 trillion plus.

In the current Covid-19 pandemic scenario, the Legislative Consultancy Office of the Chamber of Deputies of Brazil prepared a [Technical Study](#), launched in June 2020, which shows that only the benefits that effectively improve the distribution of income or that actually contribute to the consumption decisions and investment should be maintained, as long as they are not harmful to society as a whole.

TOBACCO

Among the products that should receive different taxation, tobacco is the one with the greatest consensus. Brazil has a solid and established public policy in this sense, with positive results, which led the country to be acknowledged by the World Health Organization as the number two country to have complied with the recommended measures for tobacco control, as provided for in the [Framework Convention on Tobacco Control \(FCTC\)](#).

Among measures such as warning labels on cigarette packs, smoke-free environments and a ban on advertising, the one that most contributed to the drop in prevalence was the increase in taxes, responsible for about [50% of the reduction seen in the period under study](#).

Between 2011 and 2016, Brazil adopted a tax policy of constant increases in the Tax on Industrialized Products (IPI), which contributed to [reducing the prevalence of smokers from 13.4% in 2011% to 9.8% in 2019 \(Vigitel\)](#).

Despite the success of these measures, Brazil still has a high absolute number of smokers and this year there was an increase in the percentage of smokers, seen with major concern, from 9.3% to 9.8%, interrupting a historical ongoing decline.

The impact of tobacco on the health system and the economy is staggering: [a survey by Inca/Fiocruz/Opas/IECS](#) reveals that in 2015 the costs were R\$ 57 billion, while the tax collection in the same period was R\$ 13 billion.

The [2017 World Bank Report](#) points out that higher cigarette taxes lead to a positive outcome for health, as people stop consuming these products and, consequently, less illness and premature deaths occur, generating increased revenue and reducing poverty with increased productivity and human capital.

According to [study by economists at Universidade Católica de](#)

[Brasília](#), raising the price of tobacco products by 10% reduces overall cigarette consumption by 5% approximately, which leads to a drop in tobacco-related medical expenses and an increase in net available revenue, in addition to benefiting passive smokers.

The tobacco industry is opposed to raising taxes and lobbied in 2019 for the government to reduce taxation on cigarettes manufactured in Brazil, but after a thorough analysis of the issue, it was decided that such a measure was not recommended and [there was no evidence to support it.](#)

SWEETENED BEVERAGES

The taxation on sweetened beverages is widely supported by public health specialists, being pointed out as a [cost-effective measure to fight chronic non-communicable diseases by the WHO](#); additionally, it is adopted by more than 40 countries.

Excessive sugar consumption is one of the major causes of obesity and CNCs, such as diabetes, cardiovascular diseases and some types of cancer¹. More than half of the Brazilian population is overweight (56.9%), according to the IBGE's (Brazilian Institute of Geography and Statistics) National Survey of Health², which is equivalent to about 82 million people aged 18 or over. Obesity affects more than 20% of the population and overweight affects one third of children aged 5 to 9 years old. Among adolescents (12 to 17 years old), [one out of five is overweight.](#)

The [costs directly attributable to obesity in 2016 were approximately R\\$ 488 million](#). Between 2008 and 2010, R\$ 3.6 billion was spent by SUS on [excess weight problems and obesity in Brazil](#). Between 2010 and 2050, the [direct costs of obesity may reach US\\$ 330 billion](#).

It is estimated that for each [1% increase in the price of sweetened beverages, there would be a 0.85%](#) reduction in the calories consumed from these beverages, with a greater impact among the poorest families.

An unprecedented study carried out by the Institute of Economic Research Foundation (Fipe)³ showed that taxation on sweetened beverages could also have positive impacts on the economy. A simulation carried out revealed that a 20% increase in taxation on these products could generate an increase of R\$ 2.4 billion to GDP, the creation of 69.6 thousand jobs and the collection of R\$ 4.7 billion. Many of these jobs would be created in the North and Northeast, stimulating the development of poorer regions.

Countries such as England, France, Norway, Finland, Portugal, Mexico and Chile have already adopted tax policies aimed at promoting health.

Mexico's experience is a success case, and it is an international reference. The increase of just 10% of the tax in 2016 led to a 7.6% drop in consumption in two years' time. There was an increase in sales of drinking water (5.2%), as well as its availability, as the money raised was used to build public drinking fountains. As an expected long-term result, a cost-effectiveness study showed that for every dollar spent on implementing the tax in Mexico, US\$ 3.98 would be saved and almost 140,000 cases of obesity would be prevented in the following 10 years (almost 40% in children)⁴.

Several agencies have recommended the adoption of taxation on sweetened beverages, such as the [National Cancer Institute \(Inca\)](#) and the National Health Council. However, subsidies are still offered to industries in this sector. Data from the Office of the Attorney General of the National Treasury show that, between 2015 and 2017, the soft drink industry made requests for reimbursement of IPI credits in the amount of R\$ 2.4 billion. The 2016 Tax Expenses Report of the Federal Revenue of Brazil revealed that the annual tax waiver, specifically for the soft drink industry, is near R\$ 3.8 billion, considering the IPI rate of 20%, in force until the creation of Decree no. 9.394/2018⁵.

RECOMMENDATIONS

- **Creation of a specific federal tax on tobacco, with a view to discouraging the consumption of this product that is harmful to health.**
- **Creation of a specific federal tax on sweetened beverages, with a view to discouraging the consumption of this product that is harmful to health.**
- **Other products that are harmful to health, such as alcohol and pesticides, should also be considered.**
- **Adoption, as a priority, of a tax that guarantees the disposition of the funds collected for prevention policies in the health area.**
- **Elimination of subsidies granted to the sweetened beverage industries.**

ABOUT ACT

ACT Promoção da Saúde is a non-governmental organization that works in the defense and promotion of public health policies, especially in the areas of tobacco control and food, risk factors for chronic non-communicable diseases (CNCDS), which are responsible for approximately 75% of deaths in Brazil and worldwide. In this sense, we publicly express our position on tax reform and how it can contribute to the improvement of health indicators in the country.

1. World Health Organization, 2009 - Prospective Studies Collaboration, 2009; WANG et al., 2011; The Global Burden of Metabolic Risk Factors for Chronic Diseases Collaboration, 2014; WHO, 2014.
2. Brazilian Institute of Geography and Statistics. Research of Family Budgets in Brazil, 2008/2009: Anthropometry and nutritional status of children, adolescents and adults in Brazil. Rio de Janeiro: IBGE. 2010.
3. Institute of Economic Research Foundation (FIPE). Systemic Impacts of Changes in the Pattern of Consumption of Sugary Drinks, Sweetened or Not, Due to Different Taxation Scenarios. 2020. In press.
4. Basto-Abreu A, Barrientos-Gutiérrez T, Vidaña-Pérez D, Arantxa Colchero MA, Hernández-F. M, Hernández-Ávila M et al. Cost-Effectiveness of the sugar-sweetened beverage excise tax in Mexico. Health Affairs. 2019 38(11):1824-31.
5. These amounts consider the total waiver of taxes due to the Manaus Free Trade Zone regime, which therefore includes, in addition to IPI, ICMS, PIS/COFINS and IRPJ.