

Working Paper 5 - Sales Taxes on Medicines

Executive Summary

Domestic taxes can comprise a substantial proportion of the price people pay for medicines, and high prices are generally considered to be a principal barrier to access to needed care. Yet the role of domestic taxes and how they affect access to essential medicines has not previously been examined in detail, although recent work has examined the role of tariffs or taxes on international trade. This paper brings together information on domestic taxes as they affect medicines in countries at different income levels and asks questions about the health effects of these taxes. It then presents some evidence of the likely effects of a change in tax policy and how access to medicines would be affected.

Taxation plays an important role in economic growth and national development. Fiscal policy is one of the most powerful tools which governments have for achieving their overall social and economic objectives and a well-designed and progressive tax system is a vital underpinning for an equitable and effective national health care system. This paper does not thus take an adversarial “taxes or health” approach but rather “taxes for health” in which the role of taxes in influencing consumption levels of medicines and other commodities affecting health is explored, and in which access to medicines plays a fundamental role.

Important changes are occurring in the way tax systems are designed and implemented. The major shift in recent years is perhaps the widespread movement away from taxes on international trade and towards value-added taxation of goods and services. Evidence of these changes has been documented in several of the surveys of medicine prices undertaken using the WHO/HAI price measurement methodology. These surveys comprise the biggest single source of information about taxation of medicines in low- and middle-income countries (LMIC) since, unlike for taxes on international trade, no international database on domestic tax practice exists which allows medicine taxes to be extracted and compared.

Taxes on medicines in high income countries, with good networks of health insurance protection, range from zero to 25% and in a selection of LMICs, with much lower insurance protection against the costs of health care, were found to range from zero to 34%.

The effect of taxes on people’s access to medicines and the potential effect of removing or reducing taxes is an area which has most comprehensively been studied in the context of prescription charges and insurance arrangements in industrialized countries, but some studies in LMIC have also been identified. There is

very little documentation on the effects of prices and price changes on the poorest households.

When considering the effect of medicine taxes on national revenues, official breakdowns of revenue by type of commodity are not routinely available, so estimates have been made in this paper using reported sales and prevailing tax levels. Though the percentage of public revenue raised from medicine taxes may appear small at around 1% of the total, the amount is significant enough for national treasuries to be resistant to special pleading from health lobbyists for preferential tax treatment for medicines. Nevertheless, some countries at both high- and low-income levels do manage to exempt some medicines from taxation and advocacy has achieved its objective in some contexts, such as Pakistan.

The efforts of public health lobbyists to raise taxes on goods and services which threaten people's health are of direct relevance to advocacy for special treatment for medicines tax. Indeed literature searches on "taxation" and "health" more frequently found studies relating to alcohol, tobacco, unhealthy diet, recreational drugs and road safety than to medicines. Welldeveloped bodies of analysis exist in each of these areas. For tobacco in particular, there is strong advocacy to governments in countries at all income levels to raise more revenue through taxation on public health and economic savings grounds. Such knowledge should strengthen the negotiating position of possible health advocates concerned with medicines. The case for "tax differently" is much stronger than the case for "tax less".

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