HEALTH POVERTY ACTION

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Health and ... tax

Why tax matters for health

Tax is a fundamental issue for health. The theft of tax revenue denies people their right to health. This briefing looks at the role of tax in creating healthier societies.

> **The evidence is clear: if developing countries want to achieve UHC, they should replace private voluntary financing with compulsory public systems and use mostly tax financing to cover informal sectors.**
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Health systems and tax revenue

The most obvious link between tax and health is in financing health systems. Strong health systems require predictable and sustainable financing. It is estimated that low income countries need to spend a minimum of $86 per person, per year to fund universal primary health care services.[1] Of the 75 countries with the highest levels of maternal and child deaths for which data is available (72 in total), in 2013 only 16 reached this target through government spending.[2]

As well as inadequate health services, one consequence of insufficient state funding is that many people are forced to pay to access care. User fees are widely acknowledged as both an inequitable and inefficient means of funding health services,[3] with estimates that 40–60 percent of funds raised are lost through administration costs.[4]

For the poorest people, user fees mean that essential healthcare is a 'luxury' they simply cannot afford. Others face 'catastrophic healthcare costs' with 100 million dragged into poverty to pay for healthcare each year, the equivalent of three people every second.[5]

Strong tax systems can provide a solution, supplying regular, sustainable revenue for healthcare. There is clear evidence that to achieve Universal Health Coverage (UHC) all countries need tax funding.[6] Revenue from tax has played a dominant role in all UHC success stories,[7] and is key to ensuring equitable access. This has been demonstrated by a number of countries including Sri Lanka, Malaysia, and Brazil which fund healthcare from tax revenues. Other countries such as Thailand, Mexico and Kyrgyzstan have pooled taxation with insurance contributions from those in salaried employment for coverage for the whole population.[8]

There is evidence that increasing tax revenue does translate to additional health spending. A recent study found that for every US$100 of additional tax revenues per capita per year there was a $9.86 yearly increase in government health spending, adjusted for GDP per capita. In countries with low tax revenues, an additional $100 tax revenue per year substantially increased the proportion of births attended by a skilled attendant by 6.74 percentage points and the extent of financial coverage by 11.4 percentage points.[9]

Tax and the social determinants of health

There are many factors outside of the health system itself that impact on people's health. These wider determinants which include poverty, nutrition, water and sanitation, education and employment all have direct consequences for health. Tax revenue is vital in providing funding for public services which impact on a broad range of these determinants. In 2008 The WHO's Commission on the Social Determinants of Health highlighted that the commercialization of vital social goods results in health inequalities, and advocated for the strengthening of national capacity for progressive taxation as well as assessing the potential for new national and global public finance.[10]

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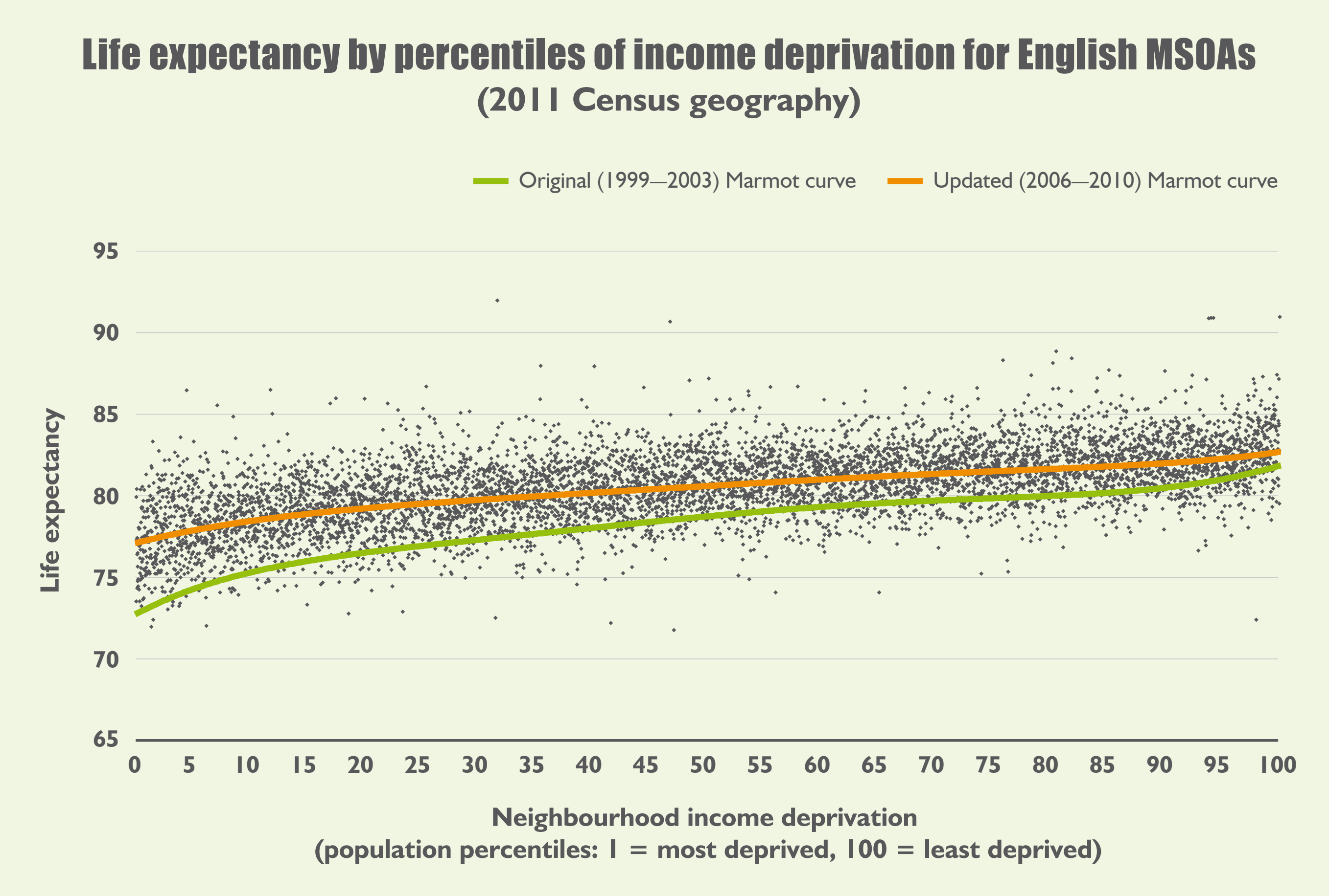

The Marmot curve from the influential Marmot Review and update from the Kings Fund shows the relationship between average life expectancy and income deprivation in the UK. Suggested reasons for the reduction in the life expectancy gap from 6.9 years in 1999–2003 to 4.4 years in 2006–10 include an NHS focus on reducing health inequalities; reduction in poverty in older age; low unemployment; and improvements in housing quality in the period up to 2010. Source: Buck D, Maguire D (2015). *Inequalities in life expectancy: changes over time and implications for policy*. Available at: http://www.kingsfund.org.uk/publications/inequalities-life-expectancy

Incentivising healthy behaviour

Tax can also be used to influence healthy behaviour through the use of sin taxes on unhealthy products. These can encourage healthy behaviours, although they are generally felt to be regressive[11] (taking a greater share of the income of the poor – see further discussion below) and can therefore be controversial. For example the majority of people in the UK feel that the taxes levied on alcohol are too high.[12] In January 2014 Mexico – where diabetes is the leading cause of death – introduced a soda tax. By December 2014 soda sales had dropped by 12 percent, rising to 17 percent amongst poor Mexicans.[13]

Good for healthy societies

Strong tax systems also contribute to more equitable and democratic – and therefore healthier – societies all round. Inequality is bad for health. It concentrates wealth in the hand of a few and provides a barrier to efforts to reduce poverty, a key determinant of health.

The Kings Fund suggest income is a gateway to the goods, services and psychological factors that enable us to be healthy (see above graph). Small changes to redistribute wealth can have a big impact on poverty. A World Bank study found that a 1 percent increase in income can cut poverty by 4.3 percent in more equal countries, yet in the most unequal countries the reduction is only 0.6 percent.[14]

Inequality increases stress which is linked to a range of health issues including hypertension, heart disease, mental health disorders, accidents, ulcers, and cirrhosis.[15] Inequality also deprives societies of untapped human potential[16] reduces individual wellbeing, destroys social cohesion and results in less stable societies.[17]

As well as laying the foundations for stronger economies, public services are vital for reducing inequality. Across the OECD public services are worth the equivalent of 76 percent of the post-tax income of the poorest group, but just 14 percent of the richest. This is a significant redistributive effect, leading the

World Bank to conclude they constitute a 'virtual income'.[18] Yet high levels of inequality tend to be correlated with reduced spending on public services, as the rich exert their political influence in their own interests, leading to cuts in public spending.[19]

Tax is a key tool in the battle against inequality. When enforced progressively (see below) tax has an important redistributive effect, reallocating wealth from the richest to the poorest, allowing people opportunities to fulfil their potential and creating a more equal society.

Tax can also improve governance. Prichard has identified three interconnected processes relating to tax and good governance. Firstly tax generates a 'common interest' process, providing governments with incentives to increase the economic prosperity of their citizens. Secondly, collecting taxes requires the improvement of tax administration, regulation and requires extended government reach and better data collection. This is referred to as the 'state apparatus' process. Finally, tax makes governments more accountable to their citizens – know as the 'accountability and responsiveness' process – as governments become dependent on tax revenue it empowers citizens to make claims of government and enables engagement in political decision-making,[20] creating a more healthy democracy all round.

How can we build healthier tax systems?

There are several key issues that need to be addressed to ensure that tax revenue can support strong health systems.

Strengthen tax planning and collection

The type of taxes, who they are levied at, and how they are collected, matters. Tax can take many forms from taxes on income, profits, capital gains, trade and consumption and can be levied both on individuals and on companies. They can be progressive (taking a greater share of the income of the rich), or regressive (taking a greater share of the income of the poor).

Whilst there is no universal rule, generally taxes on income, profits, and capital gains are progressive, whereas taxes on consumption are regressive – for example if everyone is charged the same amount of tax on goods or services, it results in the poor paying a greater proportion of their income. Since 1990 most revenue growth in low and middle income countries has been from consumption taxes,[21] a regressive form of tax. As these may reduce the ability of the poor to afford essential goods and increase poverty they can actually have detrimental impact on health. A recent study comparing the impact of different types of taxes on health systems found that consumption taxes were associated with significant higher post-neonatal, infant, and under-five mortality.[22] Some argue that collecting small amounts of tax from large numbers of the population is inefficient, whereas others believe this is essential in establishing a culture of paying tax or a social fiscal contract.[23] These issues require careful planning.

Many countries also have weak administrative capacity to collect tax revenue. This means that even if the tax system in place it, is very difficult to enforce. As recognised in target 17.1 of the Sustainable Development Goals, countries require support to strengthen the capacity of revenue authorities to collect tax and enforce penalties for non-compliance.

Stop the race to the bottom

Every year foreign companies operating in the 47 countries of sub-Saharan Africa repatriate $46.3 billion in profits. Whilst it is legitimate for companies to make profits, large companies often pay little tax in the countries in which they operate. Due to a desire to attract foreign investment many countries offer very low rates of tax for companies and wealthy individuals, resulting in a race to the bottom between countries to offer the lowest rates. These tax breaks fuel inequality, providing subsides to the wealthy. The money lost may then need to be raised from the poor[24] or by cutting public services. As the benefits are typically offered to large multinational companies, smaller, local firms can get pushed out of the market.[25]

People often argue that tax breaks are needed to attract investment. This argument does not withstand scrutiny. The OECD has stated that: "*host country taxation and international investment incentives generally play only a limited role in determining the international pattern of FDI.*"[26] Evidence suggests there are more important factors in attracting investment such as political stability, infrastructure, size of the market and higher education – factors that in themselves are often determined by an efficient tax system.[27]

Case study: Sierra Leone

Sierra Leone has one of the weakest health systems and the highest maternal mortality ratio in the world. Before the recent Ebola crisis the country had just one doctor for every 45,625 people,[28] now there are fewer. With the exception of maternal and child health services, people are forced to pay to access healthcare.

Whilst the country is rich in mineral resources, the people of Sierra Leone are being denied the benefits of their assets. A 2014 study by Sierra Leone's Budget Advocacy Network and the National Advocacy Coalition on Extractives, suggested that the country has lost $199 million a year in recent years due to tax breaks given to mining companies,[29] over three times the health budget for 2015.

The mining sector is regulated by various Acts of Parliament, but the government has signed mining agreements that offer more favourable fiscal terms than are provided for in legislation. A 2015 report by Health Poverty Action estimated that the country could gain an additional $94 million through reductions in just three tax breaks over the next few years.[30] Since this figure was calculated industry profits have been hit by a worldwide drop in iron ore prices, meaning the figures are no longer up to date, but they do give an indication of the sums which have previously been given away.

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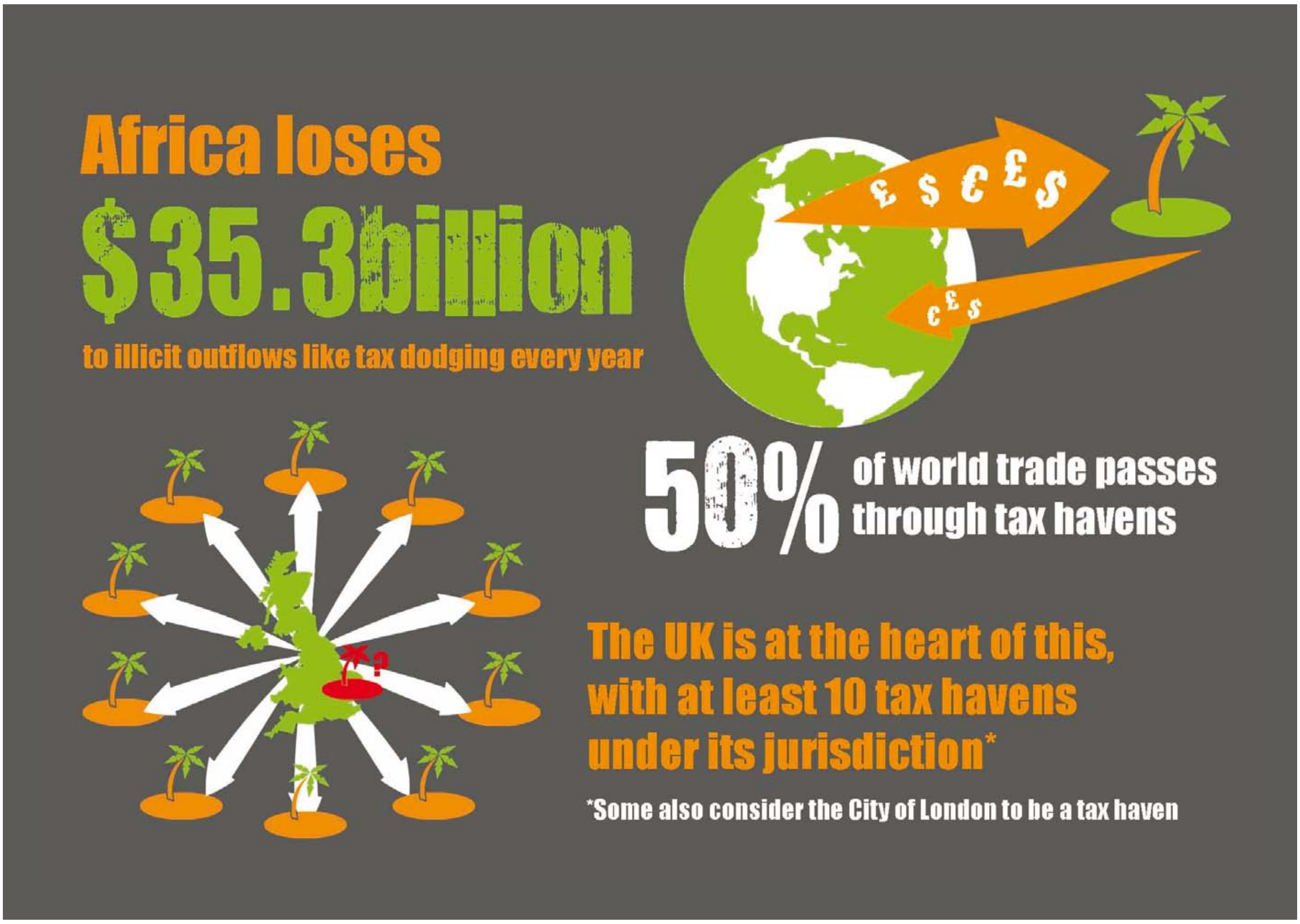
Sierra Leone's Free Health care Initiative: A mother and child wait at 8am along with 200 others for a children's hospital to open.



End tax dodging

Tax dodging encompasses activities that are legal (but often morally questionable) known as tax avoidance. This can include activities such as 'tax planning', the use of legal loopholes to reduce tax. It also includes illegal activities known as tax evasion. Just two forms of tax evasion result in an estimated $160 billion stolen from countries in the Global South every year.[31]

Tax evasion is facilitated through the global network of tax havens. With their low rates of tax and high levels of secrecy, tax havens enable companies and wealthy individuals to use various techniques to shift their profits to these jurisdictions in order to dodge tax.

The UK is at the heart of the tax haven network with at least ten tax havens under its jurisdiction

This offshore network has morphed into an underhand system of truly epic proportions. Analysis by ActionAid in 2013 showed that just under one in every two dollars of large corporate investment in the Global South is now being routed from or via a tax haven.[32] Of the 100 biggest groups listed on the London Stock Exchange, 98 use tax havens, with the banking sector the most prolific users. Of these 98, 78 have operations in the Global South.[33]

There is no internationally agreed list of tax havens but using a list compiled by ActionAid, tax havens jurisdictionally linked to the G8 countries or the EU are responsible for 70 percent of global tax haven investment, and a third of all tax haven investment into low and middle income countries.[34] The UK maintains its place at the heart of the global chain of tax havens,[35] with more under its jurisdiction than any other country. The Tax Justice Network's (TJN) authoritative Financial Secrecy Index[36] ranks jurisdictions according to their secrecy and the scale of their activities.

Sierra Leone has lost an average of around $71 million each year over the past decade to illicit financial flows – more than its annual health budget.

Global Financial Integrity, Data by Country, Average Annual Illicit Financial Outflows: 2003-2012

Whilst the UK is ranked 15 in their 2015 index, TJN notes that if it were to be assessed along with its Crown Dependencies and Overseas Territories it would rank first by a significant margin.[37] The British government also uses tax havens itself. A 2013 report revealed that CDC, the investment arm of the UK's Department for International Development used tax havens for almost 50 percent of its aid investments.[38]

Conclusion

Tax is fundamental to creating healthier societies and upholding the right to health. The health community has a vital contribution to make to this agenda. It should join with the tax justice community in emphasising the importance of tax for health and advocating for:

- The development of publically financed health systems, with a strong role for tax revenue.
- Investment in strengthening countries' capacity for tax collection and enforcement
- A more transparent and accountable global financial system - including clamping down on shell corporations; improved disclosure of beneficial owners of companies; stricter company reporting regulations on sales, profits and taxes; and exchanging tax information across borders.

This is one of a series of briefings looking at how the structural causes of poverty impact on health.

United Workers

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HEALTH POVERTY ACTION

Health Poverty Action works to strengthen poor and marginalised people in their struggle for health.

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