SERP-P KNOWLEDGE SHARING FORUM

"Learning and Moving Forward from the COVID-19 Pandemic:
Recommendations for the Incoming Administration

An Evaluation of Sin Taxes' Implementation and Health Expenditure Earmarking

CPBRD

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Presentation Outline

- **Background**
  - Salient features of the sin tax reform
  - The Sin Tax Monitoring Framework
- **Key findings on sin tax implementation**
- **Key findings on health expenditure earmarking**
- **Conclusion and recommendations**

What is Sin Tax Reform?

- RA 10351 or the ”Sin Tax Reform Law” of 2012 is the start of a series of major reforms on the excise tax to influence prices and demand of sin products

- The principal objectives are:
  1) reduce consumption of “sin” products
  2) generate additional revenues for health expenditures of the government

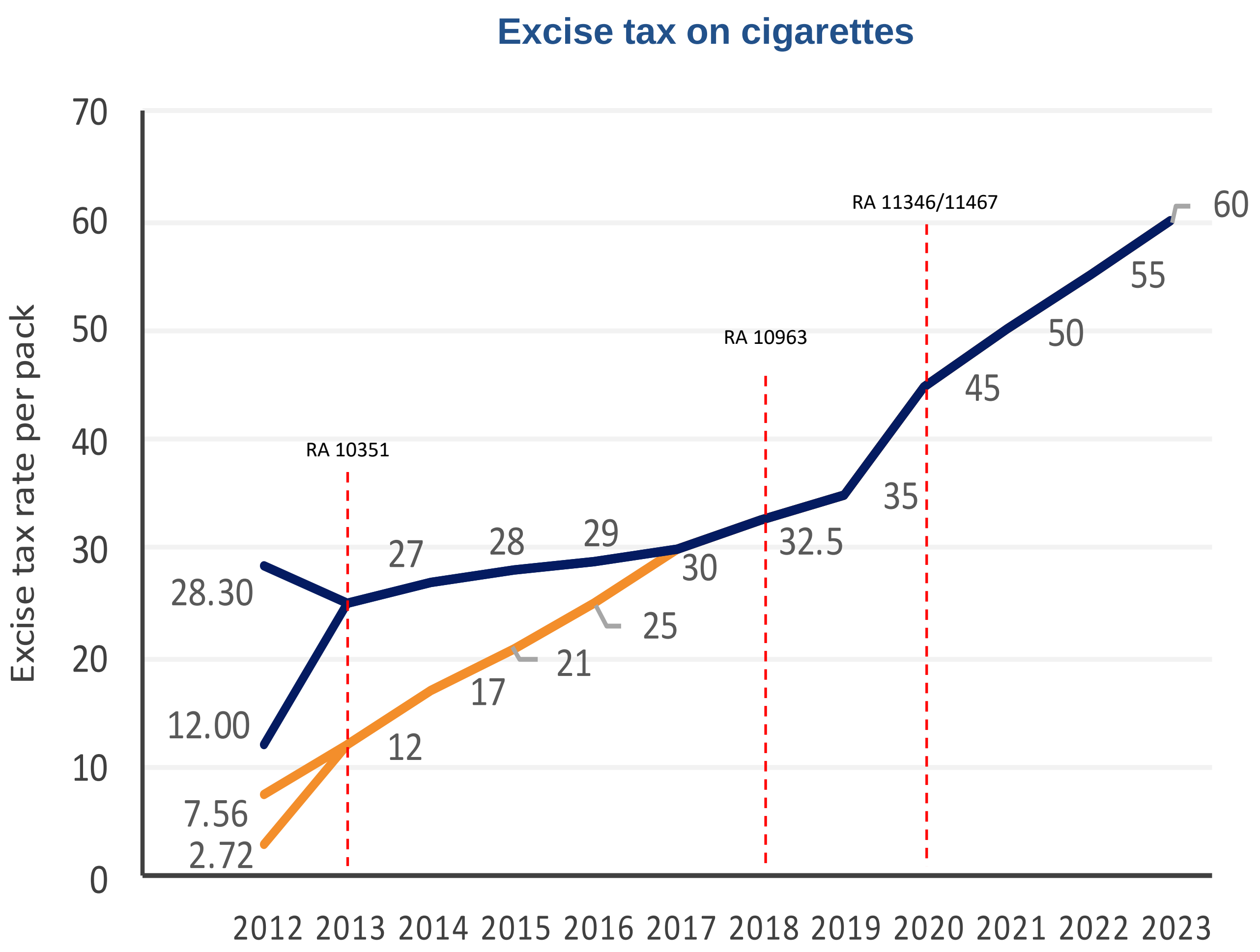
SIN TAX REFORM TIMELINE

- **RA 9334** December 21, 2004
- **RA 10351** December 19, 2012
- **RA 10963** December 19, 2017
- **RA 11346** July 25, 2019
- **RA 11467** January 22. 2020

Tax Changes on Cigarettes

- The excise tax structure on cigarettes was simplified: shifting from a 4-tiered tax schedule in 2012 to a 2-tiered schedule beginning 2013, and to a unitary tax structure by 2017.

- Annual tax rate increases were implemented under several sin tax laws. An automatic 5% increase is also scheduled starting 2024.



Changes on earmarking provisions

RA 9334 (2005)	RA 10351 (2013)	RA 11346 (2020)	RA 11467 (2020)

EARMARKING FOR TOBACCO-PRODUCING LGUS

- 15% of the excise tax revenue on locally manufactured Virginia-type cigarettes is allocated to provinces pro-rata according to volume of Virginia tobacco production (RA 7171)

- **15% of the incremental revenues** from the excise tax on tobacco products under RA 8240 is allocated among provinces producing burley and native tobacco in accordance with the volume of tobacco leaf production

- 15% of the excise tax revenue on locally manufactured Virginia-type cigarettes, not exceeding P17 billion, is allocated to provinces pro-rata according to the volume of Virginia tobacco production

- **5% of the total revenues** from excise tax on tobacco products, but not exceeding P4 billion, is allocated among provinces producing burley and native tobacco in accordance with the volume of tobacco leaf production

Changes on earmarking provisions

RA 9334 (2005)	RA 10351 (2013)	RA 11346 (2020)	RA 11467 (2020)

EARMARKING FOR HEALTH

After deducting allocations under RA 7171 and 8240

- 2.5% of the incremental revenues from excise tax on alcohol and tobacco products to Philhealth for the National Health Insurance Program;
- 2.5% is credited to the account of DOH

- 80% of the remaining incremental revenue is allocated for the National Health Insurance Program, the attainment of the MDGs, and Health Awareness Programs
- 20% is allocated nationwide for medical assistance and health enhancement facilities program of the DOH.

On tobacco products

- 50% of the total revenues from excise tax on tobacco products is allocated to Philhealth (80%); DOH (20%)
- 100% of the total revenues from excise tax on e-cigarettes is allocated to Philhealth (80%) and to DOH (20%)

On alcohol products:

- 50% of the total revenues from excise tax on alcohol products is allocated to Philhealth (80%) and to DOH (20%)

On sugar-sweetened beverages:

- 50% of the total revenues from excise tax on sugar-sweetened beverages is allocated to Philhealth (80%) and to DOH (20%)

On tobacco products

- 100% of the total revenues from excise tax on e-cigarettes is allocated to Philhealth (60%); to DOH (20%); and to SDGs (20%)

On alcohol products:

- 100% of the total revenues from excise tax on alcohol products is allocated to Philhealth (60%); to DOH (20%); and to SDGs (20%)

World Bank's
Sin Tax Monitoring Framework

Indicators on Tax Implementation

- Retail prices
- Tax revenues
- Consumption
- Revenue leakage

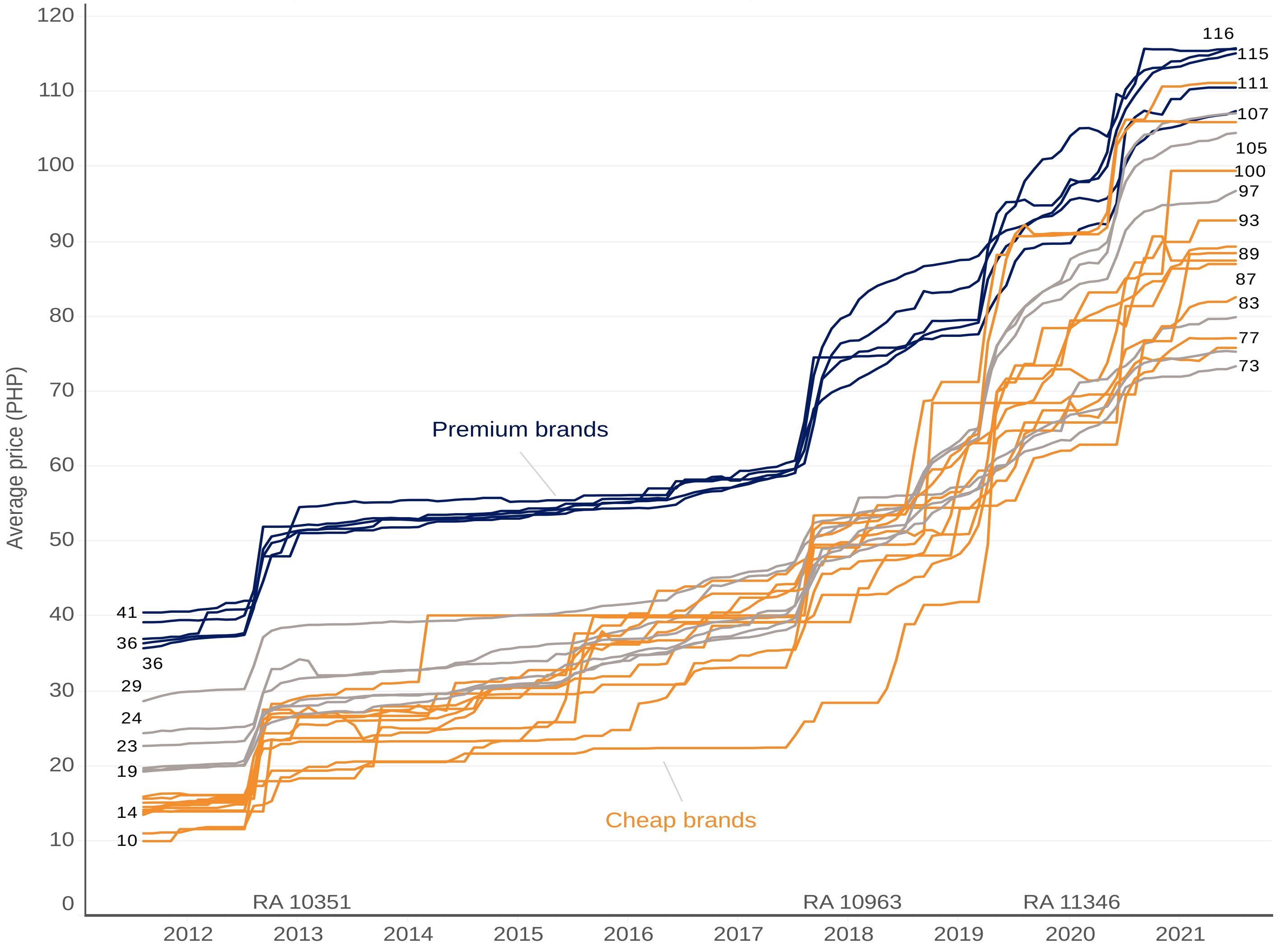
Indicators on expenditure implementation

- Earmarked spending to tobacco-growing LGUs
  (allocation and utilization of LGU shares)
- Earmarked spending for health/UHC
  [contribution of sin tax incremental revenues to health budget, health programs benefitting from earmarked funds, and budget utilization]
- Expansion of universal health coverage
  (access to health care through NHIP)

Retail Prices

- The tax rate increases resulted in significant jump in retail prices of cigarettes, making them less affordable overtime.
- The transition to a single tax rate in 2017 better reflected the tax increases into retail prices as a similar tax rate is applied regardless of the net retail price.

Average monthly retail prices of cigarettes, 2012-2021

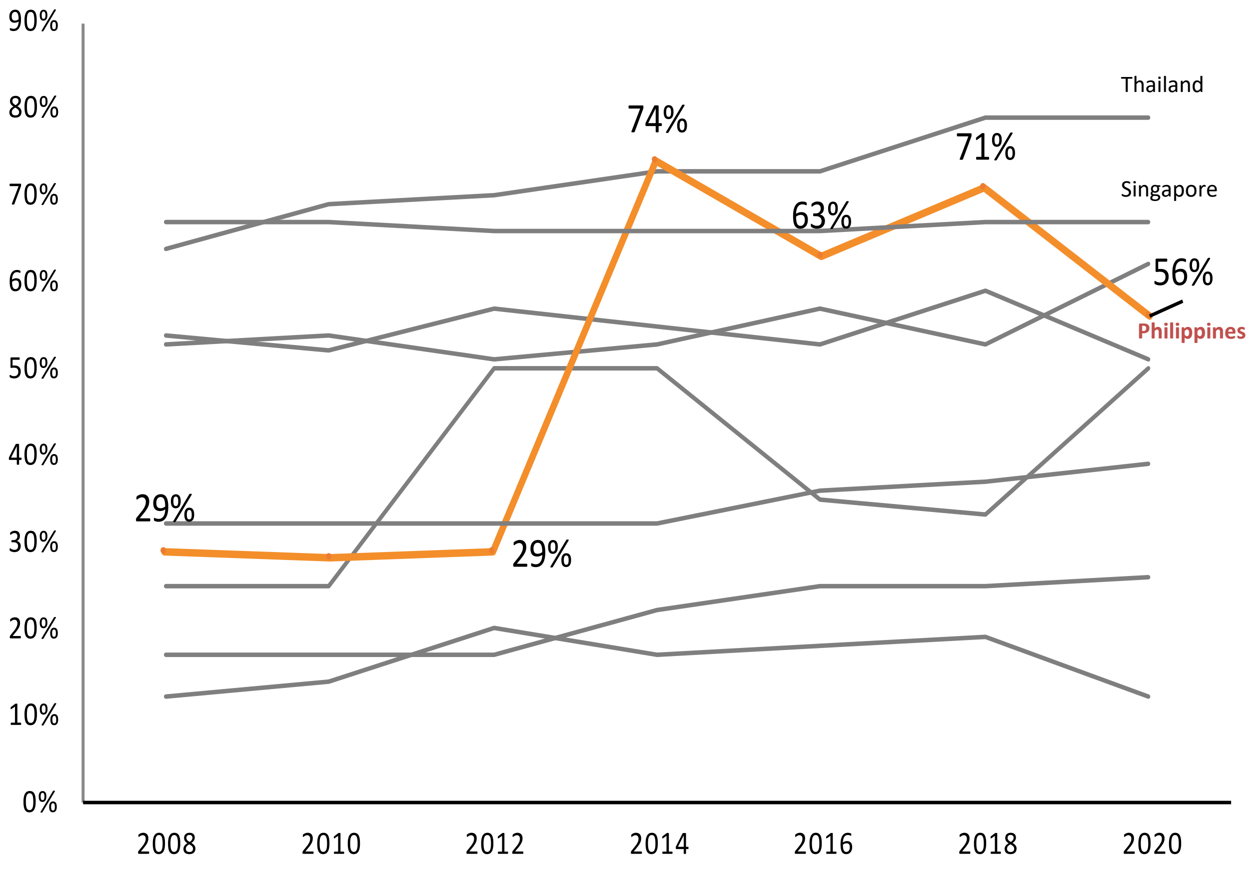


Source: Philippines Statistics Authority

Retail Prices

- The sin tax reform → the low tax share to retail price. Tax share increased from a low 29% in 2012 to 74% in 2014 and settled at 56% in 2020.

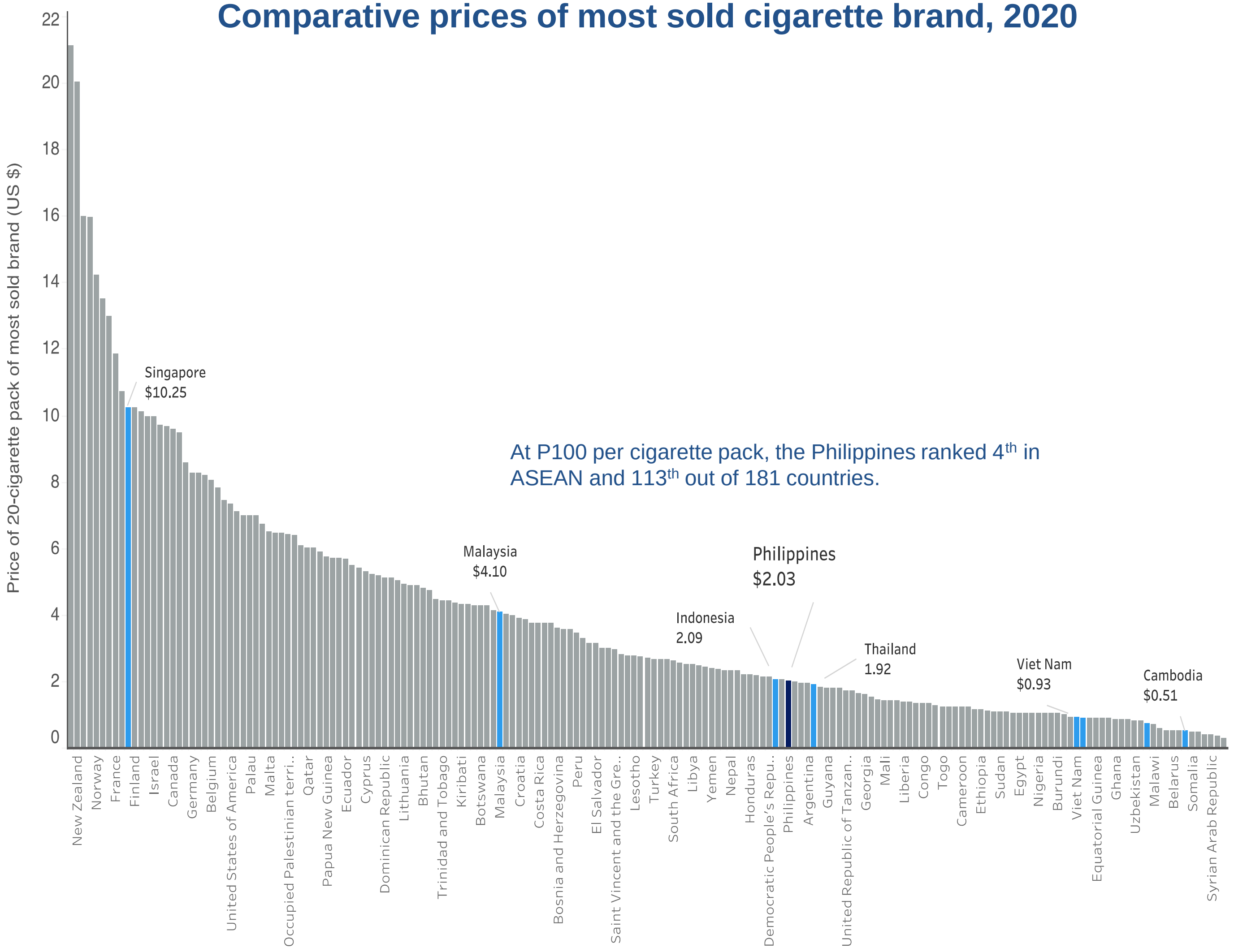
Tax share to retail price in ASEAN



Retail Prices

- Cost of cigarettes in the Philippines is still considered cheap relative to international prices.

Comparative prices of most sold cigarette brand, 2020

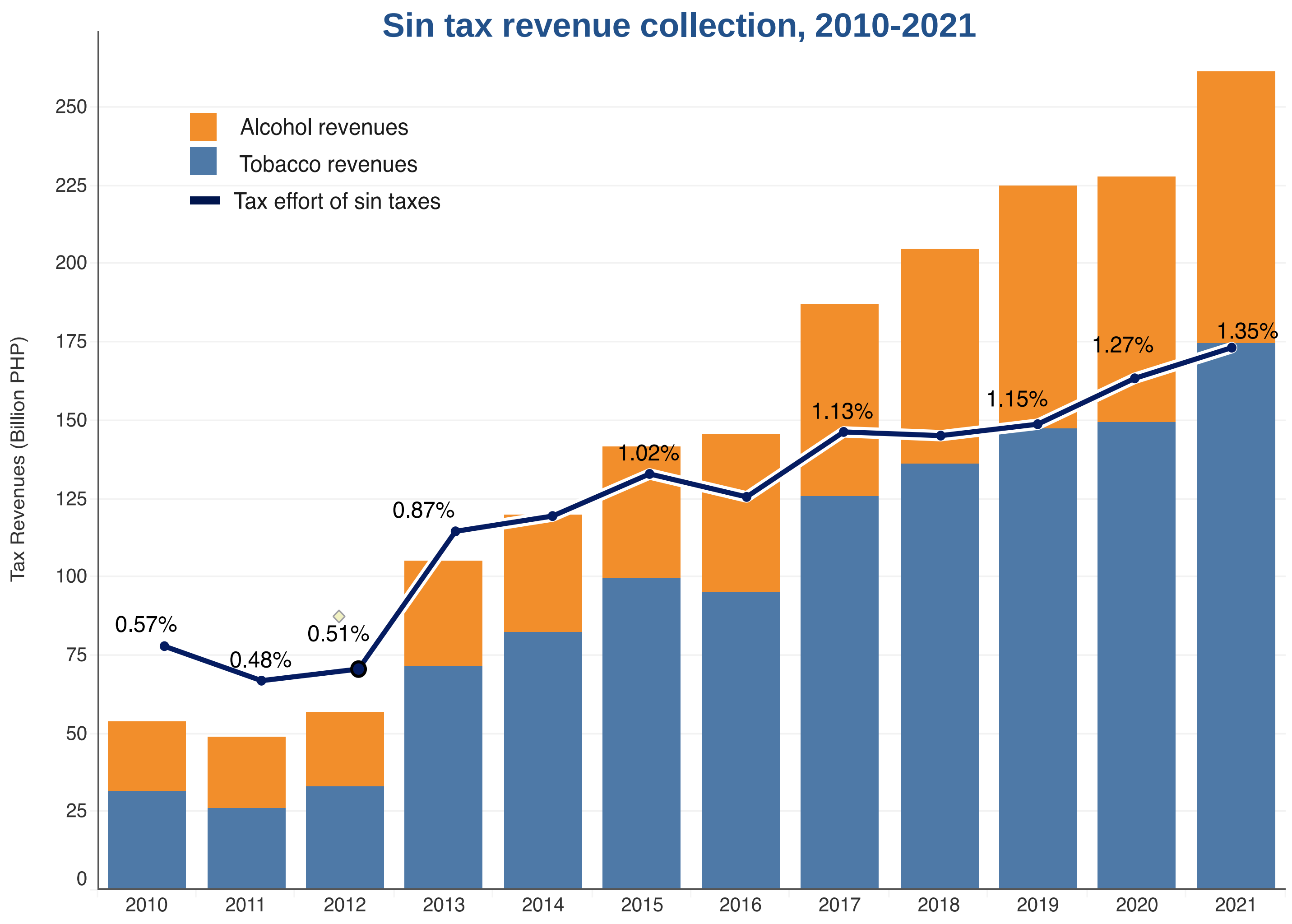


Source of data: WHO report on the global tobacco epidemic 2021: addressing new and emerging products

Tax Revenues

- Sin tax revenues improved significantly. From an average of P53 B in 2010-2012, it almost doubled in 2013 at P105 B, and reached P261 B in 2021.

- Sin tax effort improved to 1.4% in 2021 from only 0.5% pre-sin tax reform.

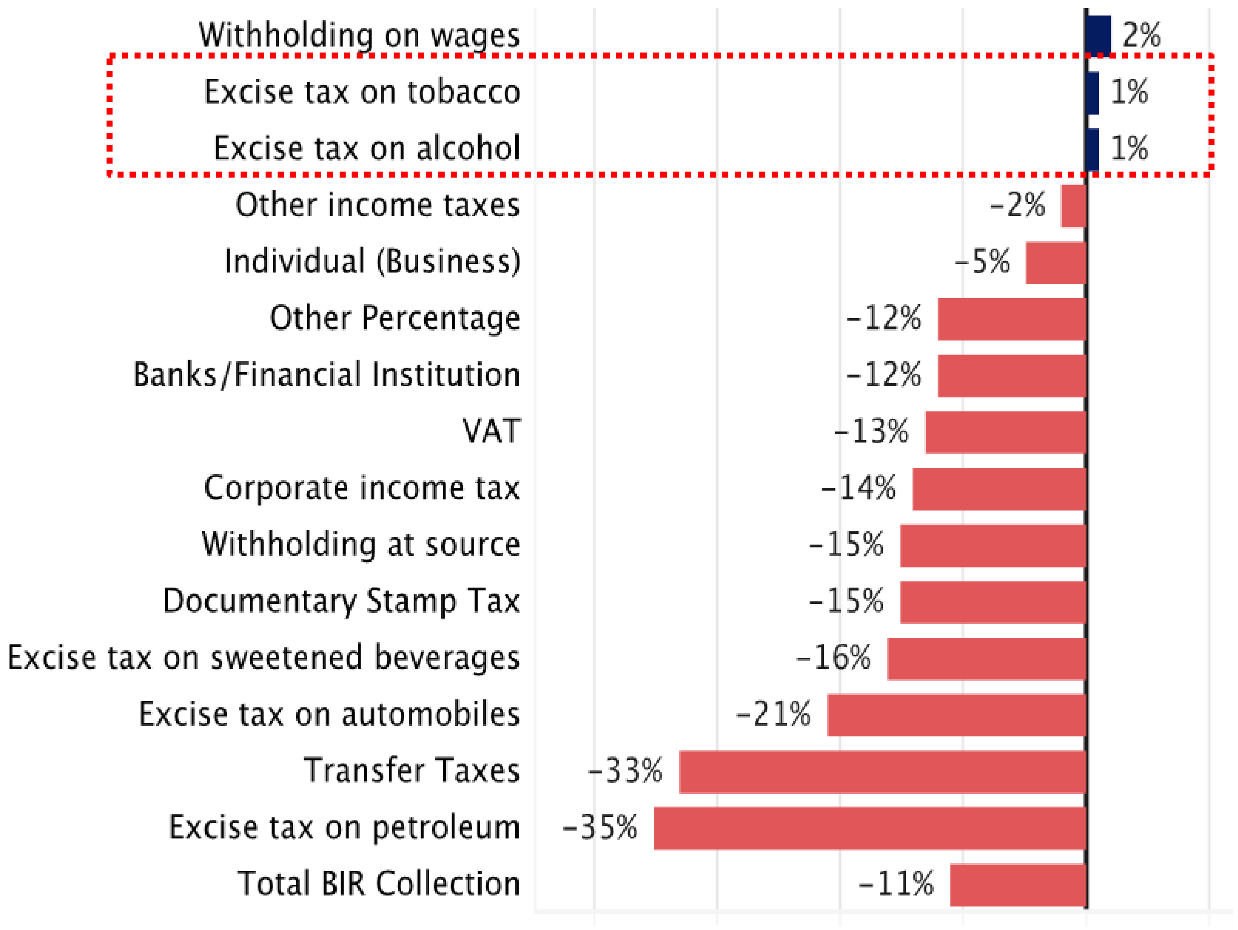


Tax Revenues

- Sin tax revenues still managed to grow (y-o-y) in 2020, despite the pandemic. Most types of BIR taxes declined during the year.

- The additional taxes from the sin tax reform, earmarked annually to health expenditures, proved critical in the context of the country's tight fiscal space and the ongoing health crisis.

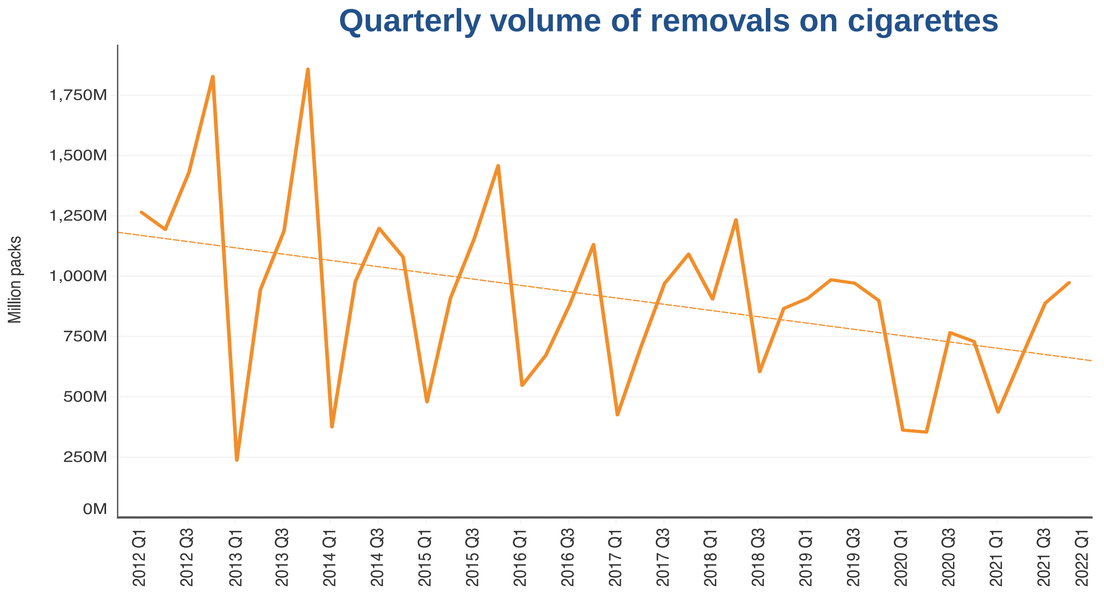
BIR Collection by type, percent change 2019-2020

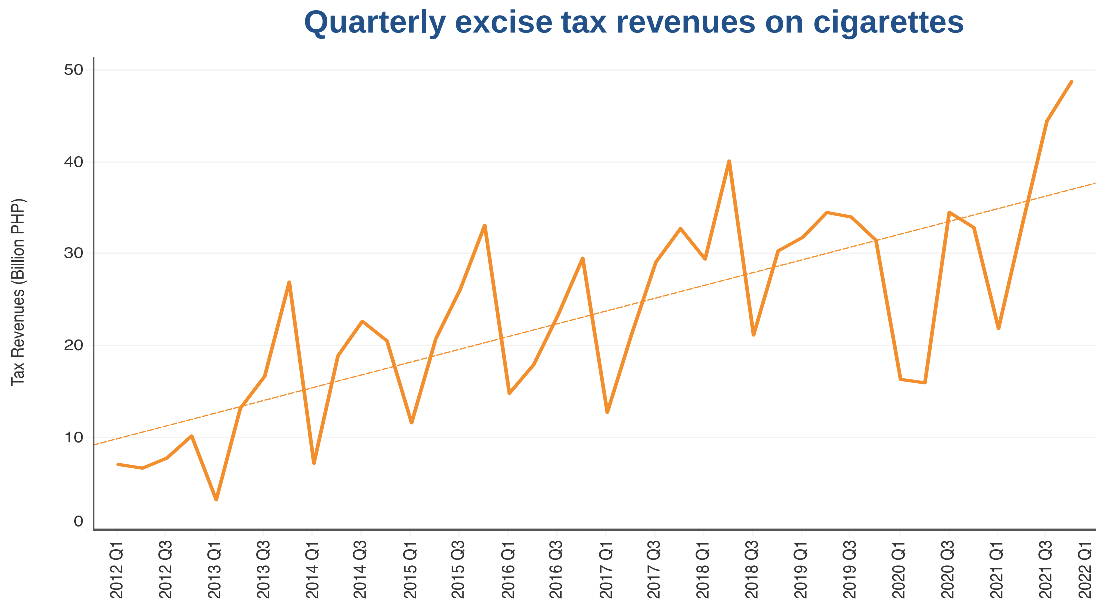


Source: BIR

Why are sin taxes **effective in generating revenues?**

- Good tax design + consumers response to increase in cigarette prices
- CPBRD estimates price elasticity of **cigarette demand at -0.83.** This means a 10% increase in price (or tax) will only result in an 8.3% decrease in cigarette removals (consumption)





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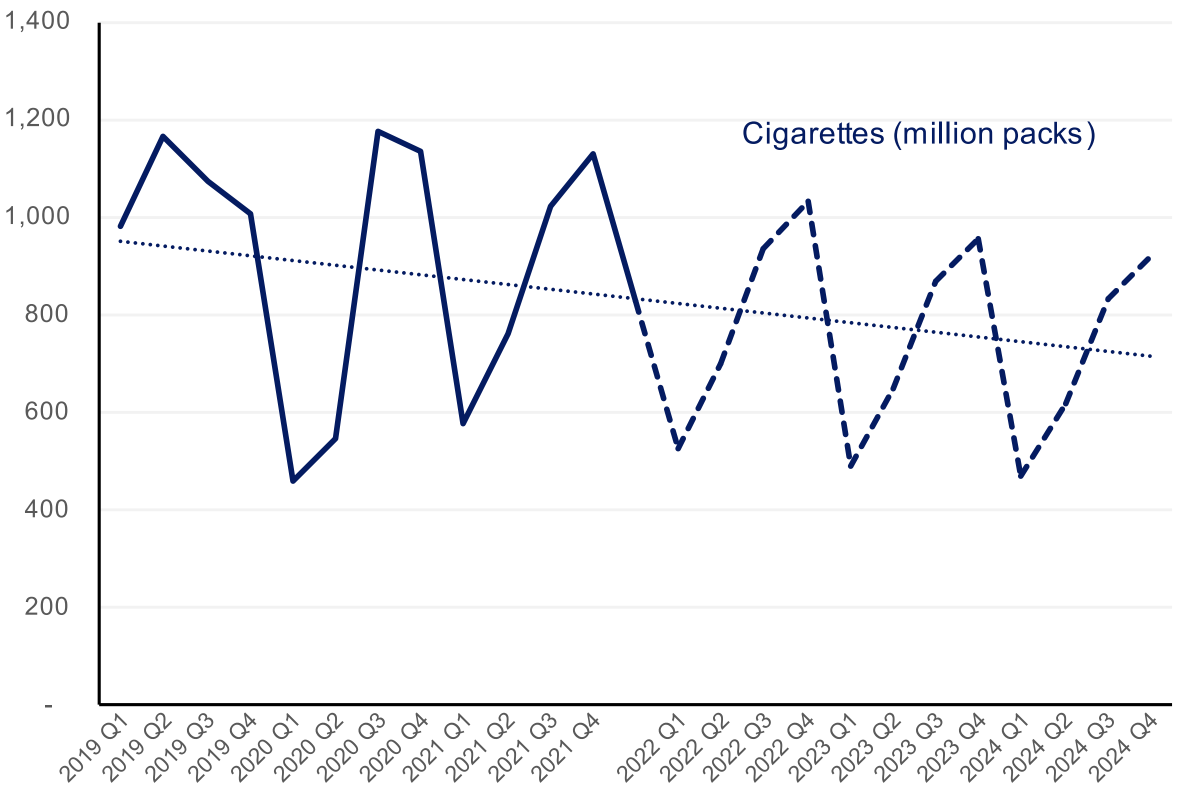
Sustainability of sin tax revenues

- Using price elasticity estimates, we projected cigarette removals given the scheduled tax increase on cigarettes from 2022-2024

- Given cigarette demand is inelastic, **sin tax revenues will remain to be a stable revenue source in the medium term** as the tax increases will more than offset the decrease in volume of removals.

Projected quarterly cigarette removals, 2022-2024



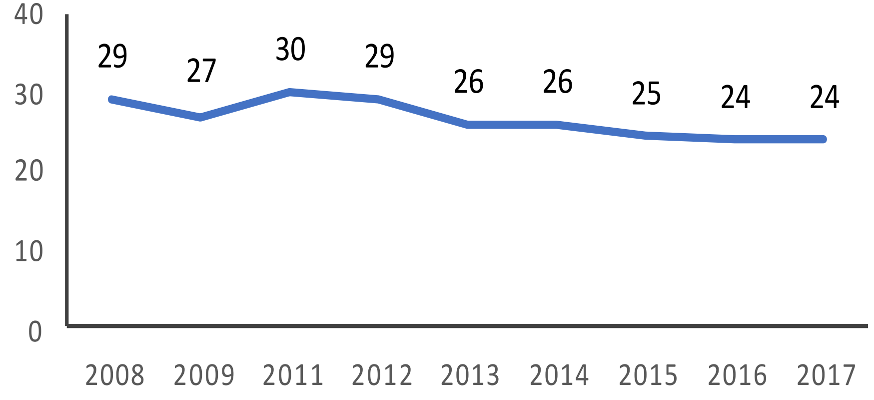
Consumption

- Smoking prevalence among adults declined over the years since the STL in 2013

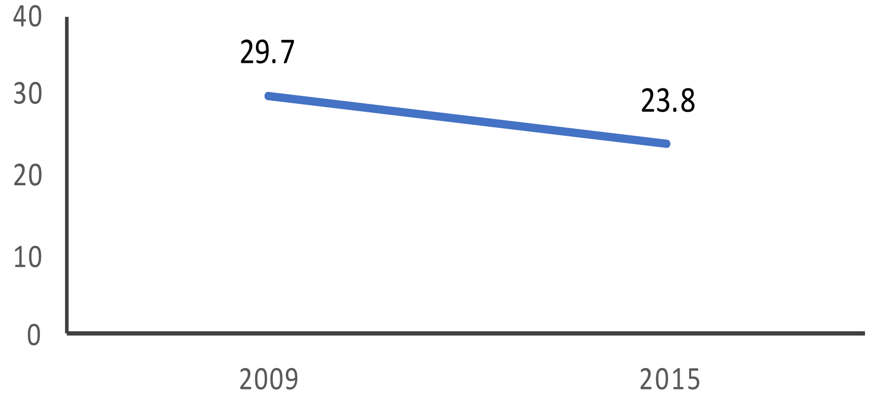
- National Survey to Monitor the Impact of the STL (reference period: 2018-2019):
  - Smoking prevalence worsened from 24% to 28% of adults
  - More daily smokers relative to previous years (9 of 10 smoked daily)
  - 6 out of 10 smokers developed their smoking habit in their early teenage years (12-19 y.o.)
  - Only 56% of smokers are aware of the STL and only 37% claim to be strongly affected by Law

Prevalence of current smokers among adults

National Survey to Monitor the Impact of the Sin Tax Law (SWS as commissioned by DOH)



Global Adult Tobacco Survey (GATS)



Revenue Leakage

The increase in smoking prevalence + decrease in tax-paid removals is a sign that a portion of cigarette consumption is from illicit trade. Estimates show the share of illicit cigarette consumption ranges from 8% to 23% of total consumption.

Based on BOC reports, the estimated value of seized smuggled tobacco products averaged P3.4 billion from 2019-2021.

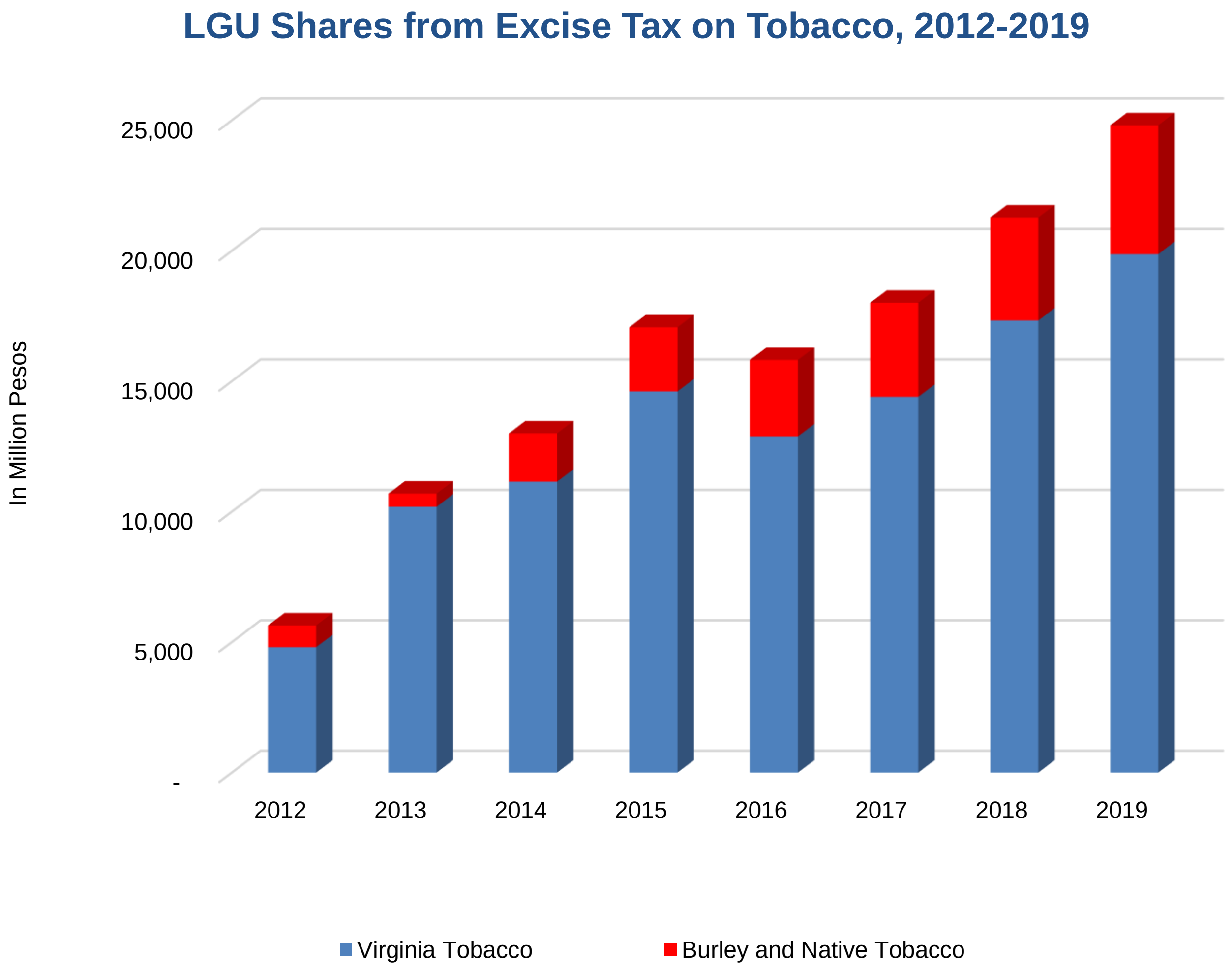
This paper estimates that the government is losing an average of P21 billion in excise taxes per year during the period 2016-2019.

Implementation of

Expenditure Earmarking

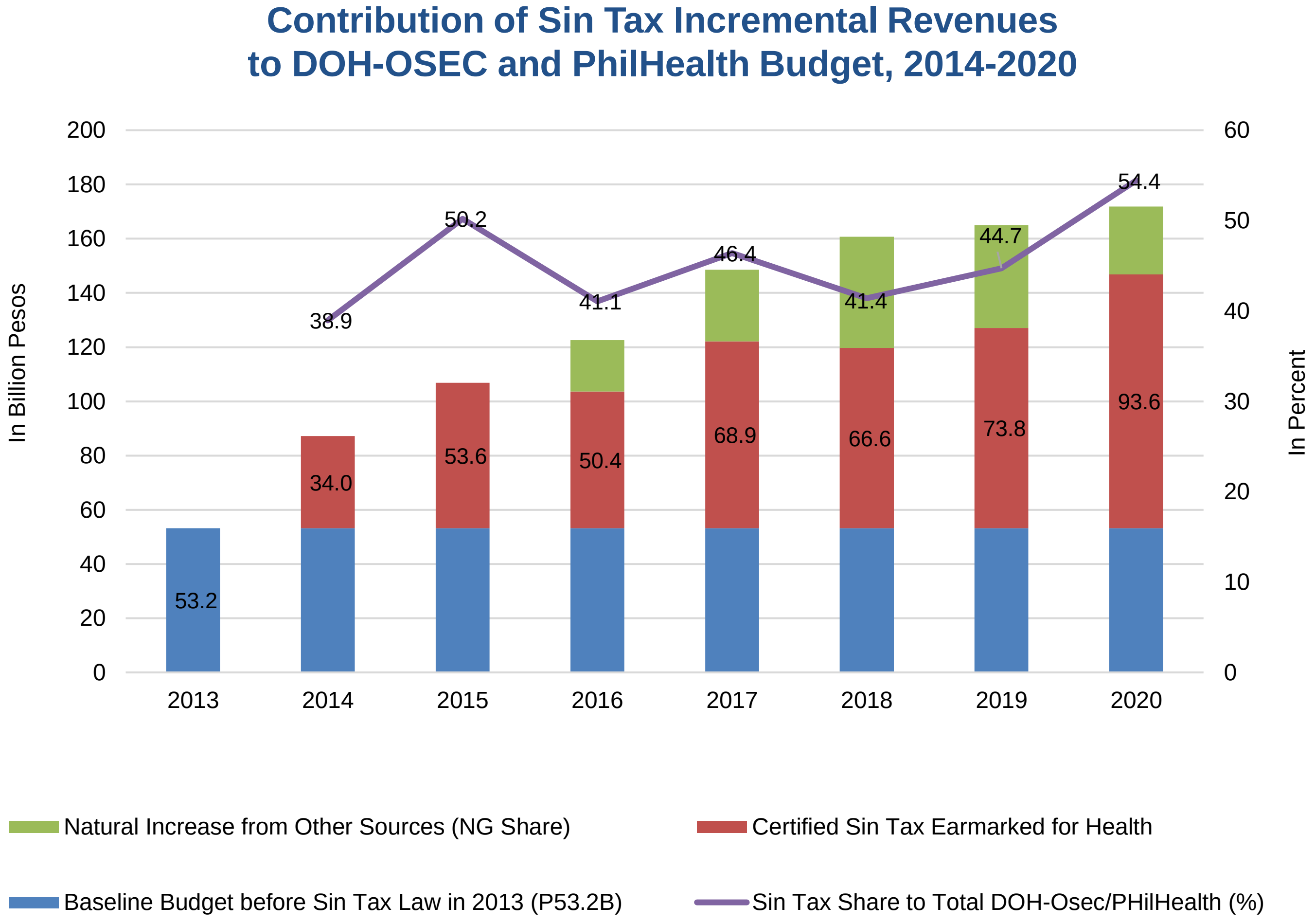
Earmarked Spending:
Tobacco-Growing LGUs

- Amounts accruing to LGUs from excise taxes on tobacco grew from P5.6 B in 2012 to P24.8 B in 2019
- About 84% goes to Virginia tobacco-growing LGUs
- Findings from Special Audit Reports by COA
  - Unqualified beneficiaries and double claims
  - Procurement–related irregularities
  - Issues in project selection and implementation
  - Financial irregularities
  - Lack of monitoring and evaluation



Earmarked Spending:
Health

- Sin tax revenues for health has significantly increased the annual budget for DOH-OSEC and PhilHealth
- From P34.0 B (39%) in 2014, earmarked revenues from sin taxes account for P93.6 B (54%) of the combined budget for DOH-OSEC/PhilHealth in 2020



Earmarked Spending:
Health

From the 80%

- Biggest chunk of sin tax incremental revenues (STIR) for health supports the NHIP for the **enrollment in PhilHealth**
  - Steady increase from P22.7 B in 2014 to P58.7 B in 2020, with average share of 63.4% of total STIR (at least 70% for most years)
  - Approved budget for NHIP (per GAA) consistently grew from P35.3 B in 2014 to P71.4 B in 2020. In 2014-2020, STIR contributed between 64.3% and 82.3% of the approved budget level for NHIP.

- Increasing importance placed on the **Attainment of MDGs/SDGs**
  - Accounts for 9% (average) of total STIR—growing from P1.7 B (5.5%) in 2014 to P15.8 B (16.9%) in 2020
  - Contribution grew as approved budget for MDGs increased—i.e., 19.5% of the P8.6 B approved budget in 2014, and 56.9% of P27.9 B in 2020. Highest contribution of 62.2% was in 2017.

Earmarked Spending:
Health

From the 20%

- Health Enhancement Facilities Program **(HEFP)**, as initially distinguished from the Health Facilities Enhancement Program (HFEP, with CO for DOH Hospitals) until 2017, accounts for 9.1% of total earmarked revenues (2015-2020)
  - The HFEP (as financial assistance under HEFP starting 2018) is the main vehicle through which NG provides assistance to healthcare facilities for infrastructure improvement and equipment upgrade
  - Contribution (%) grows as total approved budget for HFEP declines—i.e., P8.3 B or 27.3% of the approved budget (P30.3 B) in 2018, and P7.8 B or 93.5% of P8.4 B in 2020

- Medical Assistance to Indigents Program **(MAP)** is fully-funded by STIR
  - Average share of 8.5% of total STIR (to at most 12.7%)
  - From P3.2 B in 2014, it peaked at P10.5 B in 2020

Earmarked Spending:
Health

Growing contribution of sin tax revenues to budgets of other health programs as follows:

- **Health Awareness Programs**
  Allocation of P2.7 M was 1.7% of total approved budget in 2014. In 2020, STIR contributed P169 M or 56.8%.
- **Service Delivery Networks**
  (includes HRH and Institutional Capacity, and Local Health Systems Development & Assistance):
  From P180 M or 28% in 2018 to P392 M or 93.6% in 2020
- **Health Sector Research Development:**
  From P20 B or 17.7% of total approved budget in 2018 to P116 B or 57.1% in 2020

Earmarked Spending:
Health

Budget Utilization of Select Programs

- MAP posted declining obligation rate (OR) and disbursement rate (DR)
  - OR decreased from 98.5% to 75.7%, and DR are much lower at 73.9% in 2018 and 52.3% in 2020.
- HFEP OR ranged between 74.8% and 93.5%, but DRs were dismally low at only about one-third (33%) of total allotments in 2018 and 2020. In 2019, DR for HFEP was only 12.7%.
- Preventive Health Programs (for the Attainment of MDGs) also show declining ORs from 90.2% in 2018 to 77.7% in 2020.
  - National Immunization: OR dropped from 98.2% to 43.8%; DR was low at 15.6% in 2018 and 28.4% in 2020
  - Public Health Management: OR declined from 94.6% to 85%; DR ranged between 57.2% and 71.7%

Earmarked Spending:
Health

Key Performance Indicators

- Target: 95% Fully immunized children (FIC), but reported only 47.5% (2018) and <70% (2019-2020).
  - Reasons: Low vaccine confidence, procurement and logistics issues, limited staff, non-implementation of defaulters tracking, fear of COVID-19 exposure
- Prevention and Control of HIV Target: 90% eligible for anti-retroviral therapy (ART), but achieved only 42%-61% in 2018-2020
  - Reasons: Fear of COVID-19 exposure, many treatment hubs were closed during lockdown, mobility concerns among HIV service providers
- Met the targets for number of provinces free of filariasis, rabies and malaria (except for the latter two in 2020)
- Centers for Health Development (CHDs) with no stock-outs of centrally procured major health commodities—achieved 84% out of the 100% target (2020)

Earmarked Spending:
Health

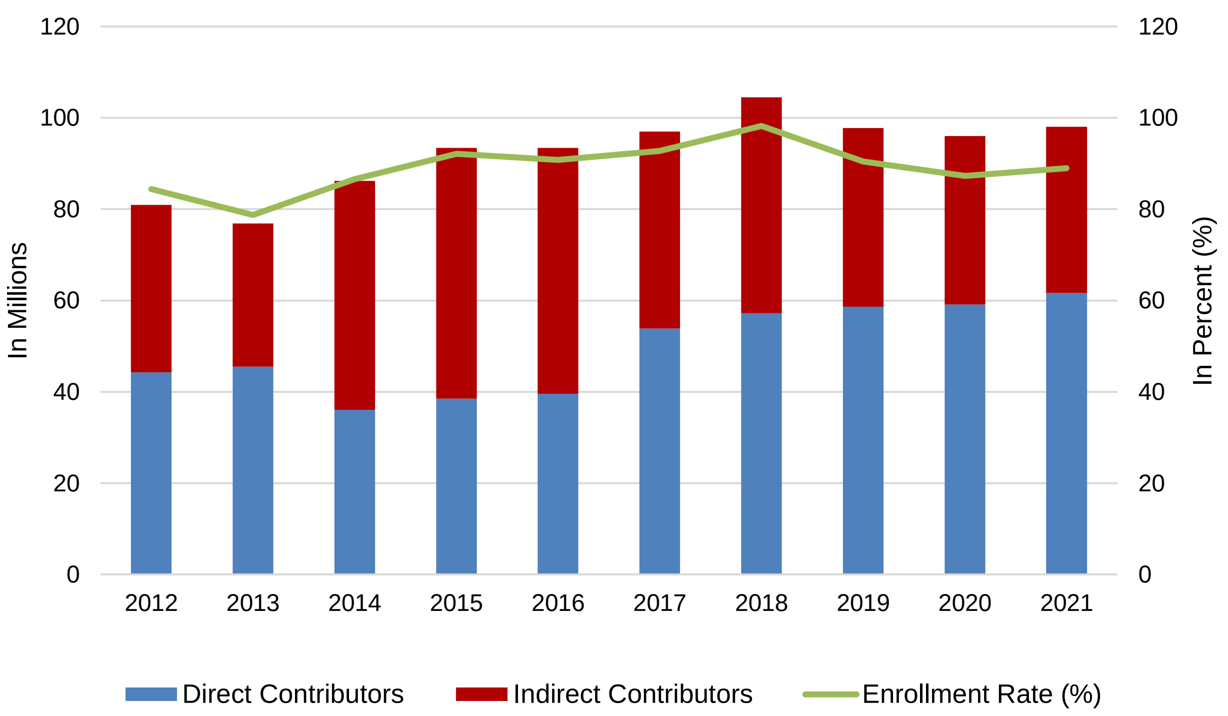
Key Performance Indicators

- Pharmaceutical Mgt Target: At least 70% of public health facilities with no stock outs, but only achieved 45% (2019) and 56% (2020)
- Met HRH Deployment Target: 17 HRH per 10,000 population in 2018-2019, but posted only 15 HRH:10,000 population in 2020—missing an even higher target of 19 HRH:10,000 population
- Target: 100% of HFEP-funded projects must be started using current year's appropriations, but missed yearly targets with marked improvement at 98.8% accomplishment in 2020
  - Reasons: Implementation readiness (e.g., lot issues, DENR requirement, peace and order situation), limited operations of contractors due to community quarantine measures

Expansion of Universal Health Coverage

- Huge spike in enrollment in 2014 following increase in health budget due to STIR
- Indirect contributors increased by 60% from 31.4 M in 2013 to 50.2 M in 2014, particularly among indigents/NHTS.
- Enrolment growth in 2015 is due to mandatory coverage of senior citizens.
- Higher enrolment among direct contributors in recent years is due to increases in membership of OFWs/migrant workers, informal/self-earning and the employed sector (private).
- Enrollment rate is at 89% in 2021.

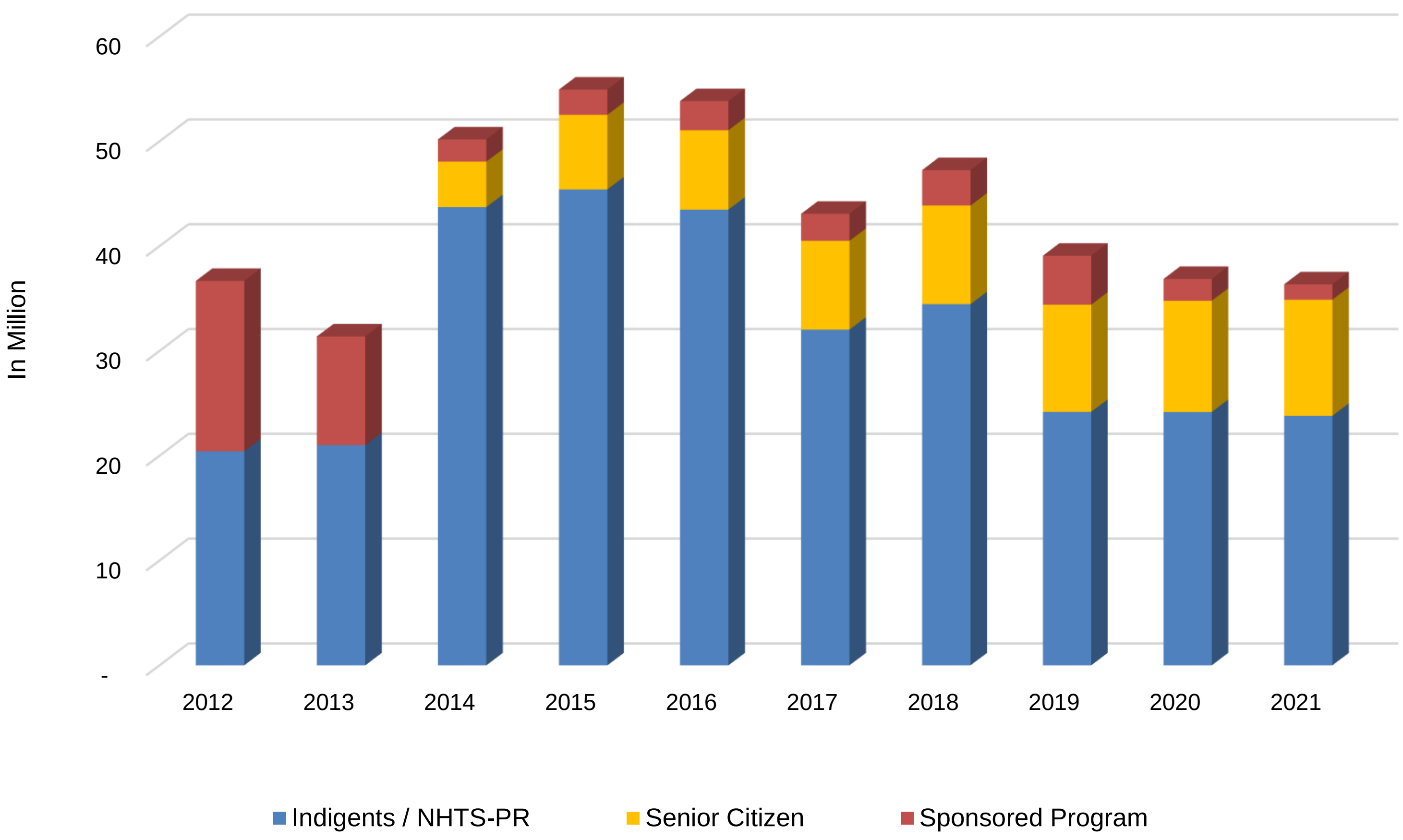
PhilHealth Registered Members and Enrollment Rate, 2012-2021



Expansion of Universal Health Coverage

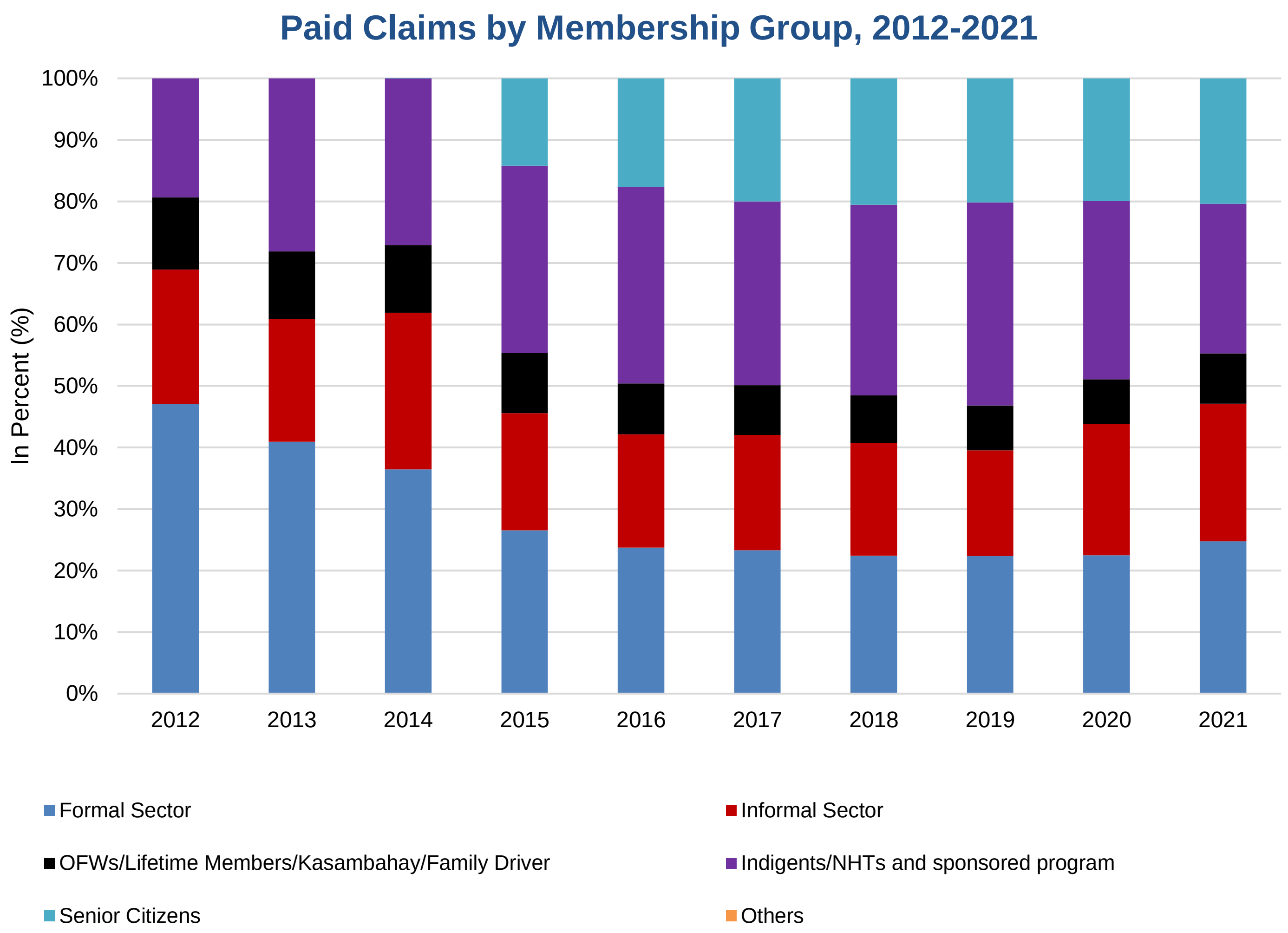
- Enrollment is still highest among Indigents/NHTS, even as it accounts for the overall decline in membership of indirect contributors
- PhilHealth membership among senior citizens increased while that of Indigents/NHTS and those under Sponsored Program declined
- Membership share (2021): Indigents/NHTS (65.5%), Senior Citizens (30.5%), and Sponsored Program (4%)

Enrollment of Indirect Contributors by Sub-Category, 2012-2021



Expansion of Universal Health Coverage

- Direct contributors accounted for 75% of total paid claims (2012-2014).
- Distribution of paid claims shifted (2015) in favor of indirect contributors (with average share of 45%-53% in 2015-2021).
- Support value in 2019 is at 66%. For every P100 cost of hospital confinement, PhilHealth covers about P66. This is a marked improvement after steady decline from 59% (2014) to 42% (2018).



Moving Forward

- Many preventive health programs were affected as health workers were heavily utilized for COVID-19 Response. Support deployment of HRH to areas with low HRH : population ratio, and to geographically-isolated areas (esp. in support of financially-constrained LGUs).

- Strengthen the capacities of public health facilities to improve the general quality of services often availed of by poorer HHs. Ensure that lower levels of health care can be adequately provided in primary and secondary hospitals w/o overburdening the tertiary level hospitals.

- Review the implementation of HFEP— an in-depth evaluation that analyzes the equity and efficiency aspects of the program.

- Build capacities in areas of procurement, project monitoring and evaluation, and new normal interventions (e.g., telemedicine, e-training modules, and development of comprehensive pandemic plan for delivery of integrated health services)

Moving Forward

- Conduct regular review and update of case rates—to effectively reduce out-of pocket expense. Strengthen design and implementation of Health Awareness Programs on preventive care, and improve Primary Care Benefits to potentially reduce hospitalization expense.
- Improve the IT infrastructure of PhilHealth for more efficient membership database and speedy processing of hospital claims.
- Intensify registration to PhilHealth and assistance in the on-site registration, availment, and processing of claims. Create greater awareness esp. among poor and near-poor as to entitlements and benefits.
- Strengthen the monitoring and evaluation of earmarked revenues for tobacco-producing LGUs. Set up transparent mechanism for easy monitoring of fund releases, and timely disclosures on utilization and program implementation.

Moving Forward

- The sin tax reform provided a stable source of revenues over the review period, especially during the pandemic when fiscal resources tightened. Good tax design and inelastic cigarette demand will provide sustainability of tax revenues over the medium term.

- Tax administration should be strengthened to maximize the revenue potential of sin taxes:
  - Implement a tighter track-and-trace system involving reinforced collaboration between BIR, BOC, NTA, and other law enforcement agencies. Regulatory agencies should have a system wherein a common database is shared to monitor the flow of commodity.
  - Strengthen and continuously update the security features of tax stamps to prevent counterfeiting.
  - Resolve illicit tobacco cases quickly. Aggressive enforcement of heavier penalties under RAs 11346 and 11467 can deter further illicit activities.
  - Actively pursue international cooperation through the sharing of import/export documents to reduce illicit tobacco flows. Example, accession to the **Protocol to Eliminate Illicit Trade in Tobacco Products under WHO.**

Moving Forward

- Increase efforts to raise awareness about the health objectives of the STL. Conduct regular educational campaigns on the harmful effects of cigarette and alcohol use in school and LGU/barangay settings to target both schooling teenagers and out-of-school youth.

- Monitor the results of the 2021 Global Adult Tobacco Survey (GATS) to be released by mid-2022. This will build upon the findings of the last national survey, especially with regard to the impact of recent tax increases beginning 2020 pursuant to RAs 11346 and 11467.

- Conduct an annual review of the monitoring framework, and take early action on data gaps or concerns about the STL's implementation on both the tax and expenditure side.

Thank you

Maraming Salamat Po!

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