




Health Taxes in Kosovo

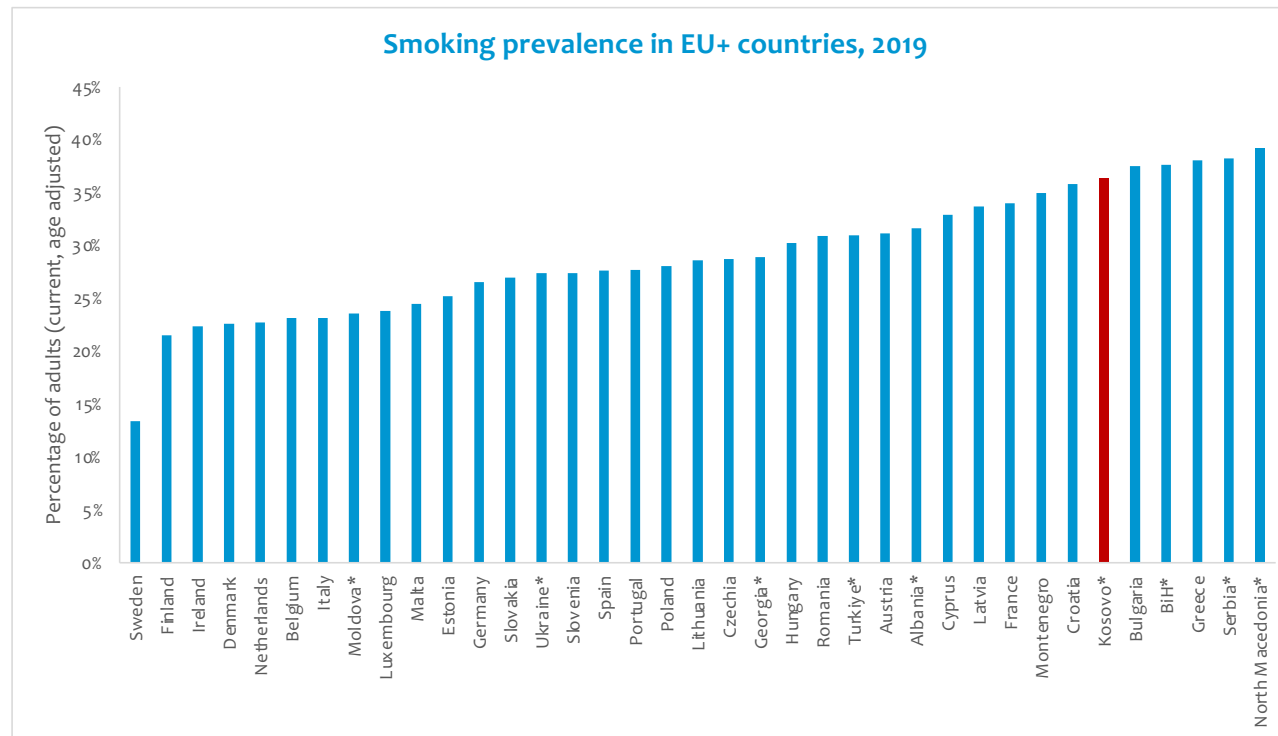
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What are health taxes?

- Excise taxes that are applied to products that cause health related harms and generate **negative externalities and internalities**
- Most common health taxes are tobacco, alcohol and sugar-sweetened beverages (SSBs)
- Historically called "sin taxes" in some countries but this term has become less common
- Health taxes or pro-health taxes is a more modern term since it implies that these taxes improve health
- Direct taxes, sales taxes and tariffs are not generally considered health taxes

| | |
|---|--|
|  Economic framework for health taxes | <ul style="list-style-type: none">• Negative externalities (societal harms including non-users)• Negative internalities (uninternalized costs)• Increase prices to account for the economic costs (i.e., corrective taxes) |
|  Influence consumer and firm behavior to improve population health | <ul style="list-style-type: none">• Increase taxes → increase prices → reduces consumption• Reduced consumption through increased cessation, reduced initiation, reduced intensity and reduced concentration |
|  Understanding the fiscal policy context | <ul style="list-style-type: none">• Reduces government expenditures (e.g., health care costs; policing, justice and corrections; etc)• Generates additional tax revenue that improves fiscal space |

Kosovo suffers from very high smoking prevalence rates, higher than many peer countries



Note: EU+ refers to EU Member States and EU candidate and applicant countries
Source: EuroStat, Democracy Plus (2019)

Kosovo has made significant progress implementing health taxes, but more work needs to be done

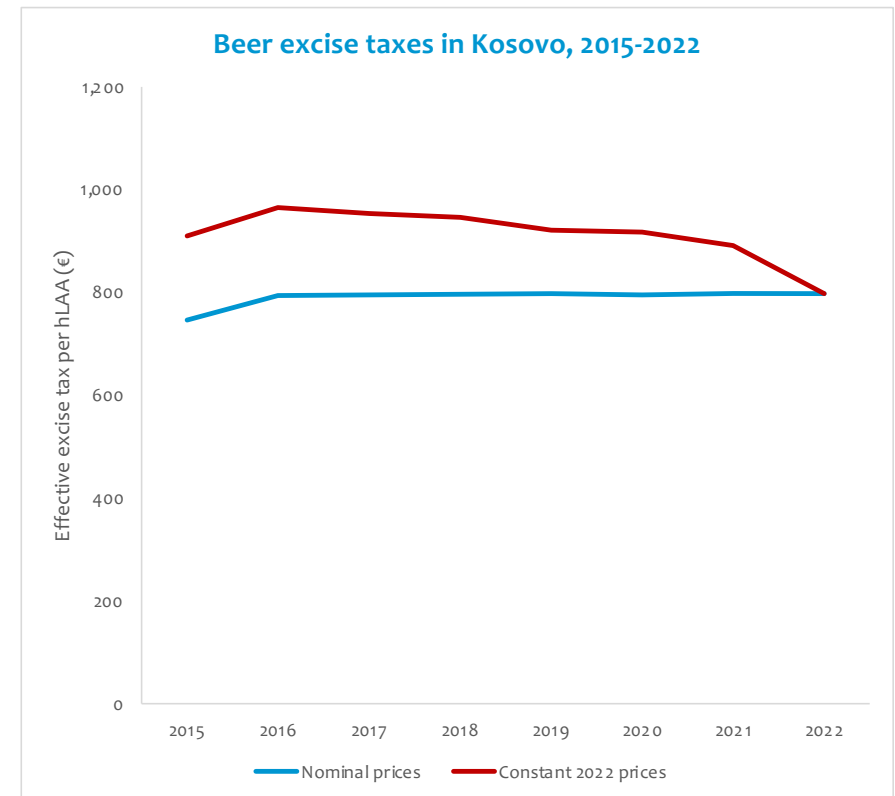
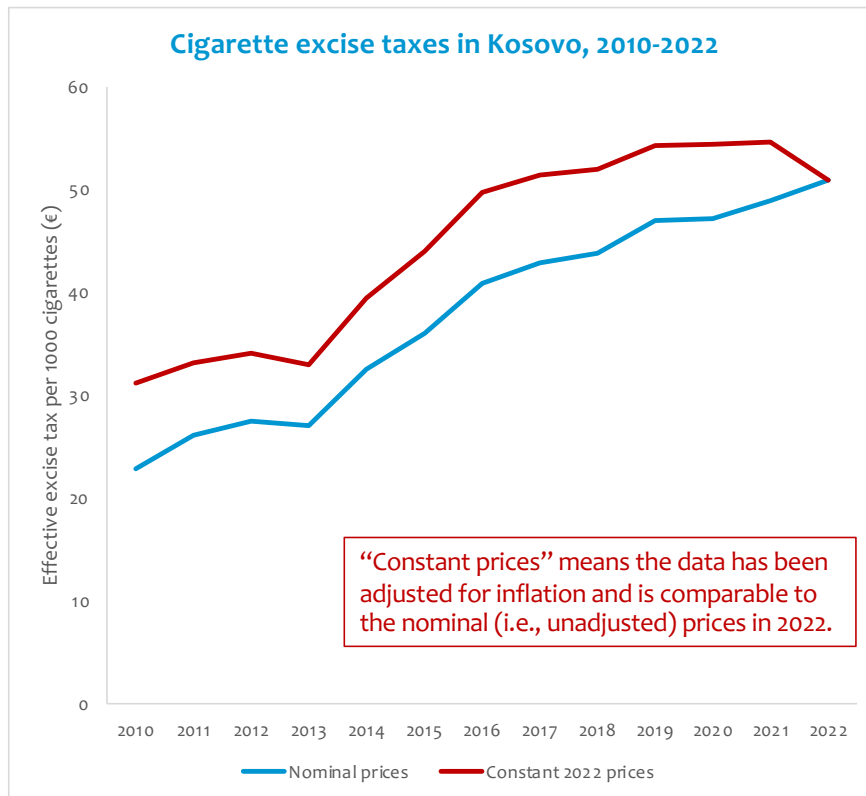
- Excise system transitioned from ad valorem to specific taxes in 2008 (first national excise law)
- Excise taxes have increased since, with a focus on meeting the EU benchmarks
 - While EU tobacco tax benchmarks are relatively high by global standards, alcohol tax benchmarks are relatively low
 - Cigarettes remain well below EU benchmarks, requiring regular tax increases; alcohol excise already meets EU benchmarks
- Excise on non-alcoholic beverages includes sugar-sweetened beverages (SSBs), but is not an SSB tax (was reduced in 2022)

| | Tax base | 2000 | 2008 | 2023 | EU |
|-------------------------|------------|------|-------|-------|-----|
| Cigarettes | € per 1000 | 25% | 21 | 53 | 90 |
| Beer | | 20% | 300 | 800 | 187 |
| Wine | € per hLAA | 20% | 300 | 500 | n/a |
| Spirits | | 50% | 300 | 800 | 550 |
| Non-alcoholic beverages | € per L | 10% | 0.045 | 0.005 | n/a |

Note: tax base of ad valorem under UNMIK was CIF; excise is also applied to cigars, cigarillos, fine-cut tobacco, and other fermented beverages; hLAA = hectrolitre of absolute alcohol; non-alcoholic beverages include “mineral and aerated waters, soft drinks containing added sugar or other sweeteners or flavors, not including undiluted fruit or vegetable juice”.

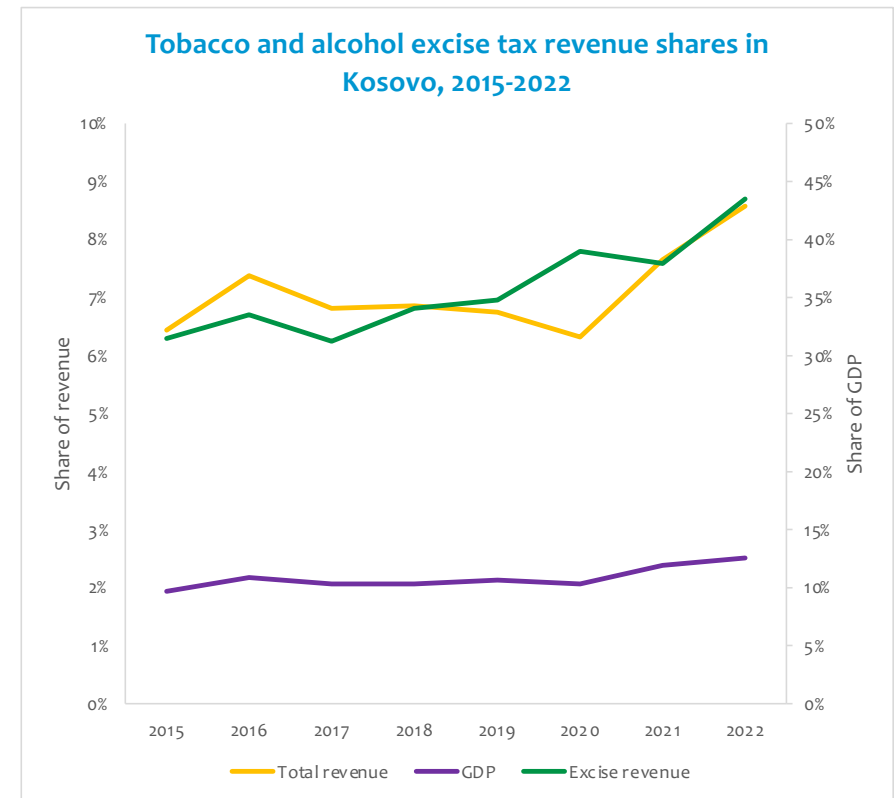
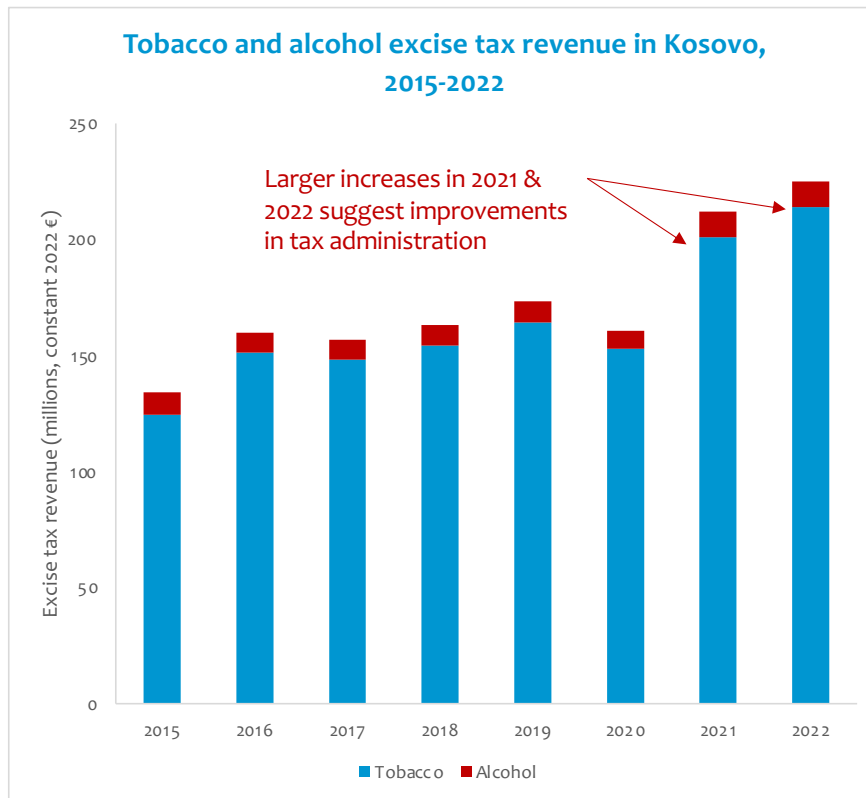
Source: UNMIK (2000); Republic of Kosovo (2008; 2023)

Trends over the last decade show that cigarette excise taxes have increased significantly, while alcohol excise taxes have declined



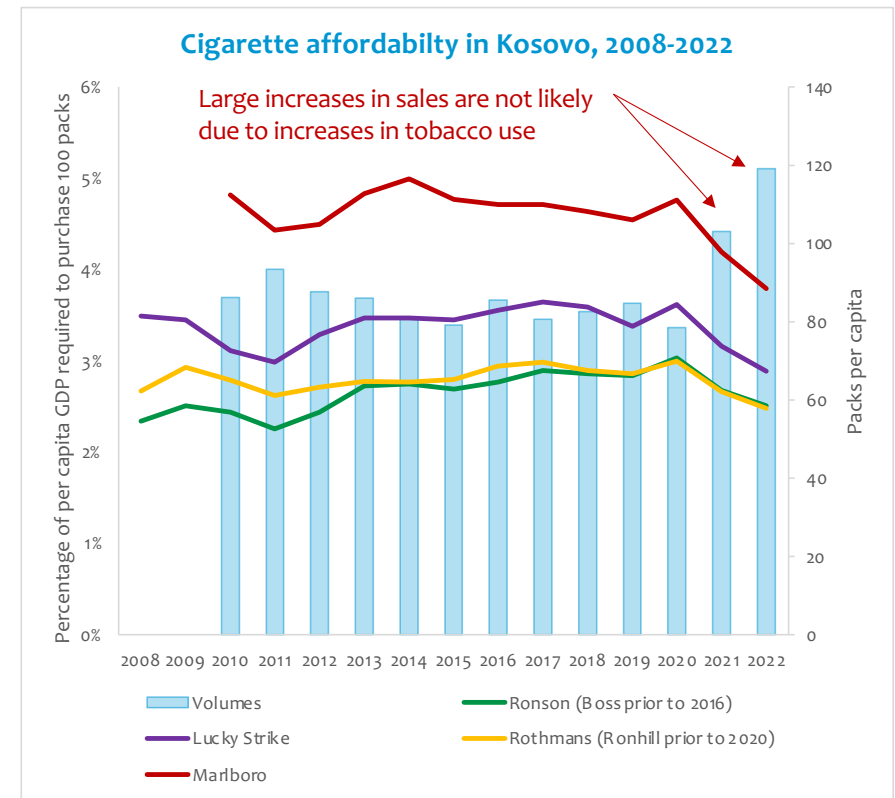
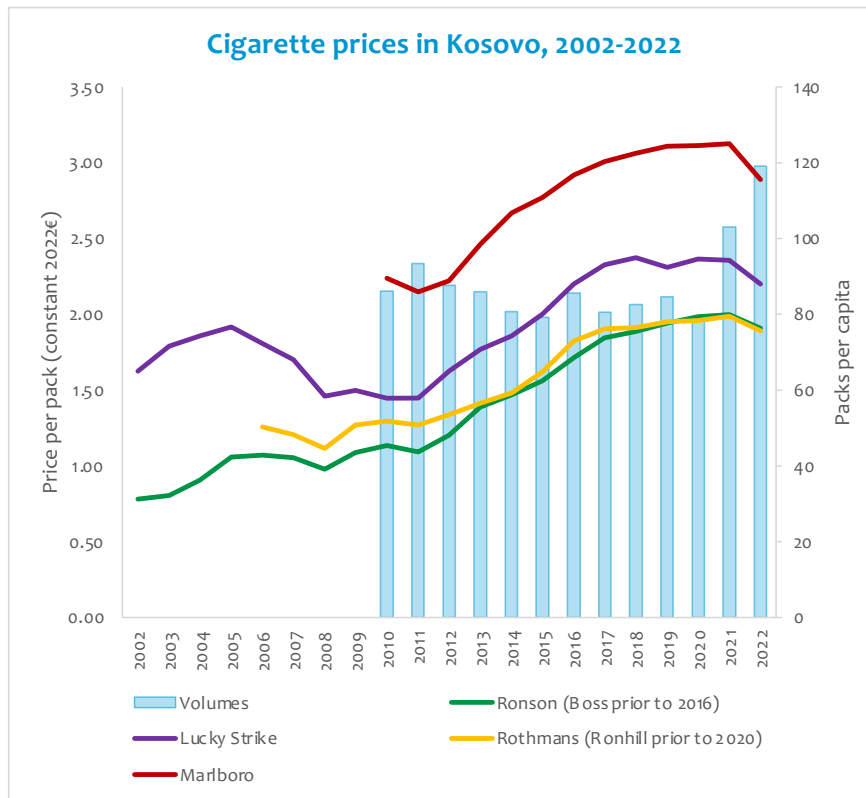
Source: GTP estimates using Kosovo Agency of Statistics, Kosovo Customs, and World Bank World Development Indicators data

Health tax revenues make a significant contribution to total government revenues & have increased substantially



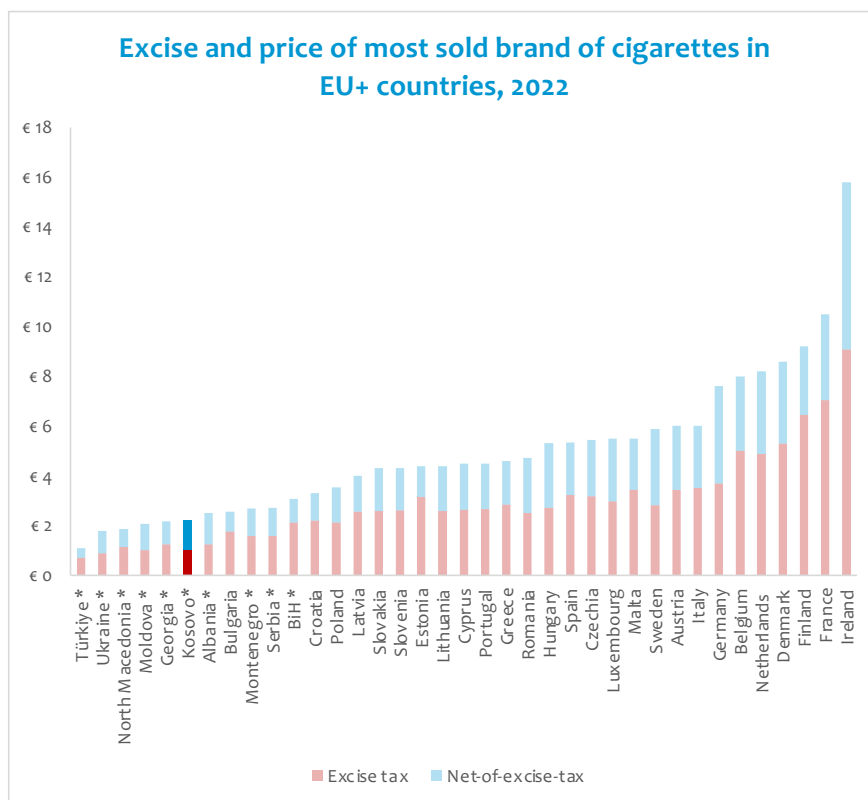
Source: GTP estimates using Kosovo Agency of Statistics, Kosovo Customs, and World Bank World Development Indicators data

Cigarette prices have increased, coinciding with increased taxes, leading to declines in sales



Source: GTP estimates using Kosovo Agency of Statistics, Kosovo Customs, and World Bank World Development Indicators data

Cigarettes in Kosovo are relatively cheap compared to EU countries, but comparable to other EU candidate & applicant countries

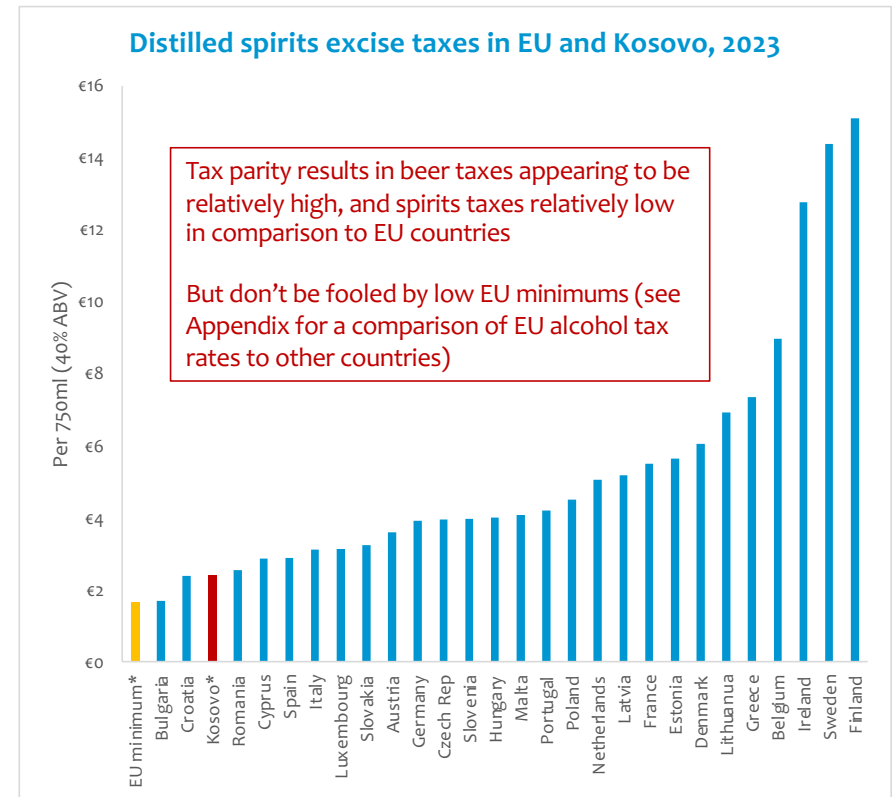
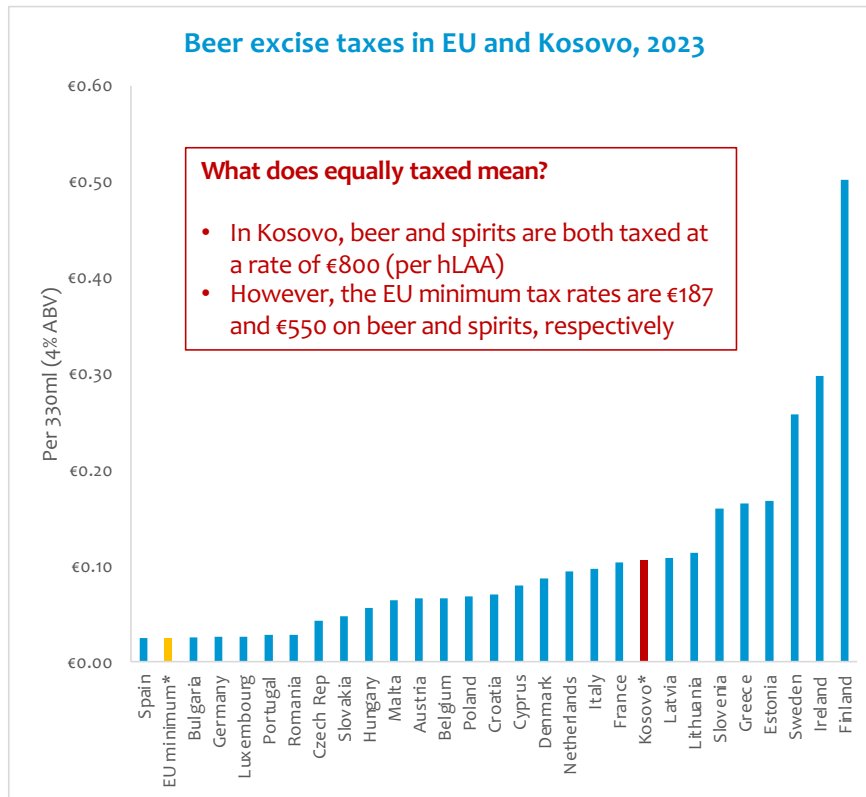


Significant progress has been made in increasing cigarette taxes in Kosovo, however several challenges persist:

- Significant tax increases will be required to meet EU benchmarks
- An ad valorem component will need to be implemented, but this should be limited to the minimum required
- Tax increases should also consider inflation to ensure that real tax rates & revenues are protected
- Tax increases should also consider income growth to ensure that cigarettes do not become more affordable over time
- Recent increases in sales volumes & revenues need to be analyzed further

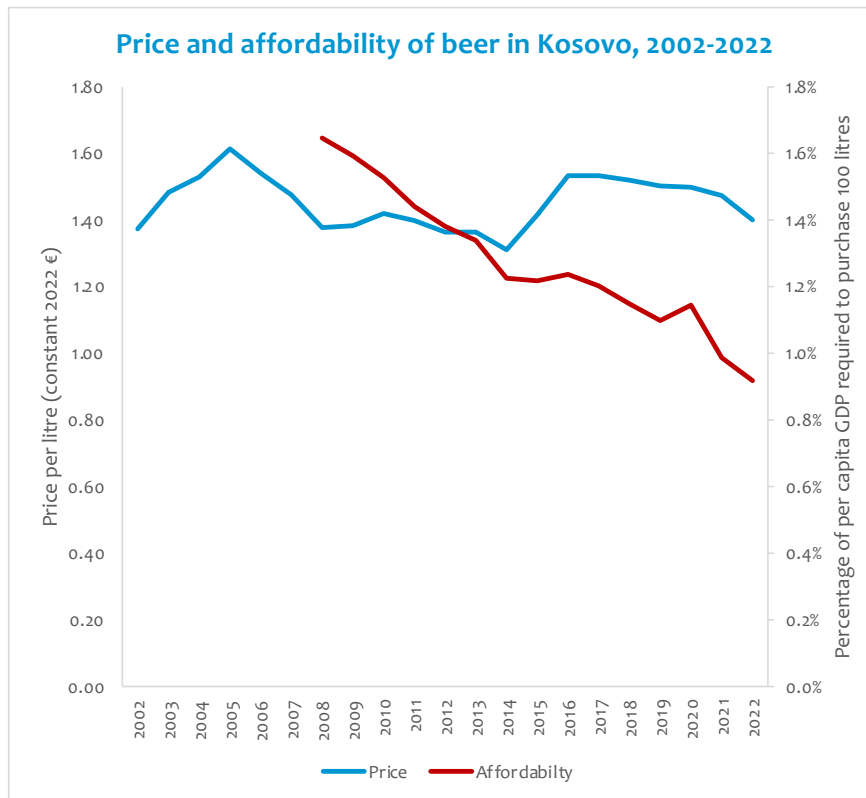
Source: GTP estimates using WHO Report on the Global Tobacco Epidemic (2023) and Kosovo Agency of Statistics data

Beer & spirits are taxed equally in Kosovo; this is unusual resulting in varying comparison within the EU



Source: GTP estimates using European Commission and Kosovo Agency of Statistics data

Alcohol is becoming cheaper & more affordable over time due to small & erratic tax increases

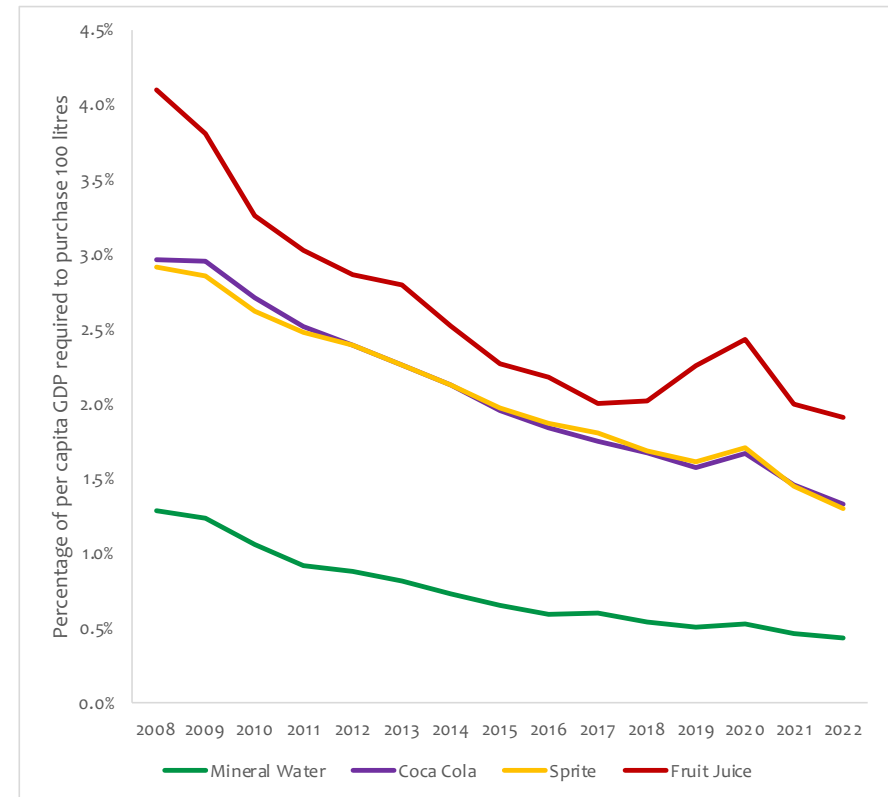
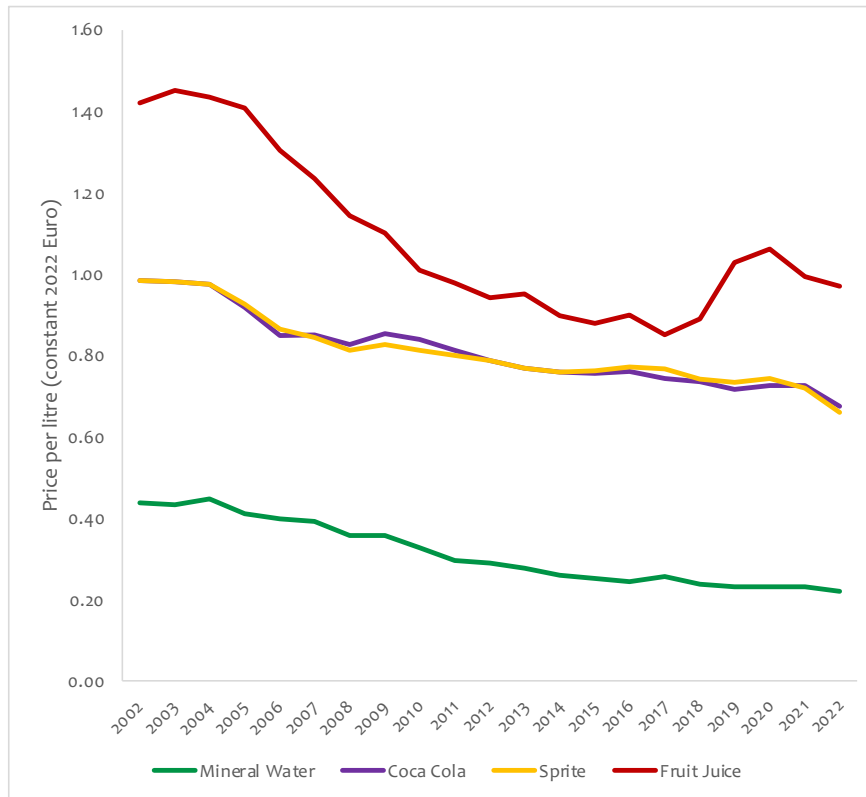


Kosovo is compliant with EU alcohol tax directives, however low tax rates combined with small & erratic tax increases create challenges & present opportunities:

- Alcohol has become significantly more affordable over time, generating unnecessary health risks
- Tax increases should also consider inflation to ensure that real tax rates & revenues are protected
- Tax increases should also consider income growth to ensure that cigarettes do not become more affordable over time
- Low tax rates generates substantial scope to increase tax revenues

Source: GTP estimates using Kosovo Agency of Statistics data and World Bank World Development Indicators data

SSBs have become more affordable over time as prices have fallen; price gap between SSBs & water has declined generating incentives for consumers to substitute to SSBs



Source: GTP estimates using Kosovo Agency of Statistics and World Bank World Development Indicators data

Cigarette taxation: simulated impact of current law compared to EU benchmarks

| | | Current law | | | EU benchmarks | | |
|------------------|------------|-------------|------|------|---------------|----------------|-----------------|
| | | 2023 | 2024 | 2025 | Specific only | Low ad valorem | High ad valorem |
| Specific excise | €/1000 | 51 | 53 | 55 | 90 | 75 | 46 |
| Ad valorem | WAP | | n/a | n/a | n/a | 10 | 30 |
| Price (cheapest) | % (real) | | -1.2 | 1.1 | 41.9 | 40.3 | 37.0 |
| Price (WAP) | % (real) | | -1.2 | 1.0 | 38.9 | -0.3 | -0.4 |
| Sales | | | 0.6 | -0.5 | -15.5 | -15.3 | -14.9 |
| Excise revenue | €, million | 214 | 224 | 230 | 319 | 319 | 322 |
| Excise revenue | % (real) | | -1.2 | 1.3 | 40.8 | 40.9 | 41.9 |
| GDP | % | 2.4 | 2.3 | 2.3 | 3.2 | 3.2 | 3.3 |

- Simulations show that annual increases of already scheduled under current law will have very limited impact due to higher inflationary environment
- Larger increases required to meet EU benchmark would have substantial impact on tax revenue and sales
- Balance between specific and ad valorem taxes has an impact on sales, but less on revenue; limiting the ad valorem component to the minimum required by the EU would ensure more significant health impact

Notes: GTP estimates using 4 segments with varying market shares and price elasticities between -0.3 and -0.6; macroeconomic assumptions from World Bank MPO April 2023



Key messages

- Kosovo has made significant progress implementing health taxes, yet significant work awaits
- Significant tobacco tax increases and reforms of the tax structure will be required to meet EU benchmarks
- Alcohol tax increases already meet EU benchmarks, however erratic tax increases have resulted in alcohol becoming more affordable over time
- Tobacco and alcohol taxes have significant promise in raising additional tax revenue, for example, raising tobacco taxes to EU benchmarks can raise up to €108 million in additional tax revenue, nearly 1 percent of GDP



Annex



How low are EU alcohol taxes?

| €/L | Beer | Wine | Spirits |
|--------------|------|-------|---------|
| EU (minimum) | 0.09 | n/a | 1.65 |
| EU (mean) | 0.40 | 1.61 | 5.49 |
| Australia | 1.89 | n/a* | 25.60 |
| Kenya | 0.98 | 1.68 | 2.46 |
| Philippines | 0.66 | 0.95 | n/a* |
| Singapore | 2.10 | 9.26 | 24.70 |
| South Africa | 0.32 | 0.26 | 5.23 |
| Thailand | 0.91 | 10.94 | 1.68 |

Note: Australia's "wine equalization tax" is not comparable; distilled spirits in the Philippines is variable and not comparable

- Taxes on distilled spirits are lower than most peer countries
- Beer taxes are lower than peer countries and even lower than many LMICs
- No minimum tax on wine in the EU (only 12 countries impose taxes on wine)
- Ostensibly due to many wine producing countries in the EU
- Outside the EU, most wine producing countries tax wine (e.g., Australia, Chile, US, New Zealand, South Africa)