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The case for sin taxes

By Samirul Ariff Othman - September 9, 2024 @ 8:02am

The general budget outlook for 2025 is a fascinating exercise in balancing growth and fairness in an increasingly complex global economy. Pix for illustration only. NSTP/EIZAIRI SHAMSUDIN

The general budget outlook for 2025 is a fascinating exercise in balancing growth and fairness in an increasingly complex global economy. The big questions policymakers are grappling with now are, where is the money coming from, and where is it going? As governments worldwide face mounting pressures to fund infrastructure, healthcare, and green initiatives, there's an urgent need to rethink how they generate revenue.

Tax revenue, traditionally the backbone of public finance, needs a major rethink—particularly the idea of widening the tax base. In other words, instead of simply raising rates on the same old revenue streams, it's time to bring more people, businesses, and transactions into the system. This requires innovative thinking about how to add both width and breadth to the tax base, ensuring a more sustainable and fairer collection process.

Take consumption taxes as an example—more specifically, the GST (Goods and Services Tax). It's often a political hot potato, but with rising deficits and increasing demands on public services, perhaps it's time to revisit this tax. Consumption taxes are generally more stable than income taxes, which fluctuate with economic cycles, making them an attractive option for steady revenue. But they're also regressive, disproportionately affecting lower-income households, so any conversation about

increasing GST must include strategies to protect the most vulnerable while keeping revenue flowing.

Then there are the so-called "sin taxes"—levies on tobacco, alcohol, and gaming. These taxes have long been a convenient tool for governments: politically palatable because they target behaviors perceived as unhealthy, but they haven't been adjusted for inflation or societal shifts in quite some time. Is it time to raise taxes and duties on these products? Maybe, but it's complicated. Sin taxes are seen as a win-win, raising revenue while potentially reducing harmful consumption. However, if governments push too hard, they risk unintended consequences like black markets, job losses in impacted industries, or regressive impacts on consumers who can least afford the price hikes.

The trick is to ensure that industries, corporations, and consumers aren't disproportionately disadvantaged when taxes are increased. Take the tobacco industry as an example. Hiking tobacco taxes may reduce smoking rates, but it could also devastate a sector that employs thousands. It's essential to create a balanced implementation strategy—perhaps by phasing in tax hikes over time or offering incentives for industry diversification. Ultimately, implementing taxes without carefully considering their broader economic impacts is a dangerous game. Governments must weigh the pros and cons, understanding that aggressive taxation can ripple through industries, leading to job losses, higher prices for consumers, and even stunted economic growth. In the rush to fill budget gaps and meet spending objectives, policymakers must not lose sight of the delicate interplay between taxation, economic health, and social equity. That balance, after all, is where sustainable governance happens.

Global Scenario

Sin taxes have been rolled out in countries all over the globe, with mixed but often promising results. When done right, these taxes serve a dual purpose: they discourage unhealthy behaviors—like smoking, drinking, and overconsumption of sugary drinks—while funneling money into public coffers. Take the Philippines, where increased tobacco and alcohol taxes have helped fund universal healthcare, or Mexico, where a tax on sugary drinks has led to a measurable drop in consumption. These are the success stories. Countries like Australia and the UK have also seen smoking rates plummet after aggressively raising tobacco taxes, and France's soda tax has provided a steady revenue stream while helping to curb unhealthy dietary habits.

But the path to success isn't without its pitfalls. Poorly implemented sin taxes can have unintended consequences—black markets, smuggling, or a disproportionate impact on low-income households. In countries like India, South Africa and Zimbabwe, high tobacco taxes have encouraged illegal trade and made enforcement a constant challenge. This highlights the need for a gradual, measured approach, allowing industries and consumers time to adapt. Enforcement, too, must be robust, with systems in place to monitor compliance and prevent tax evasion.

And then there's the matter of accountability. If sin taxes are to work, the revenue needs to be transparently managed and funneled into social good, like healthcare or

education. When people can see where their money is going—like in the Philippines, where tobacco tax funds are directly linked to healthcare improvements —support grows. But when the funds vanish into a black hole, public trust erodes. Moreover, governments need to be mindful of the industries they're taxing. Push too hard, too fast, and you risk disrupting economies, costing jobs, and even encouraging illicit markets. Managing these taxes requires a delicate balance, ensuring that both public health and economic stability are safeguarded while achieving the broader goals of better health outcomes and sustainable revenue.

Best Practices

Effective sin tax management is all about finding the sweet spot where economic impact, social responsibility, and public health converge. The best practices start with phased implementation. Rolling out taxes gradually gives both industries and consumers time to adjust, softening the blow to the economy and reducing the risk of backlash. If you hike tobacco taxes overnight, for instance, you risk triggering a black market or pushing consumers toward unregulated alternatives. By phasing them in, you allow the market to stabilize and give people a chance to adapt their behavior without creating economic shockwaves.

Targeted revenue allocation is another critical element. If people know the extra money they're paying on cigarettes, alcohol, or sugary drinks is going straight into healthcare or education, they're much more likely to accept the tax. Transparency is key—earmarking these funds for public health programs or social services builds trust and strengthens the policy's social contract. It's a matter of showing people the tangible benefits of the tax, so it doesn't just feel like another government money grab.

But none of this works without strong enforcement mechanisms. It's one thing to pass a law, but ensuring compliance is another battle altogether. Governments need to invest in border control, monitoring, and anti-smuggling efforts to prevent people from circumventing the system. This includes working with industries to ensure that businesses are adhering to the rules, while also clamping down on illegal trade that undermines the effectiveness of the tax.

Finally, the best sin tax policies are data-driven. Governments need to constantly monitor the results—whether that's in terms of reduced consumption, improved health outcomes, or increased revenue—and be willing to adjust their strategies accordingly. Regular audits and assessments ensure that the tax remains effective over time and helps policymakers fine-tune their approach as social behaviors and market conditions evolve. Balancing the need for revenue with the goal of improving public health requires an ongoing dialogue between data, policy, and enforcement to ensure the system stays on track.

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Economist Samirul Ariff Othman is an adjunct lecturer at Universiti Teknologi PETRONAS (UTP), international relations analyst and a senior consultant with Global Asia Consulting (GAC). Samirul has a background as a senior researcher at

the Malaysian Institute of Economic Research. The viewpoints articulated are solely those of the author.