Health Tax Earmarking: Pros and Cons

Earmarking dedicates a tax stream to a specified purpose. At least 80 countries earmark some revenue for health, and 54 earmark health-tax revenue specifically. If the budget process functions well and health is adequately prioritized, an earmark may not be needed. Where used, a *soft earmark* — designating revenue for a purpose but routing it through the standard budget process with no hard expenditure mandate — may be preferable to a *hard earmark* flowing to an autonomous fund. In many political contexts, however, a firm earmark for a tangible and popular service may be the only way for a health tax to be established or increased. The practical choice is often not between an earmarked and non-earmarked tax, but between an earmarked health tax and *no health tax at all*.

Pros and cons at a glance

PROS — the case for earmarking	CONS — the case for caution
Political feasibility. Linking a tax to a popular and tangible health purpose builds legislative coalitions for higher rates; the Philippines and Ghana both used this dynamic to overcome opposition. Without earmarking, a tax may not be politically feasible at all.	**Fiscal rigidity.** Tying revenue to a specific purpose constrains Treasury's ability to respond to shifting national priorities, can result in either over- or under-funding, and limits policy options in a fiscal crisis.
Revenue predictability. A dedicated stream insulates health spending from annual budget volatility and supports multi-year program planning, particularly for items such as health insurance premiums for the poor.	**Fungibility.** Money is fungible: when revenue is "earmarked" for health, Treasury often reduces the baseline allocation, so the earmark substitutes for — rather than adds to — existing spending. The World Bank documents net decreases in revenue going to health from earmarks in several countries.
Accountability. A clear line of sight from a defined tax to a defined use makes it easier for parliament, civil society and the public to track whether revenues are being spent as intended.	**Bypassing normal scrutiny.** Funds flowing directly to autonomous bodies or dedicated funds may escape the standard parliamentary appropriation process and audit cycles, creating governance risks where oversight structures are weak.

Three country cases

Philippines (Sin Tax Law, 2012) — a soft earmark. Republic Act 10351 originally earmarked approximately 85% of *incremental* tobacco and alcohol excise revenue for health, with about 80% financing PhilHealth premiums for those of lower socio-economic status. Resources for health roughly tripled between 2013 and 2018, enrolling more than 15 million previously uninsured families. Subsequent acts in 2019 and 2020 raised rates further, extended earmarking to SSBs, heated tobacco and vapor products and switched the calculation base from incremental to *total* revenue — with shares now at 100% (alcohol, heated tobacco, vapor) and 50% (cigarettes, SSBs). Critically, revenue still flows through the General Fund and the Department of Health expenditure program is annually approved by the legislature.

Thailand (ThaiHealth, 2001) — a hard earmark, with caveats. The Thai Health Promotion Foundation, established under the Health Promotion Foundation Act 2001, is funded by a dedicated 2% surcharge on tobacco and alcohol excise that is remitted to an extrabudgetary fund, bypassing the Ministry of Finance and the general budget. ThaiHealth raises approximately US$130 million per year — but this represents only *about 0.9% of total government health spending*. Tobacco prevalence fell from 22.5% in 2001 to

18.2% in 2014, and the model demonstrates how a hard earmark can be sustained over two decades when governed by a high-level board with independent audits and protected by active civil society. The 0.9% scale, however, is itself a caution: it funds marginal additions to public health, not core financing of the system.

Ghana (National Health Insurance Levy, NHIL, 2003 — uncapped 2025) — the cautionary tale. The 2.5% NHIL on VAT and earmarked social security contributions fund roughly 90% of the National Health Insurance Scheme, which now reaches approximately 60% of the population. However, a World Bank analysis identifies Ghana as a case where earmarking ultimately produced a *net decrease* in revenue going to health, because Treasury reduced complementary allocations and the 2017 Earmarked Funds Capping Act limited the share the National Health Insurance Authority could access. The cap was amended in 2025 after sustained civil society advocacy. Ghana shows both the risk and the potential recovery: an earmark on paper does not guarantee additional health funding, but sustained advocacy can address shortfalls.

Practical guidance

The best outcome is usually a transparent annual budget that prioritizes health on its own merits — **South Africa**, the African comparator that has raised the largest absolute health-tax revenue, does *not* earmark any of it. However, when government finances are constrained, health funding may be reduced even if health-tax revenue continues to grow. Where the political case for earmarking is strong, the **soft-earmark approach** offers a balanced option: explicit dedication of incremental health-tax revenue to named health programs through the annual budget, with a statutory sunset/review clause and multi-year transparency reporting. This can deliver many of the political and fiscal benefits of earmarking while preserving Treasury's flexibility and Parliament's appropriation authority. Another approach used successfully in several countries is to **link a new or increased tax to a new, tangible, popular service** — for example, dedicating sugary drinks tax revenue to clean water supply, or tobacco and alcohol revenue to a defined package of medicines provided free to patients.

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