World Health Organization
REGIONAL OFFICE FOR Europe

GOOD PRACTICE BRIEF

PUBLIC HEALTH PRODUCT TAX IN HUNGARY: An example of successful intersectoral action using a fiscal tool to promote healthier food choices and raise revenues for public health

Summary

In 2011, the Hungarian Parliament passed legislation creating the public health product tax—a tax levied on food products containing unhealthy levels of sugar, salt and other ingredients in an effort to reduce their consumption, promote healthy eating and create an additional mechanism for financing public health services. Four years since the tax was introduced, consumption of taxable unhealthy foods in Hungary has decreased. Many food manufacturers have reduced or eliminated unhealthy ingredients in their products, population awareness of healthy eating has increased, and approximately US$ 219 million in revenue has been raised and earmarked for health spending.

Key messages

- A fiscal instrument can play an effective role in improving the nutrition behaviour of the population.
- The public health product tax is not a silver bullet for addressing poor nutrition or a budget shortfall.
- Healthier products due to product reformulation are a positive consequence of tax avoidance.
- Improved nutrition literacy has been one of the outcomes of the tax improving nutrition behaviour beyond the direct impact of price increase.
- Intersectoral action enabled accurate problem definition, development of an appropriate policy solution, and effective implementation.
- Continuous refinement of legislation after initial enactment was essential for exposing and shutting loopholes, ensuring tax's effectiveness.
- The unhealthy product tax is compatible with European Community law.

Responding to a public health crisis

Noncommunicable diseases are the leading causes of morbidity and mortality in Hungary. The rates of death from ischaemic heart disease, stroke and cancer are among the highest in the industrialized world. Hungary is noted for having the highest average per-capita salt consumption in the European Region and approximately two thirds of the adult population is either overweight or obese. In recent years, the Hungarian Government has taken major steps to improve population nutrition. Initiatives include passing legislation to ensure nutritional standards in public catering, eliminating the use of trans-fats in food products, improving the nutritional quality of cafeteria food in schools, and introducing the public health product tax.

The public health product tax

In 2011, Hungary introduced the public health product tax—a levy raised on food products containing unhealthy ingredients exceeding a threshold level. Prepared collaboratively by the Ministry of Health and the Ministry of Finance and with the support of WHO, the tax is designed to promote healthy food

- **The public health product tax is not a silver bullet for addressing poor nutrition or a budget shortfall.** The tax was introduced in Hungary at a time when the emerging public health crisis and nutritional issues were subject to intensive public discourse. The tax was part of a comprehensive set of measures targeting nutritional behaviour. Similarly, from a public finance perspective, the tax neither resulted in a revenue windfall nor a public health financing revolution. It was one component of a larger diversified financing strategy to raise revenues for health.
- **Healthier products due to product reformulation are a positive consequence of tax avoidance.** Some producers of unhealthy products opt to reduce or eliminate the levels of unhealthy ingredients in order to lower their tax burden. Although this behaviour does not generate revenue for the budget, it reduces the availability of unhealthy food items and may result in lower health system costs for diet-related chronic diseases.
- **Improved nutrition literacy has been one of the outcomes of the tax improving nutrition behaviour beyond the direct impact of price increase.** The public health product tax decreased unhealthy food consumption by increasing the price of unhealthy food products and creating a cost barrier. Indirectly, the tax and the public discourse around its introduction began to change population attitudes to unhealthy foods and influenced consumer decisions to consciously avoid unhealthy products.
- **Intersectoral action enabled accurate problem definition, development of an appropriate policy solution, and effective implementation.** The motivation for the tax originated from the need for greater funding for public health action. Public health experts from the Ministry of Health, National Institute for Health Development, National Institute for Food and Nutrition Science, the Ministry of Finance, and WHO worked closely together to formulate the final version of the tax and and to see the legislation through a number of revisions.
- **Continuous refinement of legislation after initial enactment was essential for exposing and shutting loopholes, ensuring tax's effectiveness.** After it came into effect, the public health product tax was refined several times in reaction to manufacturers who made superficial modifications to unhealthy recipes with the aim of tax evasion. The refinements allowed policy-makers to combat the manoeuvring of producers and to tax those producers who did not genuinely reformulate their products to make them healthier.
- **The unhealthy product tax is compatible with European Community law.** The rules of the public health product tax are compatible with European Community law as the tax liability of a product depends solely on its composition and is independent of its place of production.

References

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Contact us

This brief is part of our work programme on strengthening the health system response to NCDs. For the full report on Hungary and other information, check out our website at http://www.euro.who.int/en/health-systems-response-to-NCDs.

choices and simultaneously mobilize funding for public health services. Additionally, the tax aims to redistribute responsibility for unhealthy food choices so that individuals bear a proportional share of the social and economic burden of unhealthy eating. The specific health objectives of the tax are to encourage healthier eating habits among Hungarians and to encourage manufacturers to reformulate recipes to make unhealthy products healthier. The economic objective of the tax is to create a steady stream of revenue earmarked for public health, helping to offset the health care costs of diet-related illness.

Before introducing the public health product tax, laboratory analyses of food product content were collected to identify unhealthy foods and to quantify the levels of salt, sugar and other unhealthy ingredients that they contained. This information was combined with data on consumption of high-salt and high-sugar food products to serve as a reference in preparing the tax legislation. The information also served as baseline data to be used later in monitoring and evaluating changes in consumption patterns and product formulations. The administrative burden of the tax on manufacturers and sellers was assessed and determined to be minimal. Subsequent to its introduction, the tax was amended five times to close loopholes in the legislation and ensure its effectiveness.

The public health product tax is collected at points of sale from consumers who purchase a taxable food product and also from sellers when selling a taxable food product in Hungary for the first time. The tax is per unit of product sold, measured in kilograms or litres.

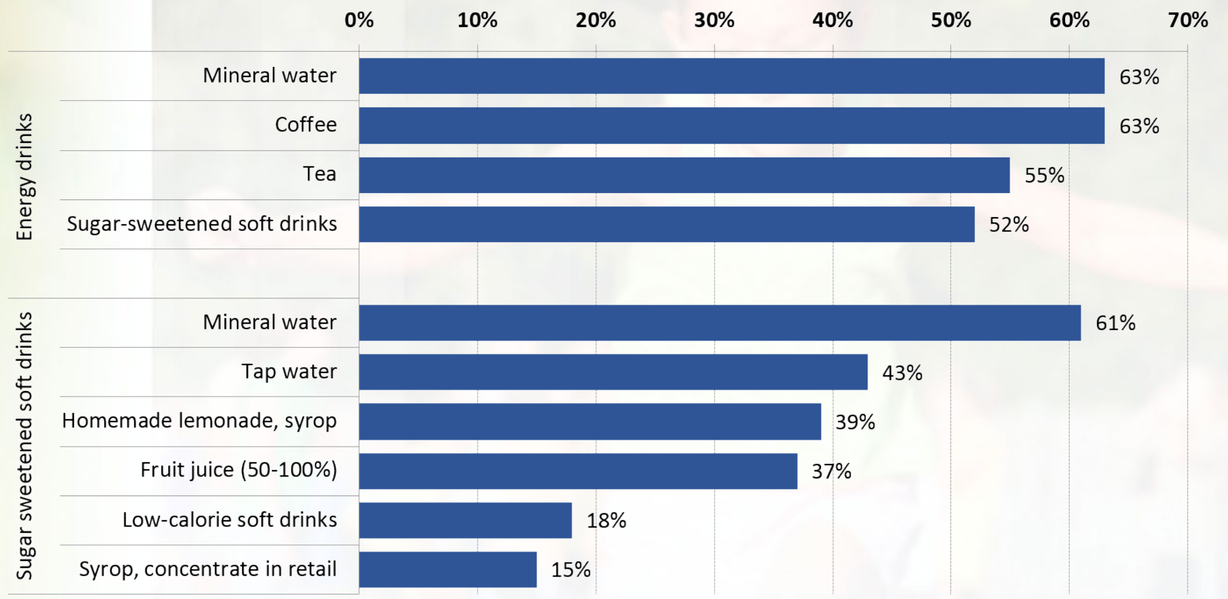
Although exceptions exist and the tax in some cases depends on the quantity of the unhealthy ingredient rather than on its presence alone, the tax applies to:

- pre-packaged sweetened products such as sweets, biscuits, confectionery products, bakery products and cocoa-containing products;
- soft drinks with added sugar;
- fruit jams and similar sweetened preserves;
- flavoured beer with added sugar;
- "alcopops" (alcoholic soda beverage);
- alcoholic beverages;
- energy drinks; and
- excessively salty snacks.

Impact

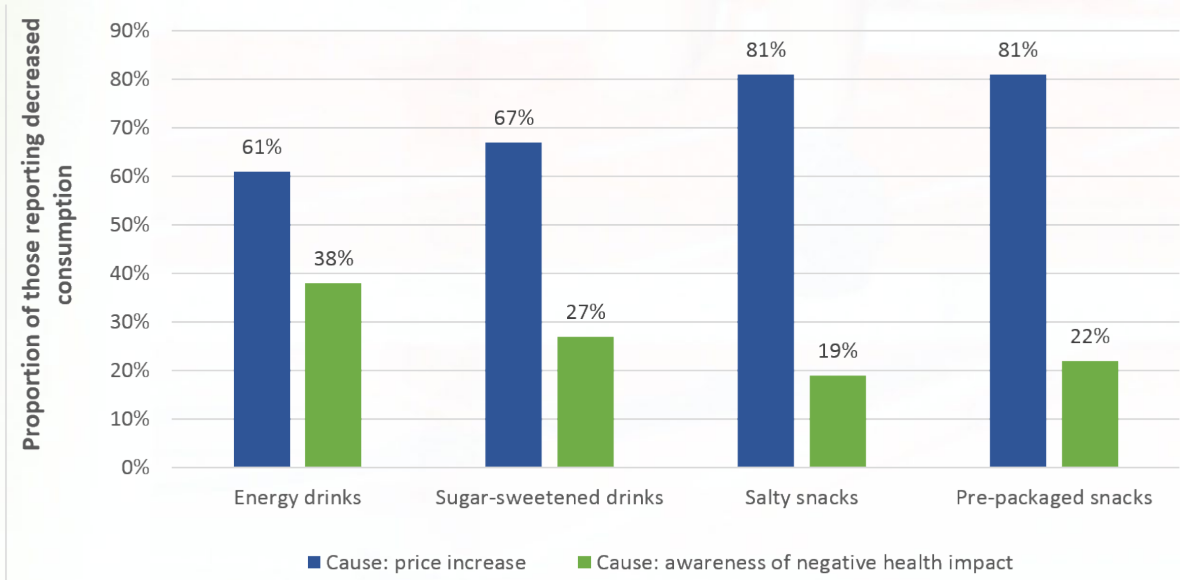
The public health product tax in Hungary has had a significant impact. Since it's introduction in 2011, consumption of unhealthy food products has decreased concomitantly with the decrease in the supply and sale of those products. The first impact assessment, conducted by the National Institute for Health Development in 2012, showed that after instating the tax, approximately 40% of unhealthy food product manufacturers changed their product formulas to either reduce or eliminate unhealthy ingredients (28% and 12%, respectively) (NIHD, 2013). Manufacturer sales of taxable products fell by an average of 27% and prices for taxable products rose by an average of 29% (National Institute for Health Development, 2013). A second impact assessment, conducted by the National Institute for Food and Nutrition Science in 2014, showed that consumers of unhealthy food products responded to the tax by choosing a cheaper, often healthier product (7–16% of those surveyed), consumed less of the unhealthy product (5–16%), changed to another brand of the product (5–11%) or substituted some other food (often a healthier alternative) (National Institute for Food and Nutrition Science, 2015). Most people (59–73%) who reduced their consumption after introduction of the tax consumed less in 2014 than in previous years, suggesting that the reduction in unhealthy food consumption has been sustained (National Institute for Food and Nutrition Science, 2015). In its first 4 years of operation, the tax has generated HUF 61.3 billion (about US$ 219 million) for public health spending (National Institute for Food and Nutrition Science, 2015). In 2013, this amounted to roughly 1.2% of government health expenditures in Hungary.

Figure 1. Examples of substitution effect from taxable unhealthy food to healthier options



Source of data: National Institute for Food and Nutrition Science (2014)

Figure 2. Reasons for decreased consumption of unhealthy food items



Source of data: National Institute for Health Development (2013)

Lessons learnt

- **A fiscal instrument can effectively improve the nutrition behaviour of the population.** In contrast to discouraging examples of similar efforts elsewhere in Europe, the Hungarian experience demonstrates that introducing a tax on a well-defined set of food items can contribute to healthier food choices. In part, the success of the Hungarian formulation of the tax is due to its relatively narrow set of included food items which were targeted for their unequivocally negative impact on public health. This provided a strong justification for the intervention and contributed to its acceptability.