Policy Brief

Pathways for implementing alcohol taxes to safeguard public health and safety: Increasing alcohol taxes and reforming the alcohol tax administration in Kenya

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Introduction

The International Agency for Research on Cancer (IARC) classifies alcoholic drinks under cluster Group 1,[1] meaning that these drinks are carcinogenic to humans with a high possibility of causing cancer. This classification was first done in 1988 after numerous scientific studies.[2] Consumption of these drinks has been associated with other myriad societal problems including increased road accidents,[3] and domestic violence.[4] NACADA's 2022 report on the national prevalence of alcohol consumption in Kenya notes that 3.2 million Kenyans consume alcohol with a problematic pattern of increased Alcohol Use Disorders (AUDs) in Kenya.[5] In particular, NACADA has noted "a worrying trend of AUDs among public sector employees in Kenya [with] a growing problem of severe AUDs which presents the potential challenges of low productivity, increasing healthcare costs and high attrition rates of affected public sector employees''.[6]

In addressing the negative externalities of alcohol consumption, the Global Strategy to Reduce the Harmful Use of Alcohol has suggested various policy options and interventions to mitigate this menace. These interventions include pricing policies on taxation and regulating the marketing of alcoholic drinks.[7] WHO further published an additional technical package for strengthening alcohol control measures - the SAFER technical package.[8] This package stresses the need to employ the best option policy actions including the increase of excise taxes on alcoholic drinks.

Nationally, the Medium-Term Revenue Strategy (MTRS) (An Approach for Enhancing Domestic Revenue) FY 2024/25 - 2026/27,[9] has stressed the need to use taxation of alcoholic drinks in addressing negative health externalities:

> "…Further, the Government will charge excise duty based on alcohol content of the products to discourage their consumption as they pose higher health risks..." [paragraph 60 of MTRS]

As such, enhancing public health and addressing negative health externalities is the top priority for employing policy options and interventions on alcohol control such as taxation.

Alcohol Excise Taxes: understanding Health Taxes as a policy option

Implementing health taxes, majorly comprising of tobacco and alcohol taxes, has been scientifically proven as being a sure tool in mitigating and addressing the consumption of tobacco and alcohol products which are a great cause and concern for public health and the soul of the nation. WHO appreciates the importance of health tax by observing that:

> "those are taxes targeting specific productsthat are proven to be unhealthy or harmful to health and aim to increase their relative price to make them less affordable therefore reducing their consumption and preventing or mitigating these negative health outcomes. These taxes are considered win-win-win policies because they save lives and prevent disease while advancing health equity and mobilizing revenue for the general budget."[10]

Further, the appreciation of taxing alcoholic drinks is understood as an opportunity for policymakers to use available tools to promote healthy populations and minimize the negative externalities and internalities which have been associated with alcohol consumption. Thus, policymakers in Kenya should use alcohol taxes as an effective tool for policymakers to reduce alcohol consumption and harm.[11]

In realising this policy option, an effective alcohol tax system in Kenya should address the issues revolving around an efficient alcohol tax administration system which then forms the basis for a meaningful alcohol tax increase.

Alcohol Tax Administration and the need to Increasing Alcohol Taxes in Kenya: Way forward

In recent financial years and tabling of tax proposals, the National Treasury of the Republic of Kenya has often tabled one legislative proposal- the Finance Bill, for consideration at the National Assembly. This single legislative proposal has been serving as an omnibus bill which houses various tax proposals on excise tax, income tax, value-added tax and miscellaneous fees and levies that seek to amend the Excise Duty Act CAP 483, Income Tax Act CAP 470, Value Added Tax Act CAP 476, and Miscellaneous Fees and Levies Act CAP 469C respectively.

Additionally, before the repeal of the provisions on inflation adjustment under the Excise Duty Act cap 483 in 2023, the excise rates were adjusted through the exercise of the powers that were accorded to the Commissioner General of the Kenya Revenue Authority. The current excise rates on alcoholic drinks in Kenya were last adjusted in October 2022, courtesy of the repealed provisions on inflation adjustment.

Since October 2022, there has not been any increment in alcohol tax in Kenya despite the negative health externalities witnessed so far.

Kenya should forge forward in addressing the negative externalities of consuming alcohol by reforming the alcohol tax administration in Kenya, and ultimately increasing excise taxes on these products with the hope of investing the taxes collected in health, research and public awareness activities.

Recommendations regarding Alcohol Tax Administration

The MTRS notes that Kenya has a mixed tax structure on alcoholic beverages that takes into account the volume, content, and value of the alcoholic product. The impugned Finance Bill of 2024 sought to collapse all other criteria and ultimately use alcohol content as the sole criterion in computing excise tax on alcoholic beverages. The WHO observes that "specific taxes based on alcohol content have advantages when it comes to their impact on affordability and consumption of alcoholic beverages".[12]

Thus, Kenya should consider implementing the alcohol excise tax and administration in light of the provisions of MTRS which solely rely on alcohol content.

Recommendations regarding Alcohol Excise Tax Increase

There are two ways for Kenya to navigate concerning increasing excise taxes on alcoholic drinks.

Firstly, should Kenya stick with the current tax structure with the rates on Beer, Wines, and Spirits being KES 142.44 per litre, KES 243.43 per litre, and KES 356.42 per litre respectively, then Kenya should increase the current taxes by at least 50% to address the health externalities. The WHO notes that: "regarding health impacts, an increase of 50% in excise taxes has a population health effect of more than 500 healthy life-years gained per 1 million people."[13] Adoption of this recommendation would result in new tax rates of KES 213.66 per litre, KES 365.15 per litre and KES 534.63 per litre for Beers, Wines and Spirits respectively.

Secondly, should Kenya shift to specific taxes based on the alcohol content as espoused under the MTRS and as captured under the impugned Finance Bill of 2024, the excise rates should be as follows:

a) A minimum of KES. 35 per centilitre of pure alcohol for all alcoholic drinks of strength not exceeding 7% of alcohol content .

b) A minimum of KES. 20 per centilitre of pure alcohol for all alcoholic drinks of strength exceeding 7% of alcohol content.

Thirdly, in light of the impugned Finance Bill 2024 and for future tabling of tax proposals, Kenya should abandon the use of the Omnibus Finance Bill for tax proposals as part of the legislative strategy for the National Treasury. Using a single bill to house all tax proposals has presented financial, legislative, and public support issues. Arguably, the controversial motor vehicle tax[14] proposal under the Income Tax Act, and the proposal on bread tax[15] under the Value Added Tax negatively impacted health taxes proposals via excise taxes on alcohol and tobacco products.

As such, the National Treasury should assess the public support[16] for tax proposals and be in a position to distinguish between highly controversial tax proposals and pro-people tax recommendations.[17] Consequently, well-understood tax proposals by the public ought not to be clustered together with the highly contentious and repulsive tax recommendations as highlighted above. i.e. alcohol taxes are well supported by the public, bearing in mind the goal they seek to achieve. And so, there is a need to break up these health taxes from the pool of controversial taxes.

Forging ahead, this brief reiterates that the National Treasury should make tax proposals depending on the individual clusters and uniqueness of the recommendations being sought. For instance, pro-people health taxes (alcohol and tobacco taxes) ought to be dealt with differently and uniquely.

Finally, the National Treasury should consider tabling in Parliament alcohol excise taxes outside the strict budget-making known tabling period. i.e., the tax proposals and tax administration proposals on alcohol under the impugned Finance Bill of 2024 should be enhanced and be tabled in the National Assembly under their independent law- the Excise Duty Act anytime even before April 2025.

Conclusion

Implementing alcohol tax proposals suggested in this policy brief goes a long way towards having a preventive effect against the alcohol harm already burdening the Kenyan society, and ultimately realizing the ideals of a healthier and safer society for both current and future generations.

"Kenya should increase the current taxes by at least 50% to address the health externalities."

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