



African Health  
Policy Alliance

# EXCISE TAXATION AS A TOOL TO IMPROVE PUBLIC HEALTH OUTCOMES



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## Excise taxation as a tool to improve public health outcomes

### 1. Introduction

Strategic implementation of excise taxation will contribute to the advance of public health imperatives in South Africa, in particular concerning tobacco, alcohol, and sugar-sweetened beverages (SSBs). Two fundamental components of this strategy are an appropriate tax base and taxation of harmful products reviewed for risk-and harm.

Higher taxes should be imposed on products which present greater health risks, thereby deterring their consumption. Government revenue should not be the primary motivation for these taxes though.

We believe that government has a responsibility to address the health taxes applied to products which have a negative impact on the health of the consumer (negative internalities - which are the un-internalised costs borne by the user) and on the costs which societies have to bear, e.g. healthcare costs, road traffic accidents, domestic violence and second-hand smoke harm (negative externalities).

Concurrently, it is important to establish a tax base that accurately reflects the actual consumption patterns and potential health impacts of these products to create an efficient taxation system. Together these components can significantly affect consumer behaviour, mitigate the prevalence of non-communicable diseases (NCDs), and enhance government revenue streams.

We advocate for a comprehensive reassessment and reform of South Africa's excise taxation framework concerning alcohol, all SSBs, and tobacco. By implementing these suggestions (taxation model), government can effectively discourage the use of harmful products and generate additional revenue for public health initiatives.

### 2. Adopting a risk- and harm-based taxation framework

Excise taxes serve as a vital regulatory mechanism for mitigating the consumption of products that adversely affect public health systems.

South Africa has made progress in establishing an excise taxation framework for harmful products, exemplified by the introduction of the sugar tax in 2018.

The existing excise tax framework aims to deter harmful consumption patterns by imposing higher taxes on products identified as posing significant health costs both to the consumer and non-consumers. By refining this framework, South Africa can effectively reduce the prevalence of NCDs and generate government revenues.

To facilitate informed consumer choices regarding the true costs associated with consumption, excise tax rates should be calibrated to reflect the specific risks and harm linked to each product. Of concern in particular is the deliberate shift to other products by business. These products are not included in the current list of products defined as sugar-sweetened beverages, e.g. milk-based products and powder beer.

## 2.1. Sugar-sweetened beverages

South Africans' dietary habits have increasingly shifted towards higher consumption of processed foods and SSBs, with sugar intake levels now being more than double the recommendations proposed by the World Health Organization. This trend is associated with rising incidences of obesity, diabetes, and other NCDs, disproportionately impacting lower socioeconomic groups.

In response to these public health challenges, South Africa introduced the Health Promotion Levy (HPL) on SSBs in 2018. This taxation structure is structured based on sugar content, imposing a fee of 2.1 cents per gram of sugar content exceeding 4 grams per 100 millilitres in 2024 with increases of 1.7% for domestic goods and services and 22.4% for international trade and transactions. The implementation of this levy has catalysed industry responses, including reformulation of products and reductions in package sizes.

However, the effectiveness of the HPL may be diminishing due to the absence of inflation adjustments since its introduction. To sustain its effectiveness, it is imperative for policymakers to consider regular rate adjustments and explore potential expansions of its scope. While the HPL represents a significant step in combating NCDs through fiscal policy, ongoing monitoring and refinement are crucial to ensure its continued effectiveness in promoting public health and reducing the burden on South Africa's healthcare system.

A review should focus on sugar containing beverages and products which are excluded from the recognised list of SSBs.

## 2.2. Alcohol

Alcohol consumption in South Africa is significant, with a per capita intake of 29.9 litres of pure alcohol in 2016, positioning the country fifth globally among alcohol-consuming countries. This trend highlights the urgent need for effective policy interventions. Although the South African government updated its taxation framework for alcoholic beverages in the early 2000s, this revision did not encompass a comprehensive risk- and harm-based approach applicable to all product categories. For example, the excise tax rates were set at 23% for beer and 36% for spirits, while wine, despite having a higher alcohol content than beer, was subjected to a lower tax rate of 11% for 2024. In the 2025 South African Budget, excise duties on beer were increased by 6.75%, a rate two percentage points above the expected inflation rate. This increase applies to all alcoholic beverages, including beer, cider, and alcoholic fruit beverages, as well as wine and spirits.

In November 2024, National Treasury released a discussion document addressing these inconsistencies in tax differentials applied to less harmful products. The document points out that low-alcohol wines (with alcohol content between 0.5% and 4.5%) are taxed at the same rate as high-alcohol wines (6.5%). It proposes various options to improve the tax system, aiming for a more equitable framework that reflects the relative harm of different alcoholic beverages and supports public health objectives by encouraging the consumption of lower alcohol content alternatives. Implementing a more consistent and risk-and harm-based

taxation strategy, calculated on the basis of litres of pure alcohol, could substantially enhance public health outcomes in South Africa by incentivising healthier drinking behaviours and mitigating the burden of alcohol-related costs.

### **2.3 Tobacco and nicotine products**

Given the increasing prevalence of smoking in South Africa, it is prudent to adopt a policy framework that encourages smokers to quit, access smoking cessation programmes and use of aids to assist addicted persons to access nicotine replacement therapy or less harmful products. Much has been written about e-cigarettes and novel and new nicotine products, and it is being bandied as less harmful than traditional tobacco products. There should be independent peer-reviewed research conducted to study these assertions.

Does South Africa's tobacco fiscal framework already employ a risk-based approach since inconsistencies exist in its implementation: while e-cigarettes are taxed at a considerably lower rate compared to traditional cigarettes and heated tobacco products experience only a marginal reduction in tax rate?

The Global Adult Tobacco Survey (GATS) indicates that South Africa has approximately 12.7 million smokers, with 25.8% exclusively using combustible tobacco products.

The recently introduced Tobacco Products and Electronic Delivery Systems Bill aims to enhance tobacco control measures, while an excise tax was introduced in 2023 for e-cigarettes at R2.90/ml, subsequently raised to R3.18/ml in 2025. To establish a more coherent and equitable taxation framework it is essential to align the excise taxes on traditional tobacco products, heated tobacco products and electronic cigarettes. This adjustment could significantly enhance the efficacy of public health initiatives aimed at alleviating the burden of smoking-related diseases, particularly within lower-income demographics.

## **3. Addressing misalignments in excise taxation**

### **3.1. Tobacco and nicotine products**

In South Africa, tobacco products are subject to a specific excise tax system aimed at regulating consumption and generating government revenue. For the 2024/2025 financial year, the excise tax rates are as follows: R22.81 per pack of 20 cigarettes, R584.35 per kilogram net for cigars, and R32.12 per kilogram net for pipe tobacco and R51.26 per kilogram for cigarette tobacco. For novel and new tobacco products, the excise tax rates are as follows: R17.10 per 20 sticks for HTP in sticks, and R3.18 per milliliter for e-cigarettes.

The current taxation structure therefore employs a dual method: HTPs sold in packs are taxed on a per-stick basis, while other tobacco products are taxed by weight. This approach leads to inconsistencies due to the differing tobacco content of HTPs, which can create incentives for manufacturers to produce larger units containing more tobacco.

### **3.2. Alcohol**

Despite a high per capita alcohol consumption of 29.9 litres of pure alcohol in 2016, the South African government's taxation framework exhibits inconsistencies in excise tax rates applied

to various categories of alcoholic beverages. The lower taxation of wine, despite frequently having higher alcohol content is concerning. This taxation approach fails to proportionately reflect the alcohol content across different beverage types.

Such discrepancies may incentivise consumers to opt for lower-taxed products that do not necessarily correspond to lower alcohol content, It is advisable for government to implement a more coherent and equitable tax framework that aligns excise tax rates with the actual alcohol content of the beverages.

#### 4. Conclusion

To effectively enhance public health outcomes in South Africa, government must take decisive action in reforming the excise taxation framework on tobacco, alcohol, and SSBs. Here are key recommendations for immediate implementation:

1. **Adopt a comprehensive risk and harm-based Taxation Strategy:** Implement a uniform risk-and harm-adjusted taxation approach across all product categories, including alcohol, SSBs, and tobacco and nicotine products.
2. **Enhance the Health Promotion Levy:** Regularly adjust the HPL on SSBs to keep pace with inflation and consider expanding its scope to further curb excessive sugar consumption
3. **Establish a Correct Tax Base:** To address inconsistencies in the taxation of alcohol and tobacco products, South Africa should simplify its tax structure by implementing a simple and equitable tax for all products in the same category, thus a uniform weight-based taxation system for alcoholic beverages and tobacco products.

It is important for government to address the matter of health taxes as essential to contribution to the public health outcomes. The primary focus should not be to use health taxes as a revenue generation mechanism for government. Revenue collected as health taxes should be used for alleviation of the costs incurred by the health system by the consumption of these products.



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