



A dedicated tax: 1987–1997

The Victorian Health Promotion Foundation (VicHealth) was established in 1987 in the state of Victoria, Australia. After considerable debate the Victorian Parliament agreed to fund VicHealth through a dedicated (or 'hypothecated') tax. This kind of tax is one generated for a specific purpose and does not become part of a government's general consolidated revenue (WHO 2004). A hypothecated tax is rarely implemented.

The State Government applied a levy of 5% on top of existing state tobacco fees (set out in the *Victorian Tobacco Act 1987*). This money was hypothecated to the Victorian Health Promotion Fund, and this Fund is administered by VicHealth.

VicHealth was funded via this hypothecation model from its beginning until 1997 (see Figure 1). In health terms such an approach created an incentive in its own right by increasing the price of something considered to be harmful to health (in this case smoking). There was evidence in Victoria before the *Tobacco Act* was introduced in 1987 that a price increase in cigarettes would reduce the smoking rates of people under 18. This was a powerful message to help the Victorian Government gain community support for a new tax to the community.

Figure 1: VicHealth funding, 1987–1997

	Pre-1987	1987 ²	1989	1990	1993 ³	1995	1997 ^{4/5}
Total Victorian tobacco licence fees (as a percentage of value of wholesale sales of tobacco products) ¹	25%	30%	35%	50%	75%	100%	Nil
Proportion hypothecated to health promotion fund	N/A	1/6	1/7	1/10	1/15 (max)	1/15 (max)	Nil
Percentage of wholesale sales for health promotion	Nil	5%	5%	5%	5% (max)	6.6% (max)	Nil

Notes

1. 'Wholesale value' equals the sum of the manufacturing and distribution costs plus the federal excise tax.
2. 1987–88 to 1991–92: Full hypothecation calculated as percentage of Victorian ad valorem tobacco franchise fees (that is, the tobacco levy).
3. 1992–93 to 1995–96: Nominal hypothecation, but capped. VicHealth funded from tobacco fees, but actual amount capped and less than the specified maximum.
4. 1996–97: Indexation of 3% introduced.
5. 1997–present: VicHealth has been funded from consolidated revenue as part of Victoria's annual budget, and paid via the Department of Human Services.

FACT SHEET 1

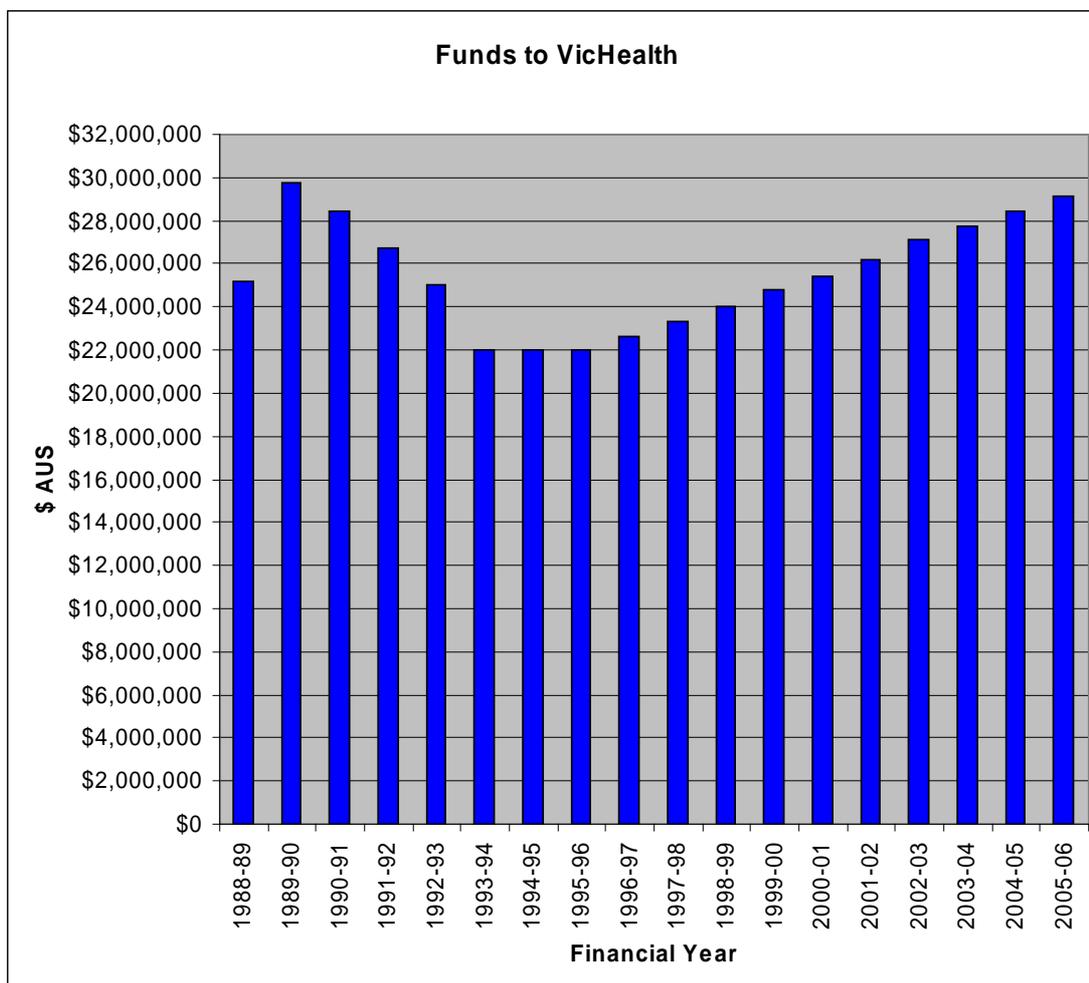
VicHealth Funding Model

A revised funding regime: 1997–present

In 1997 the High Court of Australia invalidated state and territory government business franchise and licence fees, including tobacco fees, on the basis that they are excise taxes (that is, goods or commodities taxes). Under the Australian Constitution only the Federal Government can impose excise duties, so the 1997 court ruling brought to an end the hypothecated tobacco tax that had been used to fund VicHealth until then.

Since 1997, VicHealth's annual funding has been determined by the Victorian Treasurer, and is allocated out of general consolidated revenue through the Victorian State Government's annual budget.

Figure 2: VicHealth funding in Australian dollars, 1988–2005



Note

1 AUD (Australian dollar) = approximately 0.74 USD (US dollar) (as at December 2005)

FACT SHEET 1

VicHealth Funding Model

How is tobacco taxed in Victoria now?

Figure 3 shows, for 1996 and 2005, how tobacco taxation has been built into the retail price of a packet of cigarettes manufactured in Australia and sold in Victoria. It also demonstrates how the mix of taxes has changed in the 10 years from 1996 to 2005.

In 1996, before state tobacco licence fees were ruled to be invalid, tobacco was taxed by both the Australian Government (through federal excise) and the Victorian Government (through state licence fees). At that time, the Victorian tobacco licence fees were 100% of the wholesale value (wholesale value equals the sum of the manufacturing and distribution costs and the federal excise).

By 2005, state licence fees had been abolished (due to a High Court ruling in 1997). The Federal Government introduced a new Goods & Services Tax (GST) in 2000.

Figure 3: Breakdown of cost of a packet of 25 cigarettes

Where does the money go?	1996	2005
Manufacturer	\$1.13	\$2.04
Federal excise	\$1.62	\$5.65
State licence fees	\$2.75	N/A
Retail margin	\$1.08	\$1.87
Goods and services tax (GST)	N/A	\$0.94
Recommended retail price	\$6.58	\$10.50

Note

The federal excise is levied by the Australian Government and is subject to 6-monthly CPI (Consumer Price Index) adjustments. Until 1999 it was calculated by weight; since then it has been calculated by stick (that is, applied per cigarette).

Funding health promotion elsewhere

Although a hypothecated tobacco tax is no longer used to fund VicHealth, the model has created considerable interest in other parts of the world. Thailand, Korea, Finland and Portugal have all implemented some version of a hypothecated tax to fund health promotion.

More information on VicHealth

For more information on all aspects of VicHealth see the book *The Story of VicHealth: A world first in health promotion*. This is available to download at www.vichealth.vic.gov.au/history