Summary

• The tax system is an essential economic policy instrument used to finance public budgets and influence the economic behavior of individuals, households, and companies.

• Different tax liabilities on certain forms of consumption (e.g., more ecological forms of transport, less harmful tobacco products) is in the public interest, if they incentivize consumers to replace more harmful forms of consumption with less harmful options. Such tax liability differentiation can result in harm reduction without reducing overall consumption levels.

• Tax differentiation based on the potential harm of the consumption needs to take into account the extent to which it will discourage existing consumers from the more harmful forms of consumption and the extent to which it will attract new consumers, who would otherwise not consume the product at all.

• Attempts to use excise taxation to finance public budgets and as an instrument to encourage consumers to adopt less harmful behaviors have been observed in many countries over the past decade.