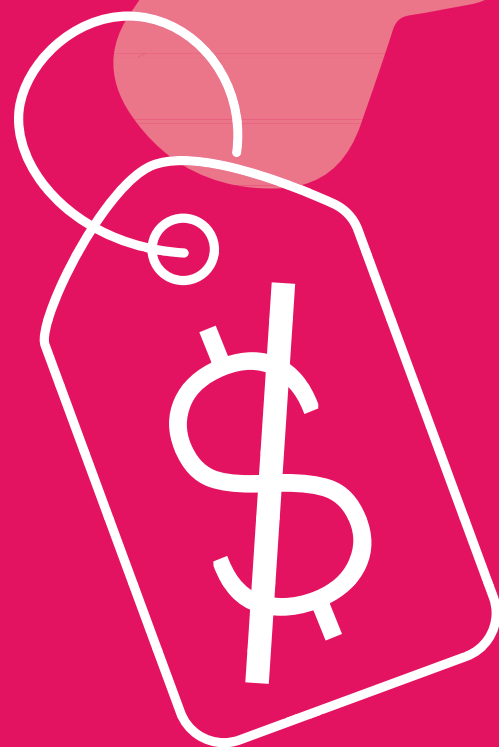


What impact does a
VAT/GST reduction
or removal have
on the price of
menstrual products?

RESEARCH WRITE-UP



ABOUT THE PROJECT

2

Support for this project was funded by PATH in its capacity as the Secretariat of the Reproductive Health Supplies Coalition. The views expressed by the authors do not necessarily reflect the views of the Reproductive Health Supplies Coalition or PATH.

ABOUT WASH UNITED

A unique crossbreed between an advocacy NGO and a creative agency, WASH United works to build a world in which all people benefit from safe drinking water, sanitation and hygiene (WASH), including menstrual hygiene. Our focus is on innovative solutions for advocacy and education.

WASH United is behind **Menstrual Hygiene Day**, the global campaign to end period stigma. WASH United co-leads the **Making Rights Real** initiative to promote access to services for all people using human rights. Our low-cost, scalable solutions for menstrual hygiene education have helped to educate, empower and engage more than 2 million girls across Africa and South Asia and can be accessed free of charge.

More: wash-united.org menstrualhygieneday.org

Date: July 2020

Published by: WASH United gGmbH

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We want to sincerely thank all contributors and reviewers who provided their valuable time, insights and advice to this Advocacy Guide, be it through case studies, discussions or reviews.

EXECUTIVE SUMMARY

Several countries and states around the world have responded to campaigns for the removal or reduction of taxes on menstrual products. The two areas where taxes can be reduced or removed are:

- Taxes along the production and sales journey: VAT, in some countries applied as goods and service tax (GST)¹ or sales tax
- Taxes on the import of raw materials or products

The key argument of many period tax campaigns is that a reduction or removal of taxes on menstrual products will result in a reduction in price for the consumer and will help make them more affordable and therefore more accessible for women and girls.

Our research looks at this argument by drawing from existing country case studies and further VAT research. Overall, there is limited robust documentation on consumer prices before and after the tax removal or reduction. Countries or states in which period tax reduction has been passed through are Australia, Germany and New Jersey, USA. Countries in which there was inconsistent or no reduction are India, Tanzania and Zimbabwe (although in this case it was altered by high inflation). No documented information is available for Bangladesh, South Africa, Kenya and the UK.

Based on available information and drawing from research on VAT changes on other consumer products and services, this report concludes that **a price reduction is possible, but is not inevitable**. Certain favourable factors need to be in place or created after successful tax reduction, with the most critical being **accountability through the government**. This can be strengthened through consumer awareness, public (media) pressure and eventually through private sector commitments.

The two key reasons why consumer prices might not fully or uniformly reduce relative to tax reduction are:

- Companies along the supply chain use VAT reduction to increase their profits
- The type of tax reduction that has been put in place

Instances in which companies use tax reduction to inflate profits depend on the local market structure and a lack of accountability mechanisms. As the Copenhagen Economics Study² points out:

- In a fully competitive market, VAT changes are passed (entirely) through to consumers in the medium to long run
- In a less competitive market, VAT changes are not passed or not entirely passed through to consumers
- Small VAT changes are much more difficult to handle economically, and thus have a lesser effect

¹ Countries with GST and VAT: https://en.wikipedia.org/wiki/Value-added_tax

² Copenhagen Economics, *reduced VAT applied to goods and services in the Member States of the European Union - Final report, 2007*

Looking at the market structure in low- and middle-income countries, the market is not regulated, less competitive and almost a monopoly, especially when it comes to transporting products to shops in hard-to-reach areas. In addition, while larger companies and retailers might face legal consequences, these are highly unlikely in small-scale, local markets or in countries with weak legal opportunities and consumer authorities.

When it comes to the type of tax reduction that has been put in place, situations can arise where products are VAT exempt as opposed to zero-rated. In this scenario companies cannot claim back input taxes. In order for them to maintain the same profits, consumer prices will only drop marginally.

Further effects of the change of import taxes on menstrual products, and/or the raw materials used to produce them, can be significant in some countries.

- A VAT reduction or removal likely benefits importing companies and large producers. This can have a positive effect on a local market that is not saturated or depends heavily on imports. However, if the market does have a number of local producers, this will create competition and eventually have a negative effect on them.
- Reducing import VAT on raw materials can be considered an important step to encouraging cheaper local production. However, no documented examples have been found to support this. In any case, accountability and compliance must be in place to ensure tax reductions are passed through.

In cases where it is legally not possible to reduce taxes any further, there can be other creative solutions, such as:

- The state channeling tax income into a fund earmarked for spending on menstrual health and hygiene e.g. the UK's Tampon Tax Fund
- Retailers covering the VAT removal or tax difference, such in the UK and South Africa

Finally, it is recommended to consider additional or alternative policy tools for making products more affordable and accessible for **very poor quintiles of the population** or simply addressing period equity. These can include free menstrual product distribution in schools, for the homeless and in workplaces, or creating incentives for companies along the supply chain.

In conclusion, the effect of tax reduction on retail prices depends very much on a country's context – namely the type of tax system, the supply chain and the available accountability mechanisms.

CAMPAIGN TIPS

Using the findings outlined above, this report aims to provide activists and campaigners with some key recommendations. More information on how to plan a campaign can be found in the Advocacy Guide.

Overall, campaigning to scrap taxes on menstrual products has a very positive effect on getting the issue of menstruation into the public and political dialogue. Advocating for a VAT removal or reduction should include arguments such as acknowledging that menstrual products are a basic necessity, and/or rights and equality (see Advocacy Guide).

In order to use the argument that VAT should be removed to make products more affordable for women and girls, it is essential to understand the national taxation system (by best consulting with local tax experts), the available accountability mechanisms, and the market structure and supply chain beforehand. Otherwise, if VAT reduction or removal is not passed through to the consumer, it can be counterproductive to your campaign success.

Recommended assessment steps:

1. What are the current VAT, GST or sales taxes, import tax, taxes on raw materials in your country?
2. Does the national tax system have different tax rates, and is there an option at all to advocate for a reduction or even a removal?
3. Is it better to ask for tax reduction, tax exemption or zero rating? First, determine if a zero rating is possible. In this case the chance of consumer prices dropping is highest. If you need to decide between advocating for tax reduction or exemption, depending on the percentage differences it might make sense to advocate for reduction because in this case retailers can claim back input taxes.
4. How is the market structured? If there is a potential monopoly along the supply chain for menstrual products (for example, if there only one or two producers and few transport companies) or if the market is highly unregulated and granular, there is a high risk that tax reduction will not be passed through (uniformly) and will be used by some companies to inflate profits. What accountability mechanisms and legal instruments are in place to prevent this? Are there consumer authorities?

In any case, to ensure cost reductions are passed through to consumers, it is important to advocate for **tax reduction or removal AND ensure accountability and compliance mechanisms.**

Although ensuring pass-through is the foremost task for national, state and local governments (depending on where tax is collected) there are complementary measures that campaigners could apply during or after their campaign. These include:

- Creating public awareness for tax changes
- Pressuring producers and large retailers to pass through the cost reduction, such as through public commitments
- Involving the media to report on compliant and non-compliant producers, retailers and sellers to generate public pressure
- Reporting non-compliant actors to consumer authorities
- Working with relevant national and local ministries and consumer authorities during and after the campaign to identify legal and other measures that can be used
- Documenting consumer prices before and after the campaign. If there is no full pass-through, identify where the profit gains lie along the supply chain if possible

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1. INTRODUCTION

Several countries and states around the world have responded to campaigns for the removal or reduction of taxes on menstrual products. The high price of these items of basic necessity is a key barrier for women and girls, especially those belonging to low-income groups.

The hypothesis driving the Scrap The Tax campaign is that eliminating taxation – VAT, in some countries applied as goods and service tax (GST)³ or sales tax – on menstrual products will help make them more affordable and therefore more accessible for women and girls. This will then lead to more widespread use of hygienic menstrual products, which can contribute to better health outcomes, higher school and work attendance for girls and women respectively, and can support greater gender equality.

2. STUDY PURPOSE AND METHOD

Through this study we seek to explore whether removing VAT on menstrual products is a suitable instrument for achieving the desired effects. This report will not explore the aspects or origins of unfair or discriminatory taxation of menstrual products i.e. that despite being a basic necessity they are taxed at a normal tax rate, even if a country could legally apply a reduced or zero-rated tax.

This report will follow the following structure:

- Test the hypothesis: did prices for menstrual products go down once VAT was removed?
- Understand the causes and effects: if a reduction in VAT did not result in a substantial reduction in product price for consumers, what were the reasons?
- Understand other effects: were there other positive or negative effects of VAT being removed from menstrual products? E.g. greater demand for them, stimulating local producers, effects on their import or exports
- Recommendations: what additional or alternative instruments can make menstrual products more affordable?

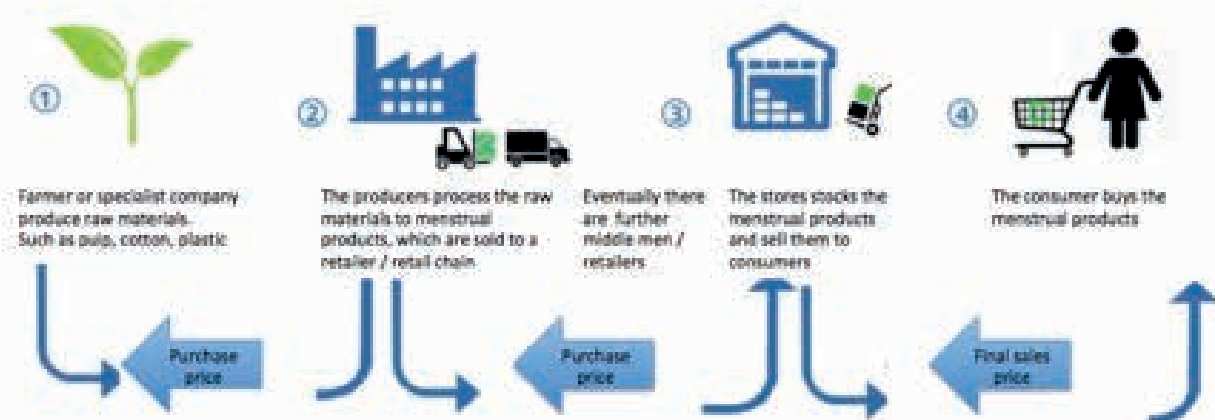
We will use existing research studies and further available case studies that document the effect VAT removal or reduction has had on the price and availability of menstrual products. Since there is very limited robust documentation on this topic so far due to the limited number of countries who have removed or reduced VAT on menstrual products, we draw additional findings from research that explores the removal or reduction of VAT on other consumer products and services.

We acknowledge there are different stakeholder perspectives within the tax discussion, however, we will focus this report on the effect for the consumer. We will explore different perspectives to provide activists and campaigners with more context for their advocacy.

³ Countries with GST and VAT: https://en.wikipedia.org/wiki/Value-added_tax

3. UNDERSTANDING HOW TAXES ARE APPLIED TO SANITARY PRODUCTS

The following table depicts a simplified calculation of how VAT is applied along the supply chain for suppliers, producers, retailers and consumers. It also includes the profit margin and tax paid to the government – calculated as the difference between output and input tax – which will be important for the discussions in chapter 6. Not included in this simplified calculation are further costs related to product marketing and distribution, operation costs for the retailer, other business taxes and any further costs. For this study, we assume these costs stay the same and are covered under the profit.



Costs	1.00 \$		1.20 \$		1.50 \$	
10% VAT	0.10 \$		0.12 \$		0.15 \$	
Price	1.10 \$		1.32 \$		1.65 \$	
		Producer purchase for 1.10 \$ from supplier		Store purchase for 1.32 \$ from producer		Consumer purchase for 1.65 \$ from store
Profit		0.2 \$		0.30 \$		
VAT to gov	0.1 \$	0.12 \$ – 0.1 \$ = 0.02 \$		0.15 \$ – 0.12 \$ = 0.03 \$		(paid by store)

Government receives = 0,03+0,02+0,1 = 0,15\$ taxes, which is equivalent to 10% of sales prices

⁸ This can be exemplified by growing campaign momentum of Menstrual Hygiene Day

⁹ <https://msmagazine.com/2019/03/28/meet-the-menstrual-avengers/>

ASIDE: THE IMPORTANCE OF TAX LAW WORDING

A new tax law will stipulate the products that it applies to. It can specify certain products, such as tampons and sanitary pads, or it can include all feminine hygiene products designed for the collection of menstrual blood. You can future-proof a campaign and ensure that a broad range of menstrual products, including new products, are covered by the new tax rate.

A good example to look at is the Australian tax exemption on menstrual products, which states the following: *"With effect from 1 January 2019, maternity pads, menstrual cups, menstrual pads and liners, menstrual underwear, tampons, and other similar products specifically designed to absorb or collect lochia, menses or vaginal discharge were added to Schedule 1 of the GST Act."*

The phrase "...and other similar products specifically designed to absorb or collect lochia, menses or vaginal discharge..." is key. It is far more specific than a general term like 'sanitary products', which may leave doubt over whether a product like a menstrual cup is covered by the tax reduction. This allows for future innovations to fall under the same tax rate. Other countries that offer good examples of specific tax language are Belgium, Canada, Germany and the UK.

In Kenya and Ireland, the tax exemption was applied to tampons and sanitary pads, as it came into effect before the menstrual cup or other products were available on the market. An example of a more recent tax change that only included certain products is India's 2018 GST exemption, which was applied only to sanitary pads – not to any other menstrual product.

The reason for this selection might be based on the local market availability, but are limiting women and girls choice and does not consider future developments. A different case is Italy where the tax rate only applies to menstrual cups and other products that are compostable, biodegradable or washable. In Estonia the tax law stipulates that a reduced rate is applied to sanitary and toiletry products and medical devices intended for the personal use of disabled persons.

An overview can be found **here**:

For this Research Report we look at the mechanism of tax pass through and therefore do not make a distinction on which type of product the specific national law refers to.

4. EVIDENCE FROM CASE STUDIES ON CHANGES TO VAT ON MENSTRUAL PRODUCTS

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There are only a limited number of countries who have removed or reduced VAT on menstrual products and/or the customs duty on raw materials. Solid evidence from studies is scarcely available, and so we draw additional information from news articles to understand the circumstances and effects that followed tax reduction.

Table: Overview of case studies

Country	Date of Tax reduction	Type of tax	Effect
USA, New Jersey	2005	Sales Tax	Prices reduced
Australia	2019	GST	Prices reduced
Tanzania	2018-2019	VAT	No / no uniform reduction*
Kenya	2004 2017	GST Import duty raw materials	No information available
India	2018	GST	No reduction*
South Africa	2019	GST	No reliable information available
Bangladesh	2019	Import duty raw materials	No information available
Zimbabwe	2018	Import duty	No reduction*
Germany	2020	VAT	Prices reduced
UK	2001	VAT	No information available

**Information mostly relies on media articles or in-person reporting.*

CASE STUDY 1: SALES TAX REMOVAL ON MENSTRUAL PRODUCTS IN NEW JERSEY, 2005

In 2005, sales tax on menstrual products was eliminated in New Jersey, leading to a decrease in retail prices for those products.

Effect: After the elimination of the 6.9% sales tax on menstrual products, retail prices fell by 7.3%. The prices fell disproportionately among income groups, with high-income women experiencing a 3.9% drop in prices, and low-income women experiencing a 12.4% reduction.⁴

It should be noted early that sales tax and VAT differ in crucial ways. Whereas VAT is applied to each step of the production chain and at the point of sale, sales tax is applied only at the point of sale. In the USA, the price that appears on the shelves does not include sales tax, which is added at the point of sale. It would therefore be very apparent to the consumer when the sales tax was removed, and similarly noticeable if the sales tax was passed on to the consumer in the form of an increase in retail price. This is a very early documented case of successful tax reduction pass-through. For other States in the US who followed since, there is no documentation available.

CASE STUDY 2: GST REMOVAL ON MENSTRUAL PRODUCTS IN AUSTRALIA, 2019

The 10% Goods and Sales Tax (GST) was removed from menstrual products in Australia on 1st January, 2019⁵.

Effect: The majority of the businesses surveyed removed GST on 1st January, resulting in the expected retail price reduction of 9.1%.^{6,7}

The Australian Competition and Consumer Commission (ACCC) found that the retail sector was well informed of the GST removal and was prepared to implement the change. In instances where GST removal was not passed through, this was due to human or system errors and was later corrected. Some retailers even informed customers of the GST removal and subsequent price reduction with labelling, signage or banners in the case of online stores. This is not required by law, but businesses had to be careful not to mislead consumers by making the price reduction look like a limited-time sale. Under Australian Consumer Law, retailers are prevented from misleading or deceptive conduct. This includes making false or misleading representations as to price. If a customer bought menstrual products after 1st January, 2019 they are entitled to a full refund of any GST they paid. This can be collected by returning to the shop they bought the product from with proof of purchase.

⁴ Cotropia and Rozema, 2018

⁵ Lauren Cook provides a good overview on the process here https://www.researchgate.net/publication/331950276_Removing_GST_on_feminine_hygiene_products

⁶ https://www.accc.gov.au/system/files/Price%20monitoring%20of%20menstrual%20products%20following%20GST%20changes_0.pdf

⁷ The Australian Competition and Consumer Commission (ACCC) was directed by the Treasurer to monitor the effect it had on menstrual product prices. ACCC collected data from 16 businesses including online stores, major retail outlets, petrol stations, pharmacies and supermarkets. The data included menstrual product retail prices from 27th December, 2018 and 14th January, 2019.

⁷ Note: Unlike a 'sale' discount of 10%, the removal of GST is a reduction of one 11th of the price of a product. That means the removal of the GST should result in an approximate 9.1% price reduction at full pass through. For example, if a product had a retail price of \$5 before GST

The success of the GST removal in Australia can be attributed to the legal context of the retail sector in Australia. Consumers are able and encouraged to complain directly to a business that has not passed through GST removal. If that does not yield them a satisfactory response, they can raise the matter with their state or territory office of fair trading, or inform the ACCC.

Interestingly, some Australian businesses set prices for their products nationally and others vary prices between stores in rural and urban areas. Yet the ACCC found that this had no effect on the pass-through of GST removal. However, a few businesses took the opportunity to review their pricing and/or rounding policy, as they are free to do. In some cases this resulted in smaller price reductions than expected, or even price increases.

It should also be noted that the way the study was conducted may have applied pressure on the 16 businesses included in it. The study was commissioned by the government, and data was collected by ACCC, who issued compulsory information notices to those businesses. As part of this data collection, businesses who did not drop the prices of menstrual products by 9.1% after GST removal were required to explain why. This created pressure to pass through the tax reduction.

CASE STUDY 3: VAT REMOVAL ON MENSTRUAL PRODUCTS IN TANZANIA, 2018 AND VAT REINTRODUCTION, 2019

On 1 July 2018, sanitary pads were made VAT exempt in Tanzania, yet the tax was fully reinstated on these products on 13 June 2019.⁸

Effect: The government argues that the measure did not achieve the expected results of reducing the cost of sanitary pads. During the eleven and a half months in which pads were exempt from VAT, some retailers did reduce the price of the products but others did not. There is little definitive information or data on the effect the removal of VAT had on price.⁹

Although retailers did not pay VAT on sanitary pads during the year it was removed, there were no measures in place to ensure they lowered the price of products to match the lower VAT. 90% of product sales in Tanzania are through small shops and there is a wide variation in pricing. Small shops in rural areas also have long chains of distribution for which high transport and distribution costs are incurred, which are passed on to consumers.¹⁰

One analysis assumed that not enough time elapsed to make it possible to measure a reduction in price, as old stock (purchased with VAT) must be sold before the saving can be passed to the consumer. However, this is contrary to overall findings from Copenhagen Economics, that indicated prices should be felt by consumers within 12 months.

⁸ KMPG, *Budget Brief Tanzania, 2019 + 'Lessons Learned from Tanzania's Recent Menstrual Product VAT Flip Flop'* IMHER, 1 August 2019

⁹ *ibid.*

¹⁰ *ibid.*

In 2019, the Minister of Finance proposed a reduction in corporate income tax (CIT) for new investors in sanitary pad production. The proposed rate of 25% will apply for the first two years for new investors engaged in the production of sanitary towels. This aims to attract new investors and create employment opportunities. It would be worthwhile to note that this move will allow the government to save foreign exchange currently used in the importation of these goods.¹¹

CASE STUDY 4: GST REMOVAL ON MENSTRUAL PRODUCTS IN INDIA, 2018

In July 2018 the Indian government removed 12% goods and service tax (GST) from sanitary pads, making them tax exempt.¹² The government previously argued that a removal will not yield the desired effect, but it eventually gave way to public pressure.

Effect: Eight months after the removal of GST on sanitary pads, it was reported that there was no reduction in the price of sanitary pads.¹³ However, there is no reliable documentation to support this.

After sanitary pads were made exempt from GST, no input tax credit was available for manufacturers and retailers. Therefore, input taxes paid on the locally produced pads, such as those paid on the materials used in their manufacture, were passed to the consumer.¹⁴ Although the government was well aware of this effect, it still decided to make them exempt due to mounting public pressure.¹⁵

A further effect of making sanitary pads GST exempt is that sanitary pad manufacturers who import to India have an advantage. Through the exemption of GST they now pay only a 10% import duty, where previously the difference in tax rate between local and imported products was 14%, because GST was paid on this import duty in addition to the pads. Furthermore, manufacturers of imported pads are in a position to drive down production costs with large volumes and, thanks to the tax cut, sell at a price that is now more competitive than the Indian domestic product.¹⁶

Action:

Alongside the announcement, Finance Minister Piyush Goyal has already asked the directorate general of anti-profiteering to keep tab on prices to ensure that rate cut benefit is passed on¹⁷. In April 2019 an anti-profiteering probe indicted pad manufacturer Johnson & Johnson for profiting from the tax cut: "The firms ought to have slashed the prices by 3% after adjusting for loss on account of Input Tax Credit. J&J did not pass the tax benefit while P&G and Unicharm [did]."¹⁸

¹¹ KMPG, *Budget Brief Tanzania, 2019*

¹² 'Zero GST on Sanitary Napkins Will Not Reduce Prices' *India Today*, 25 July 2018

¹³ 'DCW Issues Notices to Sanitary Pad Manufacturers for not Passing Tax Rebate' *The New Indian Express*, 5 March 2019

¹⁴ 'Zero GST on Sanitary Napkins Will Not Reduce Prices' *India Today*, 25 July 2018

¹⁵ <https://www.hindustantimes.com/india-news/no-gst-on-sanitary-napkins-shows-shift-in-government-s-priorities/story-fs2P4dZfsqoRDKST7AHVgL.html>

¹⁶ *ibid.*

¹⁷ <https://economictimes.indiatimes.com/news/economy/policy/government-may-ask-sanitary-pad-companies-to-give-cost-details/articleshow/65112089.cms?from=mdr>

¹⁸ 'J&J charged with Profiteering from GST Reduction' *DNA India*, 24 April 2019

CASE STUDY 5: VAT REMOVAL ON MENSTRUAL PRODUCTS IN SOUTH AFRICA, 2019

In April 2019 menstrual products were zero-rated in South Africa, removing a 15% VAT.²⁰

Effect: No reliable information on the effect on prices is currently available. Some large retailers have confirmed that they reduced the prices. Furthermore, companies have used South Africa as a base to increase production of sanitary pads for the region²¹.

In August 2018 an independent panel that gave advice to the government concluded in their report that applying zero-rate VAT to menstrual products will have only a limited impact on improving access to those products for low-income women and girls, because menstrual products remain unaffordable for them. African Development and Empowerment Foundation Team Lead Dr Victoria Feyikemi said:

“Removing VAT on menstrual hygiene products is a kind gesture, but it will not make the prices fall to the level where everyone will be able to afford them without any government or donor support.”²²

The report offers a recommendation that menstrual products should be zero-rated to remove gendered taxation, and low-income households should be offered free access to menstrual products in addition to the tax reduction.²³

In 2018, a large retailer committed itself to subsidise the cost of sanitary pads by removing VAT on one brand, and thus make it almost 50% cheaper than other brands²⁴. This decision came as a marketing stunt during a period in which many communities called for a tax removal on sanitary pads with no action by the government.

In the 2011 State of the Nation Address, President Zuma announced the free provision of sanitary products to indigent women. In September 2017, the Department of Women reported that “there is currently no national policy guiding the provision of sanitary products to indigent persons. As a result, the provision of sanitary products is inconsistent, uncoordinated and would seem to depend on provincial priorities.”

¹⁹ 'African Activists Seek Universal Access to Sanitary Products' Devex, 15 July 2019

²⁰ Sunday Times, 4 April 2019 Relief for consumers as retailers adjust prices for VAT-free sanitary pads

<https://www.timeslive.co.za/news/south-africa/2019-04-02-relief-for-consumers-as-retailers-adjust-prices-for-vat-free-sanitary-pads/>

²¹ Personal communication from Days for Girls South Africa

²² 'African Activists Seek Universal Access to Sanitary Products' Devex, 15 July 2019

²³ *ibid.*

²⁴ The South African, 23 August 2018 Shoprite goes VAT free <https://www.thesouthafrican.com/news/sanitary-pad-subsidy-shoprite-vat/>

CASE STUDY 6: CUSTOMS DUTY ON RAW MATERIALS USED TO PRODUCE SANITARY PADS WAIVED IN BANGLADESH, 2019

In July 2019, the Bangladeshi government announced that Supplementary Duty and VAT on imported raw materials used to produce sanitary pads will be exempt from 29th October, 2019.

Effect: No reliable information on the effects on production prices is currently available.

Before mid-2019, the total rate of different taxes on the raw materials used to produce sanitary pads was approximately 127.8% in Bangladesh. In July 2019, amidst protests against a supposed increase in VAT on the raw materials used to produce sanitary pads in the 2019-20 financial year national budget, the National Board of Revenue (NBR) issued a press statement in which they stated no additional taxes had been imposed on the products in the interests of better menstrual health²⁵. When the NBR's decision is put into effect, around 60% of those taxes (existing Supplementary Duty (SD) and VAT) will be exempted.

A local manufacturer said that, while the government initiative was laudable, unless it was properly implemented the prices for consumers would hardly be affected and this had been attempted before but was not implemented by the authorities concerned.

CASE STUDY 7: VAT REDUCTION IN THE UNITED KINGDOM, 2001 AND THE UK TAMPON TAX FUND, 2015 TO PRESENT

Since 2001, a reduced VAT of 5% has been applied in the United Kingdom to menstrual products in line with EU legislation which prevents any further tax cut.

Effect: No reliable information on the effect on prices is available.

As part of response to campaigning efforts on period poverty and taxes, some large retailers, such as Tesco, have opted to pay the 5% VAT themselves and thus reduce prices by 5%.²⁶

Since 2015, the <£15million revenue generated from the 5% VAT annually is redistributed through a Tampon Tax Fund to projects that improve the lives of disadvantaged women and girls. However, The Tampon Tax Fund has been criticised for favouring large charities that do not specifically work for the welfare of women and girls²⁷, and in 2017 there was controversy when the government awarded £250,000 through the fund to an anti-abortion organisation.²⁸ It is unclear if there is an organisation or party responsible for tracking the allocation of money in this fund and holding the government accountable, or if advocacy groups are electing to do this independently. Similarly, it is unclear if the amount of money redistributed through the fund is part of the total amount of revenue collected through the 5% VAT, or part of it. Some advocates may also object to the idea that women must be taxed in order for women's charities to receive government funding.

²⁵ 4th July 2019 <https://www.dhakatribune.com/bangladesh/2019/07/04/would-vat-exemption-make-sanitary-napkins-more-affordable>

²⁶ 'Tesco Covers Tampon Tax for Customers by Cutting Prices' *The Guardian*, 28 July 2017

²⁷ 'Tampon Tax: Women's Charities Urge for Cash to be Ringfenced' *The Guardian*, 7 April 2019

²⁸ 'Anti-abortion Charity to Receive Money from Tampon Tax' *The Independent* 29 October 2017

CASE STUDY 8: CAMPAIGN FOR VAT REDUCTION IN GERMANY, 2015 TO 2019

In January 2020 the tax on menstrual products in Germany was reduced from 19% to the lowest possible rate of 7%.

Effect: According to our own research the prices have reduced by 10.5% on average.

We monitored the prices at two of Germany's largest retailers (Rossmann and DM) in December 2019 and after the tax removal in January and June 2020 respectively. Across all brands and product types the prices reduced and remained stable even six months afterwards. The average reduction in price was 10.5%.

Table: Price development for key brands at Rossmann taken from Rossmann website²⁹

Brand, type, size	Dec 2019	Jan 20	Juni 20	Price change
O.B., tampons, normal, 16 pcs	1,99 €	1,79 €	1,79 €	-10,1%
Always, Maxi classic pad, normal, 9 pcs	0,95 €		0,85 €	-10,5%
Always, Ultra pad normal BigPack, 28 pcs	3,45 €		2,95 €	-14,5%
Merula Cup Size M	19,99 €	17,89 €	17,89 €	-10,5%

Interestingly, a 2015 statement by the German parliament in response to a first petition from campaigners to apply a reduced VAT rate expresses doubts that menstrual products will become more affordable by reducing taxes. This was used as a basis for rejecting the petition.³⁰ A campaign case study can be read in the Advocacy Guide.

Several producers and key retailers have already publicly announced that they are committed to passing on VAT savings to consumers. With the tax reduction being highly visible in the media, there will be enough pressure towards other retailers and producers to remain competitive.³¹

However, not all producers complied, and in early January 2020 the media reported on retailers quoting a price increase for tampons³². This was picked up widely, even though it concerned only one company and one type of product, for which the producer claimed the price increase was not in relation to the tax removal. Again, the pressure in the media was an important aspect to draw attention and ask retailers to comply.

²⁹ Prices at dm similar. The list can be made available upon request.

³⁰ 'Petition 58474 Abschlussbegründung' 5 November 2015

³¹ 'Tampon tax' on Feminine Hygiene Products to be Reduced in Germany' DW, 5 October 2019

³² <https://www.dw.com/en/higher-tampon-prices-on-horizon-despite-german-tax-break/a-52049226>

CASE STUDY 9: VAT REDUCTION IN KENYA, 2004, AND IMPORT DUTY REMOVAL, 2004 AND 2017

Kenya repealed its VAT on pads and tampons in 2004 to lower the retail price. It also reduced import duty from 35% to 25% – the highest possible duty in the African Community Customs Union at the time. ³³

In November 2017, Kenya removed duties on the raw materials used in the production of sanitary pads to help make the products more affordable.

Effect: No reliable information on the effects on prices is available yet. In the National Assembly discussion in 2004 following the removal it was mentioned that profits for importers were increasing, and retailers selling them at same price. Overall, the repeal has been praised in the National Assembly as positive.³⁵

Since 2011, following studies that conclude that the affordability of sanitary products is a key barrier to their use and lead to girls dropping out of school during their menstruation, the Kenyan government has budgeted approximately \$3 million annually to distribute free sanitary pads in schools in low-income communities³⁶. After discussions in 2017, the law was amended and the government allocated \$4.6 million to the Ministry of Public Service, Youth and Gender Affairs to buy pads.³⁷

³³ National Assembly, official report 2004

³⁴ <https://www.voanews.com/africa/kenya-seeks-boost-girls-education-providing-free-sanitary-products>

³⁵ National Assembly, official report 2004 https://books.google.de/books?id=GEHgRHZtroC&pg=PT34&lpg=PT34&dq=kenya+prices+sanitary+pads+VAT+removal&source=bl&ots=_v3h6re9nn&sig=ACfU3U3FGgqkMtfF5QQ2TlynRI3CexmHUA&hl=de&sa=X&ved=2ahUKewjg76Kh0rTIAhXQzqQKHfVXAYYQ6AEwChOECaKQA-Q#v=onepage&q=kenya%20prices%20sanitary%20pads%20VAT%20removal&f=false

³⁶ <https://www.npr.org/sections/goatsandsoda/2016/05/10/476741805/what-kenya-can-teach-the-u-s-about-menstrual-pads?t=1571911412949>

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CASE STUDY 10: CUSTOMS DUTY ON RAW MATERIALS USED TO PRODUCE SANITARY PADS WAIVED IN ZIMBABWE, 2018

In 2018, the Zimbabwean Government scrapped duty and VAT in Statutory Instrument 264 of 2018 for the period December 1st, 2018 to November 30th, 2019.

Effect: No price reduction has been documented. On the contrary, it has been reported that prices have skyrocketed.³⁸ Sanitary Aid Zimbabwe reported in July 2019 an 800% increase in prices since December 2018.³⁹

Local companies have not reduced prices despite the fact that they committed to doing so, claiming high costs and low manufacturing volume as reasons. Retail outlets continue to raise product prices.⁴⁰ According to Sanitary Aid Zimbabwe, the local sanitary industry is currently operating at an average capacity of 15%, and incurring huge diseconomies of scale as a result.

Importers of menstrual products must pay for their goods with US dollars, which depends on the foreign exchange rate. The price increase happened at a time when inflation also rose to the current levels of 176%. The intervention was expected to give local manufacturers time to recover. Because of these developments, the purpose of scrapping VAT and duty on sanitary products was not felt by the intended beneficiaries, as they are now not able to access sanitary products due to these high prices⁴¹. One of the key recommendations was to strengthen the local economy instead of favouring importers, in order to create "benefits such as increased employment, more tax contribution to government, earning foreign currency through export of sanitary products, among other benefits," said Nyava from Sanitary Aid Zimbabwe.

³⁸ <https://www.dailynews.co.zw/articles/2017/10/24/prices-of-sanitary-wear-skyrocket>

³⁹ <https://healthtimes.co.zw/2019/07/29/mthuli-ncube-urged-to-review-sanitary-wear-prices-in-supplementary-budget/>

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⁴⁰ <https://www.sundaymail.co.zw/sanitary-pad-firms-sing-the-blues>

⁴¹ *ibid.*

5. VAT AND PRICE CHANGE EFFECTS ON OTHER CONSUMER PRODUCTS AND SERVICES

Because of limited solid evidence on the impact of VAT changes on menstrual product prices, we researched other economic studies that documented the effects to draw on further experiences and learning.

Reduced VAT Applied to Goods and Services in the Member States of the European Union, 2007 – Meta Study

This is the most comprehensive study drawing from findings and analysis of different VAT reduction and experimentation programmes in the European Union (EU)⁴². The analysis has seen positive changes in cases regarding books (Sweden), periodicals (Italy), beverages (Portugal), restaurants (Portugal) and Hairdressers (Ireland), but also noted cases where VAT was increased.

Table 2: Results of economic pass-through analysis by Copenhagen Economics

Sector	Country	VAT change (percentage points)	Estimated pass-through (percent of VAT change)
Books	Sweden	-19	82
Footwear	Italy	4	163
Periodicals	Italy	10	134
		-16	0 [†]
Beverages	Portugal	-5	0 [†]
		-7	0 [†]
Restaurants	Portugal	-5	19
Hairdressers	Ireland	-8	46
		1	1038
Hotels	Finland	2	196
Hairdressers	Portugal	2	175
Newspapers	Ireland	1	276
Electricity	Germany	1	687

It is difficult to compare the cases above with the effect of VAT changes on menstrual products as some of the sectors concern the service industry (restaurants, hotels, hairdressers). Additionally, the tax reduction might have different objectives beyond reducing consumer prices (see next box).

⁴² Copenhagen Economics, 2007, Study on reduced VAT applied to goods and services in the Member States of the European Union, Annex

ASIDE: OTHER REASONS FOR A VAT REDUCTION BEYOND CONSUMER PRICES

Countries might choose to favour and apply a reduced VAT, not only to benefit the consumer with lower prices, but to have other positive stimulants for the economy and/or a specific sector. The reasons are sometimes interrelated, and can be either to increase demand in the product, to create and/or increase employment (particularly in the service industry), to favour imports or exports, or to encourage investments into certain sectors or industries.

For instance, Zambia's zero rate for energy-saving equipment is likely applied for environmental reasons. Senegal's reduced rate of 10% for accommodation and catering services appears to be aimed at increasing the competitiveness of its tourism industry.

VAT Reduction as an Instrument to Stimulate Demand for Specific Products or Services

There is no evidence in the cases included in this report to suggest that VAT reduction is a suitable instrument to stimulate demand for a product or service. Although the 2018 report from the South African treasury hypothesises that demand for menstrual products will increase as prices drop after exempting products from VAT or applying a zero-rate VAT to them, this assumes that prices will drop as a result of tax reduction.

VAT Reduction as an Instrument to Stimulate Local Markets or Increase Employment

The example from Zimbabwe has used tax removal on the import of raw materials to balance out currency challenges for local producers.

In the case of the VAT reduction on restaurant meals in France, evidence was collected that suggests there was an increase in wages for restaurant employees as a result. This was supported by the findings from Hungary, in which it was suggested that restaurant meal prices did not decrease because the savings incurred by the VAT reduction were used, at least in part, to increase employee wages.

As the research findings apply mostly to services, these findings are difficult to transfer to menstrual products production and sale. It is therefore possible that reducing VAT on menstrual products could stimulate the local market or increase employment, but it depends highly on the market. Tanzania chose a different method, by proposing a reduction in corporate income tax (CIT) for new investors in sanitary pad production.

6. REASONS TAX REDUCTION HAS BEEN PASSED THROUGH

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In countries and states where period tax reduction has been passed on (Australia, Germany and New Jersey, USA), the following complementary favourable factors can be derived from the case studies:

- Type of tax (sales tax)
- Strong accountability or legal mechanisms, ideally in combination with a regulated or less informal market
- Media as ally to create awareness and pressure on private sector
- Consumer awareness
- Large retailers commit and pressure others

Understanding if these conditions are in place in your country, or how they can be strengthened by your campaigning activities and by liaising with the government, is important to consider during your campaign strategy.

Removal of the sales tax, such as in the USA, is simple to administer, and will not create any price burden on producers and retailers, as it is a strict consumer-paid tax.

Ensuring pass-through is the foremost task for national, state or local governments, depending on where tax is collected. Some countries have dedicated anti-profiteering laws. In India, an inquiry was conducted and it found Johnson & Johnson guilty of profiteering from a GST reduction⁴³. Consumer authorities (or the respective ministries) not only monitor and put pressure on retailers to lower prices according to tax reduction, they also offer consumers a point of contact for complaints or reports of profiteering.

- Campaign tip:**
- *Document product prices before and after tax reduction or removal.*
 - *Ideally, liaise with your country's consumer authority during the campaign to identify if they have recommendations on aspects that might be worth considering during a campaign. They might be even responsible for price documentation.*

Table 3: The ideal scenario after tax exemption, with the same profit as with taxes (see Table 1)

⁴³ See case study India.



Costs	1.00 \$		1.20 \$		1.50 \$	
VAT	0		0		0	
Price	1.0 \$		1.20 \$		1.50 \$	
		Producer purchase for 1.00\$ from farmer		Store purchase for 1.20\$ from producer		Consumer purchase for 1.50\$ from
Profit		0.2 \$		0.3 \$		
VAT to gov		0		0		(paid by store)

In an ideal scenario the products would be 10% cheaper (instead of 1.65\$ with previous VAT rate, see Table 1). Similar calculations would apply for reduced rates, except the government would still receive tax income from the reduced rate.

7. WHY REDUCING VAT DOES NOT NECESSARILY LEAD TO REDUCED PRICES

As seen from the case studies above, the pass-through of tax reduction or removal has not been felt by consumers (uniformly) in some countries. The key factors, which can complement one another, are:

- VAT reduction is turned into profit along the supply chain
- Type of tax removal
- Plus an external reason: Inflation

Understanding the causes of these factors will help to suggest counter-measures for policy makers and advocates, which will be elaborated in the following.

Table 4: No VAT along the entire supply chain but with increase profit (in this case by all firms)



Costs	1.00 \$		1.25 \$		1.60 \$	
zero VAT						
Total price	1.0 \$		1.20 \$		1.60 \$	
		Producer purchase for 1.00 \$ from farmer		Store purchase for 1.25 \$ from producer		Consumer purchase for 1.60 \$ from store
Profit		0.25 \$		0.35 \$		
VAT to gov		0		0		(paid by store)

If one or several companies along the supply chain increase profit margins, the consumer pays marginally less or the same price than before (see Table 1). The same model would apply for reduced rates, except the government would still receive tax income from the reduced rate.

Potential cause: Low accountability against profit gains

If there is no legally binding regulation or government holding companies along the supply chain accountable, there is a high risk that there will be no uniform pass-through.

There might be a legal option to bind larger production companies, such as in the case of India, or larger retailers, but small-scale producers and companies along the supply chain for retail, transport and final sales become more difficult to control. This accountability will be especially challenging to execute outside major cities and in slum areas where the market is highly unregulated, diversified or small-scale.

Potential Cause: Competition vs. monopoly

After comparing different VAT models, the Copenhagen Economics⁴⁴ study concludes that the way the market is structured has an effect on pass-through. The key conclusions are:

- In a fully competitive market, VAT changes are passed entirely through to consumers as competition in the market forces to set the lowest possible price
- In a less competitive market, VAT changes are not passed entirely through to consumers in the short to medium term

Looking at the market structure in low- and middle-income countries, the market is less competitive and almost a monopoly⁴⁵, especially when it comes to transport to and retail in hard-to-reach areas. This explains why prices for menstrual supplies are not expected to drop, and evidence for this can be found in cases from Tanzania and India.

That has two effects:

- Price reductions that are not uniform
- A political or popular decrease in price, which is followed in the medium term by an adjustment

Potential cause: The type of VAT removal and tax system

The type of VAT removal matters, and while it sounds similar to tax exemption, technically only zero rating products will ensure the full tax difference is passed through.

- Zero-rating: In the case of menstrual products having zero-rate VAT, the retailer is able to claim input VAT back, but there is no VAT applied to the end product.

In this scenario it is more likely that retailers will reduce prices. Again, without organisations or governments holding retailers to account, there is no guarantee that price will be reduced or by how much.

- VAT exemption: It is not possible to reclaim input taxes in the case of a product being made VAT exempt.

It is highly unlikely that producers will reduce prices and the input tax is passed forward to the consumer (see Table 5), who will pay only marginally less than before. Furthermore, this tax model can create both significant administration costs and impact the efficiency of production⁴⁶, which might result in the producers needing to increase the profit margin.

⁴⁴ Copenhagen Economics (2007): Study on reduced VAT applied to goods and services in the Member States of the European Union, Annex

⁴⁵ The impact on VAT on the informal markets as often present in low income countries, is not discussed here, as we assume for a consumer product such as menstrual product, the informal market is rather low

⁴⁶ Harris, et al (2018)

Table 5: VAT exemption (no input tax reclaim) and same profit as before VAT exemption



Costs	1.00 \$		1.30 \$		1.60 \$	
VAT	0.10 \$		0 \$		0 \$	
Total price	1.10 \$		1.30 \$		1.60 \$	
	Supplier	Producer purchase for 1.10 \$ from supplier		Store purchase for 1.30 \$ from producer		Consumer purchase for 1.60 \$ from store
Profit						
		0.20 \$		0.30 \$		
VAT to gov	0.1 \$	Cannot claim input tax of 0.1 \$		0		(paid by store)

The consumer pays marginally less than when VAT is applied (see Table 1).

Countries have different tax systems from one another, and it is difficult to make generalised statements. However, basic findings from the Copenhagen Economics⁴⁷ study are that:

- VAT changes, which increase the complexity and the administrative burden of firms, are most likely to result in increased fixed costs
- Small VAT changes are much more difficult to handle econometrically, which can lead companies to increase profits and not pass through the VAT difference

Potential cause: Inflation

As can be seen from the Zimbabwe case study, the inflation of the local currency increased costs for import of raw materials and outweighed the (potential) gains through a potential price reduction.

8. STRATEGIES AND INSTRUMENTS TO ENSURE COST REDUCTION AFTER TAX CHANGES

As seen from chapters 6 and 7, there are favourable and unfavourable conditions that can influence the price a consumer pays for menstrual products once the tax has been scrapped. Therefore, it becomes obvious that a removal/reduction needs to be accompanied by additional measures.

Government to Apply Accountability Mechanisms

The following is a list of strategies that can be pursued by the government or government authorities on both national and local levels to ensure VAT removal passes through in the form of retail price reduction (as already discussed in chapter 6):

- Investigate price developments across the supply chain
- Pursue legal action against producers and retailers who do not pass the savings of VAT reduction or removal to the consumer (anti-profiteering)
- Force manufacturers to print the recommended retail price on the packaging.

Campaign tip: *as a campaigner you seldom have influence on government processes. Document consumer prices before and after tax reduction. If there is no full pass-through, identify where the profit gains lie along the supply chain if possible.*

Do price indications have an effect on tax reduction pass-through?

Price indications include prices printed by menstrual product manufacturers on packaging, and retailers indicating prices on signage or in advertising⁴⁸. Price indications are usually prescribed by national legislation and can differ from country to country. There are different approaches to this, and they have different effects.

Option A: A manufacturer indicating a new sale price on the package. Printing prices on products isn't likely to be supported by retailers, as it allows less flexibility for different market segments and regions. On the other hand, it is likely to be favoured by consumers, although they may not notice that a price has changed over time. There are also concerns of misconduct by manufacturers by labelling a lower price that allows retailers to offer an attractive reduction⁴⁹.

Option B: Manufacturers and retailers indicate before and after prices, or the price reduction, on packaging, signage and/or in advertisements. While the case study below provides no evidence that this had a direct effect on pass-through, informing consumers about price reductions on packaging, signage and advertisements can be an effective tool to educate consumers and thus generate pressure on retailers to pass through tax reduction. It is important when indicating such price reductions not to confuse consumers. The price reduction must not look like a limited-time sale when it is advertised – it must be clear that the price change is permanent, and why the price has changed.

⁴⁸ In most countries manufacturers usually issue a recommended retail price (RRP) of a product, which is the price the manufacturer recommends that the retailer sells the product at. This has the intention of helping standardise prices among locations. Retailers usually charge the RRP or less. A price cap is another policy instrument that is not discussed here in the context of period taxes, as it is a different market mechanism.

⁴⁹ <http://tiny.cc/26c7rz> (page 442)

Campaign tip: Check if indicating the price on packaging is possible according to your country's legislation.

Create Public Awareness and Pressure on Tax Reduction

As a campaigner, you can create public pressure on producers, retailers, transporters, and final sales agents to pass through tax reduction.

- During the campaign: either push them through public, and ideally written, commitments coupled with positive or negative media coverage to create further pressure
- After tax changes: engage the media to report on compliant and non-compliant producers, retailers and sellers to generate public pressure
- Report non-compliant actors to consumer authorities

Campaign tip: Work with relevant national and local ministries and consumer authorities during and after the successful campaign to identify legal and other measures that can be used for compliance and holding companies accountable for pass-through.

Alternative and Further Instruments for Achieving a Cost Reduction on Menstrual Products

If the ultimate goal is to make products more affordable for low-income households, reducing taxes can be one of the mechanisms.

It is always important to consider alternative policy tools.

Tax reduction for the benefit of low-income households

VAT/GST and sales tax are consumption taxes. Because lower-income households spend a greater share of their income on consumption than higher-income households, the VAT is 'regressive'. The tax burden as a share of income is highest for low-income households and falls sharply as household income rises.

Exempting, zero rating, or excluding certain essential consumption goods from the tax base (e.g., foodstuffs, medicine, health care, and menstrual products) can reduce the regressivity of a VAT.⁵⁰

On the other hand, giving preferential treatment to particular goods is an inefficient way to make the tax less regressive because high-income households consume more of the goods in question (though less as a share of income) than low-income households.⁵¹ In this case, it is likely they buy more regularly, and/or more expensive, higher-quality menstrual products for which the tax share increases with the price.

Furthermore, and this is a common counter-argument, even if the price is passed through, the costs will only be marginally lower (in the range of 5-20%), and still expensive for poor households and individuals.

⁵⁰ <https://www.taxpolicycenter.org/briefing-book/who-would-bear-burden-vat>

⁵¹ as above

There are further policy or market-based instruments that may avoid some VAT-related problems, such as offering more freedom to determine the correct size of the incentive and be more targeted towards low income households.

Alternative instruments targeting women and girls include:

- Free distribution of menstrual products
- Income tax credits
- Vouchers or direct cash subsidies

Alternative instruments targeting the private sector:

- Reduced corporate taxes for menstrual product producers (such as Tanzania with a reduction in corporate income tax (CIT) for new investors in sanitary pad production)
- Subsidies for companies along the supply chain
- Investment credits or subsidies for local producers
- Innovation grants or credits for producers that find ways to lower production and distribution costs

These may bring new complications such as the need to set up a new administrative scheme.

A comparison of VAT differentiation with other instruments is beyond the scope of this study as it is also country-specific. Providing a full overview of policy or market instruments and technology innovation to make products more affordable is also beyond the scope.

8. CONCLUSIONS

From the available case studies it becomes clear that more robust data and documentation is required to document impact of tax reduction and removal on final consumer prices and market structures.

The case studies in Germany and Australia, where taxes on menstrual products were removed or reduced show a pass-through of reduced taxes on the price paid by consumers. The New Jersey case showed a positive effect as well, but it should be emphasised again that sales tax and VAT/GST are not the same. In Tanzania, some shops reduced the price of menstrual products after the VAT cut, but data is unreliable or incomplete. The same holds true for India and Bangladesh. The lack of proper documentation calls for activists and consumer authorities to document prices before and after tax removal, and eventually to investigate price developments along the supply chain.

These findings are supported by cases that look at VAT reduction in other sectors, where the reduction in taxes was only partially passed on to consumers or not at all. In the majority of cases, this was because retailers or business owners take the tax cut as additional profit.

Removing VAT entirely can reduce prices if accountability exists to ensure retailers pass the savings on to consumers. One of the interesting findings from this research, often neglected among campaigners, is that reducing or zero-rating rather than exempting VAT on menstrual products allows retailers to reclaim input VAT, which creates a scenario in which it is more likely for retailers to pass tax savings to consumers.

A further effect of VAT exemption – depending on a country's market context and tax circumstances – is that it may result in imported products becoming cheaper. In India the removal of GST saw no reduction in price outside the fact that imported products became more competitively priced. This can be positive for consumers, yet there is a risk of destroying local markets because imported goods become cheaper than locally produced products. Again, better documentation and information is required to certify these effects.

Scrapping the period tax has become a popular and politically motivated move to address period poverty. While campaigning for a removal or reduction is a straightforward advocacy goal, gaining an understanding of the country's tax system and retail market is recommended already during a campaign. The tax system might not be the quickest or most effective policy instrument. Overall, additional and country-specific studies are required to assess and compare different policy instruments that increase affordability and access to menstrual products (one necessarily doesn't cause the other), especially when targeting low-income households and individuals.

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