

Tobacco taxation

Increasing tobacco taxation reduces the demand for tobacco

Taxation is one of the most effective ways of reducing tobacco use. Higher tobacco taxes raise tobacco prices leading to reductions in tobacco consumption. Increasing the price of tobacco reduces tobacco use, discourages initiation among potential users, encourages current users to quit and helps prevent relapse in those who have stopped.

Demand reduction is higher in low- and middle-income countries, where lower incomes make tobacco users more responsive to price increases than those in high-income countries. A 10% price increase is estimated to lead to a reduction in demand of 4% in high-income countries, but up to 8% in low- and middle-income countries (1,2).

Higher tobacco taxes have the greatest impact on the poor and young people

The impact of higher taxation on tobacco is likely to be greatest on tobacco users with low incomes, who are more price-sensitive. As prices increase, these users are more likely to reduce or quit tobacco use. This leads to lower health costs and more resources for essential items such as food, shelter, education and health care.

Higher prices also deter young people from starting tobacco use. This is because young people tend to have less money to spend. Tobacco taxation is therefore an effective and important way to prevent tobacco use among the young.

Tobacco taxation in the Region

Compared to other WHO regions, the Eastern Mediterranean Region has the lowest average tobacco prices and taxation rates. Taxes average around 40% of retail prices. In nearly half the countries of the Region there is no excise taxation on tobacco (3).

Moreover, many non-cigarette forms of tobacco popular in the Region, such as smokeless and waterpipe tobacco, are often only minimally taxed or are not covered by tobacco taxation at all. If tax increases are only applied to cigarettes, smokers may switch to these other forms of tobacco use. Applying taxation equally to all forms of tobacco provides an opportunity to raise extra revenues while reducing non-cigarette tobacco consumption.

Increasing tobacco tax revenue

Tobacco taxation can generate significant revenues for governments. Governments can allocate the extra revenues generated by higher tobacco taxes to health programmes such as accessible health services, health insurance and tobacco control initiatives.

The tobacco industry argues that increasing tobacco taxation will lead to a decrease in tax revenues. However, this is not supported by the experience of many countries, including Egypt and Pakistan, which have found that increasing tobacco taxation has led to a substantial increase in tax revenues. In fact, reducing tobacco taxation just leads to increased tobacco consumption and reduced tax revenues.

Taxation approaches

There are several different types of taxation, including excise taxes, custom duties, value added taxes and sales taxes. Excise taxes are a tax on the production or sale of a particular good, and typically constitute the greatest share of tobacco taxation. They are the most effective way to raise the price of tobacco products relative to other consumer prices.

There are two main approaches to excise taxation: a specific tax based on quantity (e.g. a fixed amount per cigarette pack) and an ad valorem tax based on value (e.g. a percentage of the wholesale or retail price). Specific taxes provide more predictable revenue, while ad valorem taxes allow prices to keep pace with inflation. A combination of



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both types can be adopted. The taxation approach taken will depend on the situation in each country. It is important that the taxation structure should be simple and easy for governments to implement.

Tobacco industry arguments

The tobacco industry argues that increasing taxes on tobacco encourages the illicit trade in tobacco, depriving governments of revenues. However, research has found that the illicit trade in tobacco is not the result of higher tobacco prices, but rather of weak governance, ineffective tax administration and weak customs controls. In fact, the smuggling of tobacco products is often higher in countries that have lower tobacco prices.

The industry also argues that tobacco taxes are unfair to the poor. But increasing tobacco prices encourages those on low incomes to reduce their tobacco consumption, protecting them from the health harms of tobacco use. It also enables them to spend the money they would have spent on tobacco on essential items such as food, medicines and the education of their children.

Best practices and the way forward

Tobacco taxation is a key part of any comprehensive tobacco control strategy. Tobacco tax increases reduce tobacco consumption and prevent tobacco-related death and disease, particularly among those with low incomes and the young. Article 6 of the WHO Framework Convention on Tobacco Control

calls on governments to implement price and tax measures to reduce the demand for tobacco.

To achieve this, the following measures are needed.

- ▶ Taxes should be imposed that are at least 70% of the final retail price of tobacco products. This is high enough to deter tobacco use and will lead to significant increases in tobacco tax revenues.
- ▶ Tobacco taxation should be automatically linked to inflation. Tax increases should exceed rises in consumer prices and incomes to reduce the affordability of tobacco.
- ▶ Taxation should be applied to imported tobacco products and duty-free sales eliminated. This reduces tax avoidance and evasion opportunities.
- ▶ All tobacco products should be included in tobacco taxation. This strengthens the public health impact and increases revenues. Taxing all tobacco brands and products at comparable rates minimizes the incentive to switch to cheaper brands and products in response to tax increases.
- ▶ The tobacco taxation system should be simplified. This helps improve tax administration and reduces tax avoidance and evasion including the illicit trade in tobacco.
- ▶ Tobacco taxation revenues should be allocated to tobacco control and other health initiatives. This will help increase public support for tobacco tax increases.

References

1. *WHO technical manual on tobacco tax administration*. Geneva, World Health Organization, 2010.
2. *MPOWER brochure: raise taxes on tobacco*. Geneva, World Health Organization, 2010.
3. *Tobacco taxation in the Eastern Mediterranean Region*. Cairo, WHO Regional Office for the Eastern Mediterranean, 2010.