

# RAISE TAXES ON TOBACCO



## 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 by discouraging initiation among potential users, encouraging current users to quit and helping to prevent relapse in those who have stopped.

## The problem

### Increasing tobacco use in the WHO Eastern Mediterranean Region

= Tobacco consumption is increasing in many countries in the Region. Egypt, the Islamic Republic of Iran, and Pakistan are expected to be among the top growth countries, with respect to tobacco consumption, worldwide, in the next 40 years.

= Cigarettes are the most prevalent form of regulated tobacco, but other forms of tobacco are also prevalent in the Region. Waterpipe tobacco is the most popular, with Egypt and Saudi Arabia estimated to account for over 40% of the market worldwide. Smokeless tobacco

is prevalent in countries such as Afghanistan, Pakistan and Yemen, with its use increasing in the rest of the Region as well.

### Low tobacco prices and taxes

= Compared to other WHO regions, the Eastern Mediterranean Region has the second lowest average tobacco prices and third lowest average excise tax per pack (Fig. 1). Both prices and taxes as a proportion of the retail price vary widely across the Region.

= Many non-cigarette forms of 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 other forms of tobacco use, such as waterpipe and smokeless tobacco.

### Illicit trade in tobacco products

= Many countries in the Region have been targeted by cigarette smugglers. Smuggled cigarettes are untaxed and therefore less expensive. They deprive governments of tax revenue, and undermine their pricing policies, legal restrictions and health regulations on tobacco. Eliminating the illicit trade in tobacco in the Region would increase cigarette prices and thereby reduce consumption

and save lives, while increasing government tax revenues.

## The policy

### Raise tobacco taxes

= Tax all tobacco products significantly to increase prices. Taxes need to be substantial to achieve the desired price increase.

= Promote regional and international collaboration in tax policy-making and curbing illegal trade in tobacco products.

### The results

= Improve public health by reducing tobacco use.

= Generate government revenue.

### A better policy

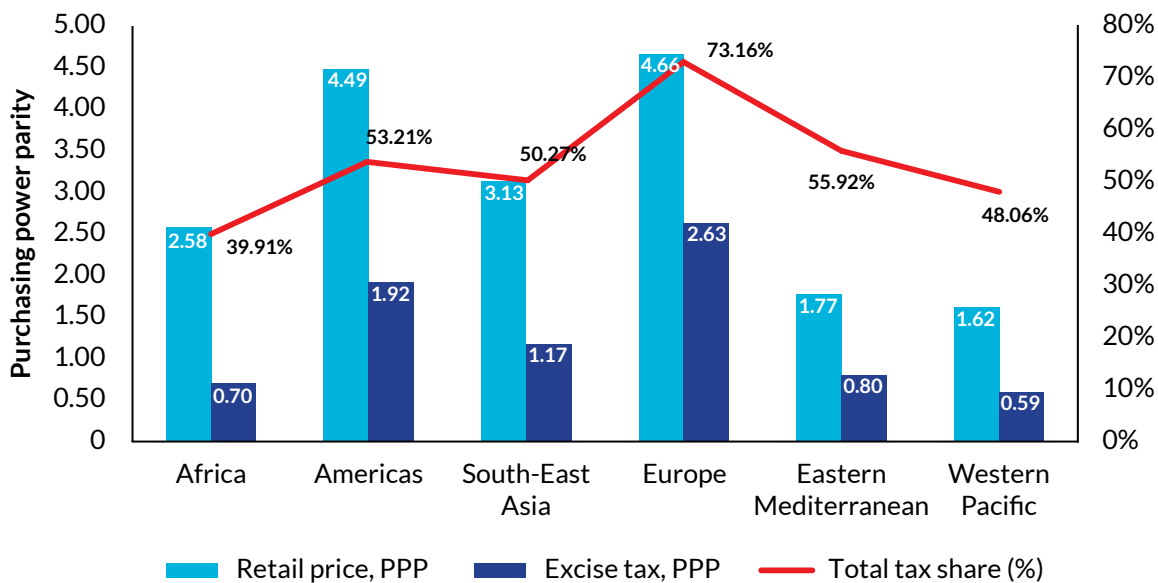
= Use part of revenue to finance tobacco control or other health promoting activities to achieve a greater impact on health.

"On the basis of evidence from more than 100 studies, including those undertaken in low-income and middle-income countries, the single most important opportunity for national governments worldwide to curb NCDs [noncommunicable diseases] is to tax tobacco heavily"

- The Lancet Commission on Investing in Health (2013)

Higher tobacco taxes = fewer smokers, less death and healthier communities.

**WORLD NO TOBACCO DAY, 31 MAY**  
[www.emro.who.int/tfi](http://www.emro.who.int/tfi)



PPP: Purchasing power parity.

Fig.1. Weighted average price of the most sold brand, excise tax per pack and total tax share by WHO region, 2012

Source: Adapted from WHO report on the global tobacco epidemic, 2013: enforcing bans on tobacco advertising, promotion and sponsorship. Geneva: World Health Organization; 2013.

## The impact

### Healthier people

#### = Decrease consumption

Increasing tobacco taxes to achieve a 10% increase in tobacco prices will reduce consumption by 4% in high-income countries and around 5% in low- and middle-income countries.

#### = Save lives

If countries in the WHO Eastern Mediterranean Region increased the amount of excise they charge on cigarette packs by 50%, WHO estimates that there would be more than 3.5 million fewer smokers and at least 785 000 smoking-attributable deaths would be averted (WHO, unpublished data, 2014). Globally, 11 million deaths would be averted.

#### = Help the vulnerable

Young people have relatively less money to spend so they are relatively more sensitive to high prices. Less affordable tobacco will prevent them from taking up smoking and help them reduce consumption.

Low-income individuals spend a relatively higher proportion of their income on tobacco. Less affordable tobacco will help them relocate money to essential goods and improve their health, decreasing health inequities in society.

### Healthier budgets

#### = Raise tax revenue

Evidence from many countries shows that tobacco excise taxes can generate substantial tax revenue (Fig. 2). WHO estimates that a 50% increase in excise tax

would generate extra revenue of US\$ 1.9 billion in the Region (WHO, unpublished data, 2014). This amount represents more than 13% of general government expenditures on health regionally. Low-income people contribute less in this additional tax revenue due to their higher price sensitivity.

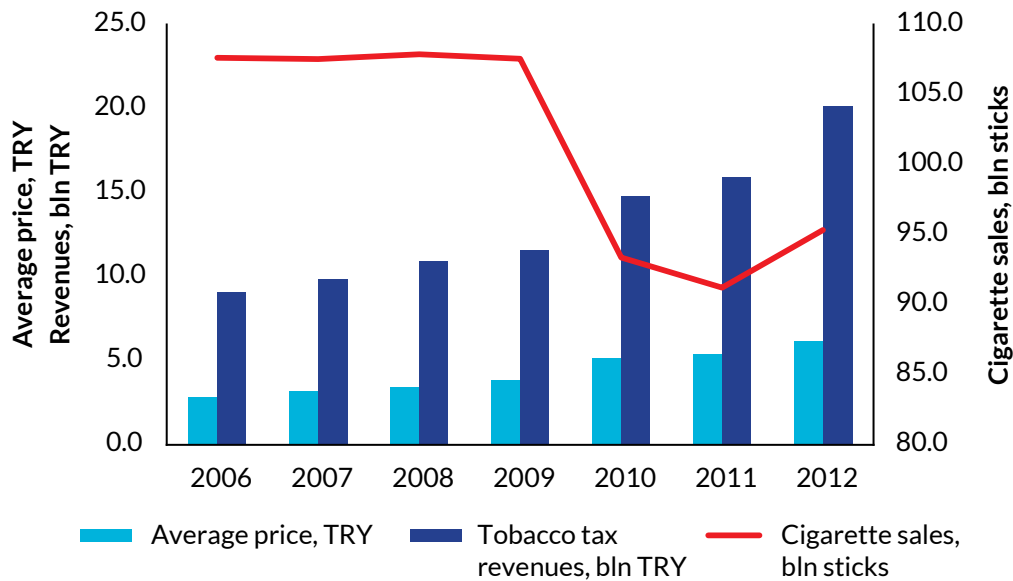
#### = Increase productivity

Health improvements increase labour productivity, hence increase personal income and stimulate economic development.

#### = Reduce health care expenses

Health improvements reduce government expenses on health care services and release funds for other important activities such as education or fighting poverty.

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TRY: Turkish Lira; bIn: billion.

Fig. 2. Cigarette sales, prices and tax revenue in Turkey 2006–2012

Source: WHO, unpublished data, 2014.

## The implementation

### How to tax tobacco products

- = Apply high and comparable taxes on all tobacco products
  - » To avoid substitution towards relatively cheaper products
- = Set an excise tax equal to at least 70% of retail price
  - » To achieve a significant price increase
- = Use a simple tax structure
  - » Easy to administer
  - » Less opportunities for tax avoidance and tax evasion
- = Rely more on specific (based on quantity) taxation rather than ad valorem (based on value) taxation
  - » Leads to higher price increases
  - » Reduces price gap between premium and low-priced brands

- » Less incentive to switch down
- = Rely on excise taxation rather than on import duties
  - » Reduces revenue vulnerability due to reliance on import prices
  - » In line with regional and international trade agreements
- = Establish a mechanism to automatically adjust tax for inflation and income growth
  - » So that real price does not fall making tobacco products more affordable
- = Eliminate tax and duty free sales of tobacco products
  - » In line with WHO Framework Convention on Tobacco Control, Article 6

### Strengthen capacity to monitor tobacco product markets

- = Control supply chain

- » License all involved in manufacturing and distribution
- » Use state-of-the-art monitoring, tracking and tracing system
- = Collaborate with customs, and regional and international organizations, to monitor trade
  - » In line with WHO Protocol to Eliminate Illicit Trade in Tobacco Products

### Evaluate impact of tax increases frequently

- = Maintain a comprehensive database
- = Conduct own market analysis; do not rely on industry

### Ensure certain, swift and severe penalties for those caught engaging in illicit trade in tobacco products

- = Focus on those running the operation and not on those at the end of the distribution chain

# RAISE TAXES ON TOBACCO

## The opposition

“Tobacco tax increases will reduce tax revenue”

- = Legal consumption decreases
- = Some people will quit; some will avoid taxes; some will evade taxes

No: Tax revenue will increase, at least in the short to medium term

- = Reduction in sales is less than proportionate to the price increase
- = Tax share in prices is low in many countries

“Tobacco tax increases create incentives for tax evasion”

But: Other factors are more important determinants of illicit trade

- = Ineffective customs and tax administration
- = Lack of coordination within country and among trade partners
- = Weak governance and corruption
- = Lack of government commitment
- = Organized criminal networks and existence of informal distributional channels

“Tobacco tax increases create incentives for tax avoidance”

- = For example, by pricing brands so that they belong to a less taxed tier

No: Not if we adopt a simple tax structure

- = Complex tax systems enable companies and individuals to avoid taxes by taking advantage of loopholes in the system

“Tobacco taxes will reduce economic activity and have a negative impact on the poor”

No: Spending on tobacco will be replaced by spending on other products

- = The poor benefit relatively more in terms of health gains while contribute relatively less to tax revenue increases due to higher price sensitivity

## Regional challenges and the way forward

### Challenges

- = Tobacco consumption expected to increase in the Region
- = Second lowest average cigarette prices compared to other WHO regions
- = Considerable price and tax incidence variation among countries in the Region
- = 10 countries in the Region impose no excise tax but rely on import duties which they will have to phase out due to international trade agreements
- = Due to stringent regulations in cigarette market, tobacco industry turns to markets for other tobacco products
- = Increasing trend in illicit trade

### Suggested changes

- = Increase existing tax rates

- = Move away from import duties
- = Adopt a simple tax system
- = Reduce tax differentials amongst tobacco products
- = Crack down on illicit trade by monitoring and controlling the supply side

### Expected impact

- = Reduction in tobacco consumption leading to health and economic benefits
- = Higher tax rates will increase revenue
- = Reliance on excise taxation will secure revenue
- = Taxing all products comparably will discourage product substitution, saving revenue and lives
- = Illicit trade will be eliminated

## Further reading

1. Chaloupka FJ, Yurekli A, Fong GT. Tobacco taxes as a tobacco control strategy. *Tob Control*. 2012;21(2):172–80.
2. International Agency for Research on Cancer. IARC handbooks of cancer prevention, tobacco control, volume 14: effectiveness of tax and price policies for tobacco control, 2011. Geneva: World Health Organization; 2011.
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4. WHO Framework Convention on Tobacco Control. WHO Protocol to Eliminate Illicit Trade in Tobacco Products. Geneva: World Health Organization; 2013.

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