

# R Raise taxes on tobacco

## Commitments of Parties to the WHO Framework Convention on Tobacco Control (WHO FCTC)<sup>1</sup>

- 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.
- Improve public health by reducing tobacco use.
- Generate government revenue.
- Use part of revenue to finance tobacco control or other health promoting activities to achieve a greater impact on health.

## Global evidence

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.

## Global best practice

Increasing tobacco taxes reduces consumption, improves health and saves lives.

- 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.

Less affordable tobacco will prevent low-income individuals from taking up smoking, and will help them reduce consumption, relocate money to essential goods and improve their health.

- 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.

Raising tax revenue can improve health, increase productivity and reduce health care expenses.

- Evidence from many countries shows that tobacco excise taxes can generate substantial tax revenue. WHO estimates that a 50% increase in excise tax would generate extra revenue of US\$ 1.9 billion in the Region (WHO, unpublished data, 2014).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.
- Health improvements increase labour productivity, hence increase personal income and stimulate economic development.
- Health improvements reduce government expenses on health care services and release funds for other important activities such as education or fighting poverty.

## Global impact

- Increasing tobacco taxes to achieve a 10% increase in tobacco prices will reduce consumption by 4% in high-income countries and around 4% to 8% in low- and middle-income countries.<sup>2,3</sup>
- 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.

## Regional status and data<sup>2,4</sup>

Tobacco use is increasing in the 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.

Tobacco prices and taxes are low in the Region.

- 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 is a problem in the Region.

- 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.

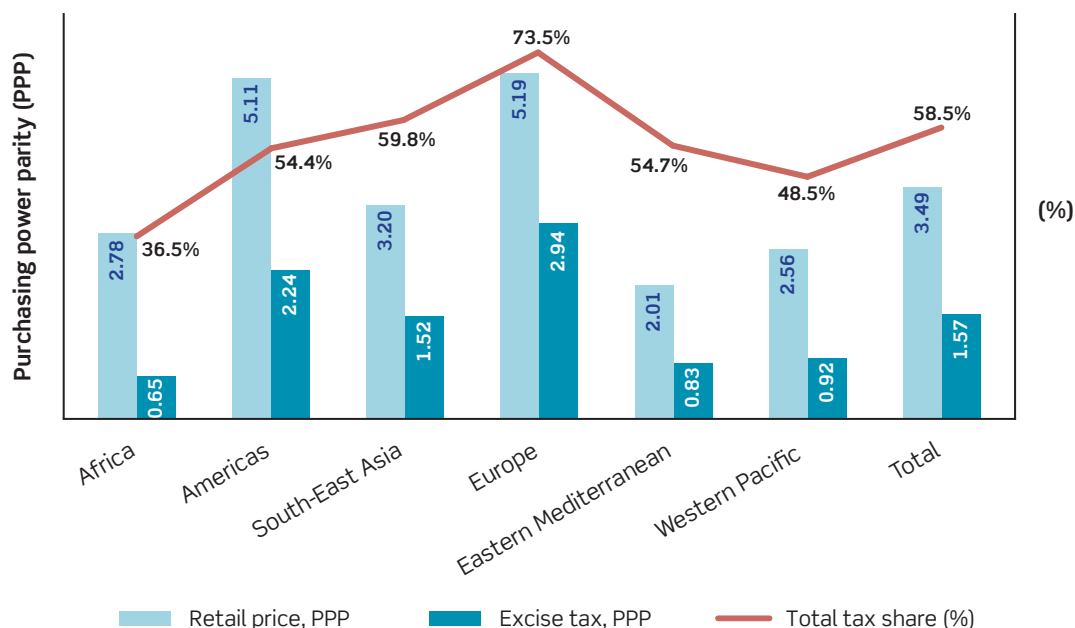


Fig. 1  
Retail price, excise tax amount (in purchasing power parity) and total taxes per pack of the most sold brand, WHO regions, 2014

Source: WHO Report on the global tobacco epidemic 2015. Geneva: World Health Organization; 2015.

## Action needed

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 as it is easy to administer and creates fewer opportunities for tax avoidance and tax evasion.
- Rely more on specific (based on quantity) taxation rather than *ad valorem* (based on value) taxation as specific taxation leads to higher price increases, reduces price gap between premium and low-priced brands and provides less incentive to switch down
- Rely on excise taxation rather than on import duties to reduce revenue vulnerability due to reliance on import prices and align 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 the supply chain by licensing all involved in manufacturing and distribution, and using state-of-the-art monitoring, tracking and tracing system.
- Collaborate with customs, and regional and international organizations, to monitor trade in line with the 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.

## Facts and fallacies: the truth about tobacco taxation

**Fallacy:** Tobacco tax increases will reduce tax revenue and decrease legal consumption; while some people will quit, some will avoid taxes and some will evade taxes.

**Fact:** Tax revenue will increase, at least in the short to medium term. Reduction in sales is less than proportionate to the price increase, and tax share in prices is low in many countries.<sup>5</sup>

**Fallacy:** Tobacco tax increases create incentives for tax evasion.

**Fact:** Other factors are more important determinants of illicit trade and include: ineffective customs and tax administration; lack of coordination within country and among trade partners; weak governance and corruption; lack of government commitment; and organized criminal networks and existence of informal distributional channels.

**Fallacy:** Tobacco tax increases create incentives for tax avoidance. For example, by pricing brands so that they belong to a less taxed tier.

**Fact:** 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.<sup>6</sup>

**Fallacy:** Tobacco taxes will reduce economic activity and have a negative impact on the poor.

**Fact:** 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.<sup>7</sup>

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