



Frequently asked questions

Raise taxation on all tobacco products

Q: Will tobacco tax increases reduce tax revenue or decrease legal consumption?

Tobacco tax increases will not reduce tax revenue nor decrease legal consumption. Tobacco tax increases are the single most effective way of reducing tobacco use, especially among youth. Overall, tax increases benefit public health and generate more government revenue at the same time. While some people will quit, 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.

Evidence from countries of all income levels shows that price increases on cigarettes are highly effective in reducing demand. Higher prices induce cessation and prevent initiation of tobacco use. They also reduce relapse among those who have quit and reduce consumption among continuing users.

On average, a 10% price increase on a pack of cigarettes would be expected to reduce demand for cigarettes by about 4% in high-income countries and by about 5% in low- and middle-income countries, where lower incomes tend to make people more sensitive to price changes. Children and adolescents are also more sensitive to price increases than adults, allowing price interventions to have a significant impact on this age group.

For example, in Egypt, the government substantially increased tobacco tax in 2010. The tax per pack, for the most popular brand of cigarettes, increased by 46% from 2.95 Egyptian pounds (EGP) to 4.32 EGP. This reduced sales by 14% in only two years. The impact on revenues was colossal, increasing by 151%, from 7 billion EGP to 17.6 billion EGP between 2010 and 2012.

Q: Do tobacco tax increases encourage illicit tobacco trade?

Tax increases do not encourage smuggling of illicit tobacco. The tobacco industry has claimed that high taxes drive smuggling and has sometimes argued successfully to governments that they should not increase tobacco tax because this will increase the level of smuggling.

The global trade in illicit tobacco products occurs in low tax as well as high tax jurisdictions, results from a lack of control in cigarette manufacturing and the movement of cigarettes across international borders, and is run by criminal organizations with sophisticated systems for distributing smuggled cigarettes. Illicit trade is more common in low-income than in high-income countries.

Research in central and eastern Africa shows that cigarette smuggling in this Region is not caused by differences in tax levels but is the result of weak state capacity, high levels of corruption and the activities of rebel groups. Although cigarette prices in these countries are low (US\$ 0.60 per pack for the most popular brand), the easy evasion of taxation fuels the smuggling by traders and accounts for the high levels of smuggling in these low-income countries.

Experience from a high tax country (United Kingdom) has shown that it is possible to increase taxes without undesired consequences, if a policy to combat illicit trade has been put in place. In the period 2000–2014, cigarette prices more than doubled in the United Kingdom, while smoking prevalence and illicit trade decreased and tobacco excise revenues increased.



Table 1. Cigarette price and its impact on the illicit market, revenue and smoking prevalence in the United Kingdom in the period 2000–2014

Year	Price pack of cigarettes (£) (1)	Illicit cigarette market in % (2)	Tobacco excise revenues (billion £)(2)	Smokers % (3)
2000	3.88	21.0	7.6	27.0
2002	4.39	16.0	8.0	26.0
2004	4.65	15.0	8.1	25.0
2006	5.05	15.0	8.2	22.0
2008	5.44	13.0	8.2	21.0
2010	6.13	9.0	9.1	20.0
2012	7.09	9.0	9.7	20.0
2014	8.47	Not yet available	Not yet available	18.0

Source: (1) Tobacco Manufacturers' Association; (2) HM Revenue and Customs; (3) Action on Smoking and Health

Q: Why does tobacco industry advocate for no tax increase?

The tobacco industry does not like tobacco tax increases because it knows that they are effective in reducing tobacco use. Philip Morris explains in secret internal documents made available through litigation – dates from 1985 but is still relevant today – that the most alarming concern is taxation. Furthermore, while marketing restrictions and public [sic] and passive smoking do depress volume, in his experience, taxation depresses it much more severely. His concern for taxation was central to his thinking about smoking and health. It had historically been the area to which most resources had been devoted and he believed that for the foreseeable future things would stay that way almost everywhere.

Tobacco tax increases are usually opposed by the industry. Recent reform in the Philippines met with heavy opposition but the industry did not succeed in preventing its adoption. In Mexico, the industry continued to block tobacco tax increases until a well-coordinated campaign by tobacco control advocates supported the government in passing a significant tax increase in 2010. This increased the specific excise tax up from 0.8 to 7 pesos per pack and increased the ad valorem excise tax from 150% to 160%. Similar practices are taking place in countries of the Region.

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