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Marked fall in illicit cigarette trade seen

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United Kingdom (UK)-based Oxford Economics is hopeful for a marked decline in illicit cigarette trade this year with the full year implementation of the tax stamp system of the Bureau of Internal Revenue (BIR).

Oliver Salmon, Oxford Economics senior economist for Asia, said the Philippine government's action to address the problem on illicit trade with the imposition of the new tax stamp program is a positive development.

But Solmon added that a much stricter implementation of the law is also needed to further lessen the incidence of illicit trade in the country.

"We hope that the volume of domestic illicit consumption would decline in the future years," Salmon told reporters.

In 2014, Salmon said that illicit cigarette consumption in the Philippines rose, accounting for 19.4 percent of total consumption.

According to research conducted by the Oxford Economics, illicit consumption cost the government an estimated ₱22.5 billion in lost tax revenue last year, representing a 44.1 percent increase from 2013.

Domestic illicit, or cigarettes that are manufactured by the trademark holder, but are illegally sold and consumed in the same market, without the payment of excise taxes and value-added tax (VAT), accounted for 19 billion of the estimated 102.3 billion

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cigarettes consumed in 2014.

"In line with the amendment of the National Internal Revenue Code of 1997, it is anticipated that the affixture of tax stamps introduced on 1st December 2014 will 'further improve tax administration' and 'deter mis-declaration of removals," the report said.

The market report on the Philippines is part of the Asia-16 Illicit Tobacco Indicator 2014 which includes Australia, Brunei, Cambodia, Hong Kong, Indonesia, Laos, Macao, Malaysia, Myanmar, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

Meanwhile, Salmon said the significant tax-led price increases on cigarettes have left the market exposed to the threat of cheap illicit cigarettes coming from other countries, as well as counterfeits of well-known brands.

"As evidenced by this report, significant price increases over the last few years have led to the erosion of the legal market for cigarettes, with the illicit trade filling the gap" Salmon said.

He also noted that legal domestic sales (or tax paid volumes) declined again last year, to only 82.3 billion cigarettes. Overall, following the implementation of the new sin tax law in 2013, legal domestic sales have fallen by nearly 20 billion cigarettes.

Former Budget Secretary Benjamin Diokno, an adviser to the International Tax and Investment Center (ITIC) who reviewed the report, meanwhile, said the rise in the incidence of domestic illicit consumption for two consecutive years builds a compelling case for the imposition and strict enforcement.

Diokno said the tax stamp program of the BIR, if consistently enforced and monitored, should be an effective tool to bring down the incidence of domestic illicit consumption, as well protect government revenues, by plugging loopholes.