

Raise taxes on tobacco

The WHO Framework Convention on Tobacco Control states:

Article 6

Price and tax measures are an effective and important means of reducing tobacco consumption ... Each Party should ... adopt ... tax policies and ... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

Article 15

Elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing and counterfeiting ... are essential components of tobacco control.

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When tobacco prices go up, consumption goes down

When South Africa increased its taxes, smoking rates among the poor and the young plummeted. Yet tax revenues increased.

Increasing the retail price of tobacco products through higher taxes is the single most effective way to decrease consumption and encourage tobacco users to quit.

When tobacco prices increase:

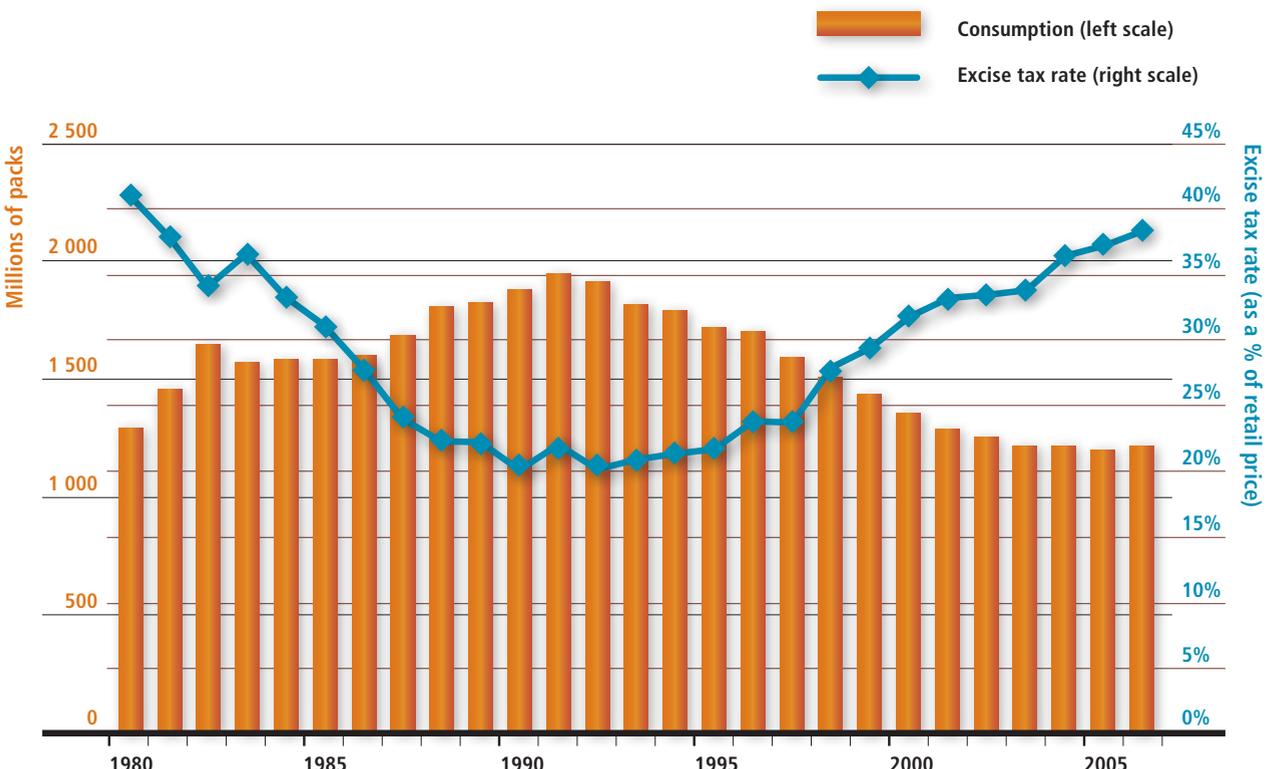
- Fewer people use tobacco
- People who continue to use tobacco, consume less
- People who have quit are less likely to start again
- The young are less likely to start using tobacco

Tobacco taxes are generally well accepted – and even supported by many tobacco users – because most people understand that tobacco is harmful.

In high-income countries, a 10% increase in tobacco prices will reduce consumption by about 4%. The effect of higher prices on reducing consumption is likely to be greater in low- and middle-income countries.

TOBACCO TAXES REDUCE CONSUMPTION

Relationship between cigarette consumption and excise tax rate in South Africa



Source: WHO Report on the Global Tobacco Epidemic, 2008. The MPOWER package. Geneva, World Health Organization, 2008.

Tobacco taxes protect the poor and the young

Tobacco taxes are particularly effective in preventing or reducing tobacco use among the young and the poor. People in these groups are more affected by price increases.

Tax increases help the poor to stop using tobacco. This allows tobacco users who quit to reallocate their money to essential goods, including food, shelter, education and health-care.

Higher taxes also help poor families improve productivity and wage-earning capacity by decreasing tobacco-related illness and death.

Have a simple and effective tax structure

There are two main types of tobacco excise taxes:

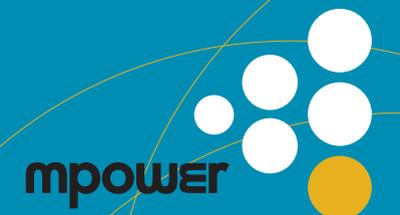
- Specific taxes – levied on a given quantity of tobacco, such as a tax paid per pack or carton of cigarettes
- *Ad valorem* taxes – based on a percentage of the wholesale or retail price

In some countries, a combination of excise taxes is used.

- Specific taxes provide more predictable revenue and make it harder for the tobacco industry to influence retail prices.
- *Ad valorem* taxes help tobacco prices maintain pace with inflation.

The overall tax structure should be simple and easy for countries to implement.

Excise taxes should be levied at the manufacturer level, rather than at the distributor or retail level. This helps increase effectiveness by centralizing revenue collections and minimizing recordkeeping burdens on small businesses.



- Monitor** Monitor tobacco use and prevention policies
- Protect** Protect people from tobacco smoke
- Offer** Offer help to quit tobacco use
- Warn** Warn about the dangers of tobacco
- Enforce** Enforce bans on tobacco advertising, promotion and sponsorship
- Raise** **Raise taxes on tobacco**

The WHO Framework Convention on Tobacco Control (WHO FCTC) is the pre-eminent global tobacco control instrument, which contains legally binding obligations for its Parties and provides a comprehensive direction for tobacco control policy at all levels. WHO introduced the MPOWER package of measures to assist in the country-level implementation of effective measures to reduce the demand for tobacco, contained in the WHO FCTC. Additional resources on this topic are available at www.who.int/tobacco/mpower/publications

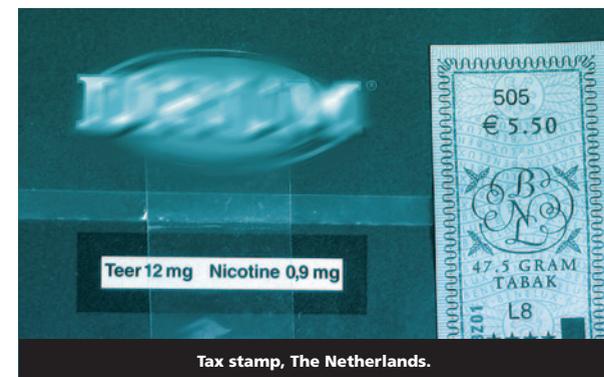


Increase taxes regularly

The goal of tobacco taxation is to reduce consumption by making tobacco products progressively less affordable.

Governments should raise taxes periodically so that real prices increase faster than the combined effects of inflation and increased consumer purchasing power.

This is best accomplished by automatically linking tax increases to economic indices. Otherwise tobacco becomes relatively more affordable over time.



Seek expert advice

Different tobacco taxation schedules may raise the same amount of revenue, but may either greatly reduce or have little impact on consumption rates.

Expert consultation is important when establishing a taxation system that has health goals – such as reducing smoking – in addition to economic goals of raising revenue.

Economic experts can also provide evidence demonstrating that higher taxes reduce tobacco consumption, increase government ability to fund programmes and do not hurt the poor.

Avoid product substitution

If taxes increase the prices of more expensive products without significantly increasing prices of cheaper ones, many tobacco users will shift to less expensive brands rather than reduce consumption.

Taxes should be increased on the most commonly smoked and lowest-cost products to prevent product substitution with less expensive products.



Higher taxes do not mean more smuggling

Contrary to tobacco industry claims, increased smuggling does not automatically follow tax increases.

Tax evasion correlates more closely with poor governance than it does with high levels of taxation.

A streamlined system under a single taxation authority that focuses on manufacturers, with strong tax administration and customs enforcement, facilitates compliance.

Stringent law enforcement costs only a small fraction of the additional revenue earned from higher tobacco taxes.

Large financial penalties should be imposed for large-scale tax evasion and smuggling operations.

Implement measures to combat tax evasion and smuggling

Tax evasion and smuggling can be reduced through:

- Effective government record keeping
- Improved border security and inspection procedures
- Banking controls to reduce money laundering
- Better communication among finance, customs and other agencies involved in tax collection and enforcement



Affixing tax stamps to every package intended for retail sale and mandating pack warnings in local languages further reduce incentives for illicit trade.

Taxes can be levied on tobacco imports at the port of entry as with any other customs duty. The same taxes should be levied on imported cigarettes as on domestically manufactured cigarettes. Duty-free sales of tobacco products should be banned.

Use tobacco taxes to pay for better health

A tax increase directly benefits governments through increased revenues, at least in the short- and medium-term, even when taking reduced consumption into account. In most countries, tobacco tax revenues are thousands of times higher than tobacco control expenditures.

To maximize the health impact of higher taxes, some revenues should be earmarked for tobacco control and other public health and social programmes. This makes tobacco tax increases even more popular with the public, including tobacco users.

It is also ethically appropriate for governments to use some of the increased tobacco tax revenue to help tobacco users quit through comprehensive tobacco control programmes.



Every country should raise its tobacco taxes

In many countries, cigarette prices have not kept up with increases in the price of other goods and services and increased consumer purchasing power.

Every country can increase its tobacco taxes to reduce smoking, raise funds for tobacco control policies and pay for other public health and social programmes.

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