

Now is the best time to raise taxes on tobacco

At COP6 in 2014, Parties to the WHO Framework Convention on Tobacco Control (FCTC) adopted guidelines on FCTC Article 6¹, dealing with price and tax measures. Guidelines are documents negotiated between all Parties to the FCTC (180 countries, plus the European Union, as of May 2015) that set out their consensus on what it means to do a good job implementing a particular article of the Framework Convention. Article 6 guidelines mark the first time that governments came together and agreed on what makes – and what doesn't make – good tobacco tax policy. That makes the guidelines an exceptionally good tool for advocacy and action².

Higher tobacco taxes decrease consumption

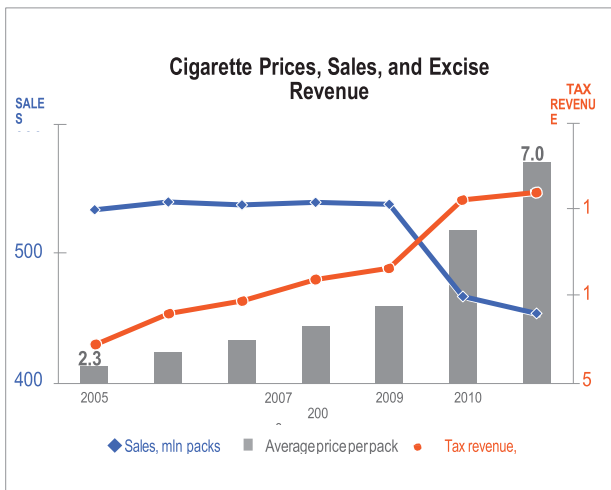
Increasing tobacco taxes to achieve a 10 percent increase in tobacco prices will decrease tobacco consumption by 4 percent in high-income countries and by about 6 percent in low- and middle-income countries³.

Higher tobacco taxes save lives

If tax increases result in a 10 percent increase in cigarette prices, the number of smokers worldwide would decline by 42 million (38 million in low- and middle-income countries and 4 million in high-income countries) saving 10 million lives⁴. A 70 percent increase in the price of tobacco could prevent up to a quarter of all deaths caused by smoking worldwide⁵.

Higher tobacco taxes help the young and the poor

Youth and low-income people are much more sensitive to the price of goods than those with higher incomes. Youth have less money to spend, and higher tobacco taxes make tobacco products less affordable for them. People with low incomes spend a larger percentage of their income on tobacco than people in higher income brackets. Tobacco tax increases can help motivate low-income groups to reduce the amount of tobacco consumed or to stop using tobacco altogether⁶, allowing them to reallocate their money to food, shelter, education and health care⁷. Tobacco tax systems that attempt to make tobacco products more affordable for low-income people serve to increase health inequities and disproportionately place a higher burden of health and economic costs on the poor.



Guidelines for FCTC Article 6

For decades the tobacco industry has argued that tobacco taxes need to be kept low. (*See the industry's claims unmasked on the next page*). Each of these claims is also answered in the Article 6 guidelines, which were written by Parties to the WHO Framework Convention on Tobacco Control, not by tobacco-control advocates, individual economists, or even the World Health Organization. The authors based the guidelines on evidence and the experience of countries that participated in the working group.

The guidelines also include practical advice on how to structure tobacco taxes and how to improve tax administration. They recommend that governments decide on long-term tobacco tax policies, with numerical targets – a potential game-changer in many countries.

¹ <http://ow.ly/MR7Ho>

² See FCA's guide for advocates - <http://ow.ly/MR843>

³ World Health Organization (WHO). Effectiveness of Tax and Price Policies for Tobacco Control. IARC Handbooks of Cancer Prevention in Tobacco Control. Vol 14; Geneva: 2011

⁴ World Health Organization (WHO). Building blocks for tobacco control: A handbook. Geneva: Tobacco Free Initiative; 2004. Available from www.who.int/.

⁵ Chaloupka F, Hu T, Warner KE, Jacobs R, Yurekli A. The taxation of tobacco products. In: Jha P, Chaloupka F, editors. Tobacco control in developing countries. New York: Oxford University Press, Inc.; 2000.

⁶ US Centers for Disease Control and Prevention. Responses to increases in cigarette prices by race/ethnicity, income, and age groups—United States 1976-1993. Morbidity and Mortality Weekly Report. 1998 July 31;47(29):605-9.

⁷ World Health Organization (WHO). WHO Report on the global tobacco epidemic, 2008: The MPOWER package. Geneva: 2008. Available from www.who.int/entity/tobacco/mpower/mpower_report_full_2008.pdf.

Higher tobacco taxes increase government revenue

Tobacco tax increases directly benefit governments through increased revenues. Every nation with an efficient tax system that has significantly increased its cigarette tax has enjoyed substantial increases in revenue, even while reducing smoking. In Turkey, government revenue from tobacco taxes increased from 7.1 billion TL in 2005 to 15.9 billion TL in 2011 even while cigarette sales declined by more than 15 percent⁸. (See the graph above).

Reject the tobacco industry's claims about tobacco taxes

'The tobacco industry is complicit in illegal trade. Smuggling is one of its business strategies.'

- WHO Director-General Margaret Chan, 16th World Conference on Tobacco or Health.

CLAIM: Higher tobacco taxes will increase smuggling. Tax increases on tobacco products will lead to increased smuggling, illegal cigarette production and related criminal activity.

TRUTH

Tobacco taxes are not the primary reason for cigarette smuggling and cigarette tax avoidance. A recent study of illicit trade in Europe reinforced earlier findings that factors other than price influence illicit trade⁹. These include:

- How easy it is for smugglers to operate in a country, including the cost;
- The participation of the tobacco industry;
- How well crime networks are organised;
- The likelihood of being caught, and the punishments, and
- Corruption levels.

Many countries have significantly increased tobacco taxes without experiencing changes in smuggling/illicit productions. Experience shows that these illegal activities can be controlled by legislative or regulatory means (e.g. use of prominent tax stamps, serial numbers, special package markings, health warning labels in local languages) and by customs and law enforcement (e.g. improving corporate auditing, better tracking systems, and good governance) and stronger penalties for violators¹⁰. Revenue generated by a tax increase can finance these activities.

CLAIM: Higher tobacco taxes will reduce tax revenues. The reductions in tobacco sales caused by tax increases will be so large that it will offset the impact of the increased tax rate.

TRUTH

Higher tobacco taxes produce higher tax revenues. The demand for tobacco products is inelastic, which means that the proportionate reduction in demand for tobacco is smaller than the proportionate size of tax increase. So, even though demand is reduced when taxes and prices increase, the higher tax rate will result in overall increases in tax revenues.

⁸ Ahmet, S. Turkish Experience on Tobacco Taxation and Monitoring of Industry (presentation). Ministry of Finance of Turkey. 2011.

⁹ Illicit cigarettes and hand-rolled tobacco in 18 European countries: a cross-sectional survey. Joossens L, Lugo A, La Vecchia C, Gilmore AB, Clancy L, Gallus S. Tobacco Control 2012;0:1–7.

¹⁰ Jha P, Chaloupka F. Tobacco control in developing countries. Oxford: Oxford University Press; 2002.

Every nation and sub-national entity with an efficient tax system that has significantly increased its cigarette tax has enjoyed substantial increases in revenue, even while reducing tobacco use. In Thailand, tax increases between 1994 and 2007 raised cigarette excise taxes from 60 percent to 80 percent of wholesale price, increasing tax revenue from 20,002 million THB in 1994 to 41,528 million THB in 2007 even as consumption decreased¹¹.

CLAIM: Higher tobacco taxes will hurt the poor. Tobacco tax increases are regressive and fall disproportionately on the poor. Poor people have only few pleasures, and higher taxes will make tobacco unaffordable to them.

TRUTH

Tobacco is disproportionately consumed by the poor. In almost all countries, rates of tobacco use are higher among low-income groups, and tobacco companies aggressively target the poor with their advertising. Low-income groups spend a greater percentage of their income on tobacco products than on essential products. Indonesian households with smokers spent 11.5 percent of their household income on tobacco products compared to 11 percent spent on fish, meat, eggs and milk combined, 3.2 percent on education and 2.3 percent on health¹².

Lower income populations are more responsive to increases in tobacco prices than people with higher income. Increased tobacco taxes will reduce tobacco use among lower-income people, therefore reducing the burden tobacco disproportionately imposes on the poor¹³. Tobacco tax increases can help motivate low-income groups to reduce the amount of tobacco consumed or stop using tobacco altogether, allowing them to reallocate their money to food, shelter, education and health care and thus improve their quality of life.

¹¹ Vathesatogkit P. Benefits that Thailand tobacco control law and program bring to the country. Tobacco and Health, WHO: 1996-2002 2008.

¹² Barber S, Adioetomo SM, Ahsan A, Setyonaluri D. Tobacco economics in Indonesia. Paris: International Union against Tuberculosis and Lung Disease; 2008. Available from www.worldlungfoundation.org/downloads/Tobacco_Barber.pdf.

¹³ Chaloupka F, Hu T, Warner KE, Jacobs R, Yurekli A. The taxation of tobacco products. In: Jha P, Chaloupka F, editors. Tobacco control in developing countries. New York: Oxford University Press, Inc.; 2000.