

Tobacco taxation

KEY FACTS

- Increasing the price of tobacco via taxation is the single most effective way of reducing tobacco consumption.
- A price rise of 10% decreases consumption by 4% in high-income countries and by up to 8% in low- and middle-income countries.
- Tripling tobacco taxes worldwide would prevent up to 115 million deaths by 2050.
- Despite industry claims, when tobacco taxes rise, tax revenues increase.
- Higher tobacco taxes can prevent death and malnutrition by reducing the proportion of household income spent on tobacco rather than on food.
- Tobacco taxes should be between two thirds and four fifths of the retail price.

Tobacco taxation overview

The demand for tobacco is strongly influenced by its price. Taxation is the most cost-effective way of reducing tobacco consumption, especially among young people and those on low income.^{1,2} In high-income countries taxation generates significant revenues for governments. It can also cover the costs to society of tobacco use.

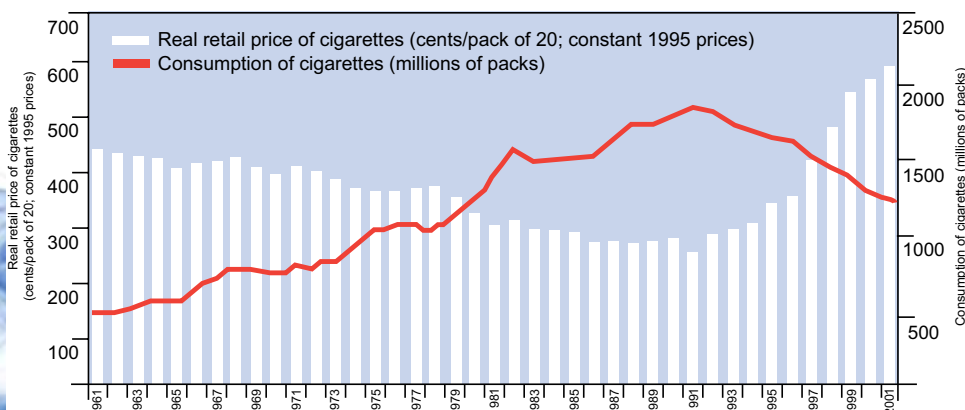
The main types of tobacco tax are as follows:³ (1) Specific tax – a fixed amount added to the price of the tobacco product; (2) Ad valorem or value-added tax – calculated as a percentage of the base price of the tobacco product. A combination of the taxes can be used – the ad valorem helps tobacco prices to keep up with inflation; specific taxes provide more predictable revenue and make it harder for the tobacco industry to influence retail prices.

In most high-income countries tobacco taxes are at least two thirds of the retail price of a cigarette pack.⁴ Although more than four out of five high-income countries have tobacco taxes of 51-75% of the retail price, fewer than half of low-income countries tax tobacco at this rate.³ Only four countries, 2% of the world's population, have tobacco tax rates of more than 75% of the retail price.³

Effect of tobacco taxation

Tobacco consumption falls when taxes rise. Price increases encourage people to stop smoking, prevent others from starting smoking, and discourage ex-smokers from starting smoking again.^{2,5} When tobacco tax rates were increased by 250% in South Africa in the 1990s, cigarette consumption fell by 5-7% for every 10% increase in cigarette prices (see figure). Approximately 40% of the decline in consumption was due to smokers quitting.^{6,7}

Cigarette consumption and real prices of cigarettes in South Africa, 1961 to 2001



From C van Walbeek. Tobacco Excise Taxation in South Africa, WHO, 2003.

The effect of taxation is more pronounced in low- and middle-income countries. A price rise of 10% decreases consumption by 4% in high-income countries and by up to 8% in low- and middle-income countries.² There is considerable scope to increase tobacco prices through taxation. In many countries cigarette prices have not kept up with increases in the price of other goods and services.⁸ A 2008 study recommended that cigarettes are evaluated not only in terms of their inflation-adjusted price, but also in relation to general income levels – as societies get richer, cigarette prices need to rise faster than inflation, otherwise affordability increases.⁹

Studies have predicted that cigarette price increases of 33% would prevent 22-65 million tobacco-related deaths worldwide, or 5-15% of all such deaths. Tripling tobacco taxes worldwide would increase tobacco prices by 70% and would prevent 115 million tobacco-related deaths by 2050. Most lives saved would be in low- and middle-income countries.^{10,11}

Best practice³

- Set the tax at between two thirds and four fifths of the total retail price on all tobacco products.
- Apply the taxes at manufacturer level and have them certified by a stamp.
- Apply the same taxes to imported cigarettes as to domestically manufactured cigarettes.
- Tax all tobacco products at comparable rates to prevent product substitution.
- Tie the tobacco tax to the rate of inflation and consumer purchasing power.
- Allocate tobacco tax revenues, or a portion of them, to tobacco control or health promotion programmes.
- Ban the 'duty free' sale of tobacco products.
- Keep taxes simple and easy to implement.

Industry arguments

In spite of tobacco industry arguments to the contrary, when tobacco taxes rise, tax revenues tend to increase.^{7 12} Canada reduced its tobacco taxes in 1994, encouraged by the tobacco industry, in an attempt to recover a loss of revenue caused by smuggling.¹³ One year later tax revenues had fallen significantly and cigarette consumption had increased.

Tobacco companies also claim that high tobacco taxes are the main cause of illicit tobacco trade. In Europe, until recently, the highest levels of illicit trade were found in countries with the lowest tobacco taxes.⁸ For example, in the mid 1990s, Spain had low cigarette prices and large-scale cigarette smuggling. By 2002 smuggling was reduced from 14.5% in 1994 to just under 2% of the market, and tobacco prices had doubled. Tax revenues also rose by 155% during that period. Spain tackled smuggling by means of intelligence, customs activity, technology and cooperation with other EU countries.^{14 15} A 2009 report predicted that if global illicit tobacco trade was eliminated, cigarette prices would rise by just 3.9% and consumption would fall by 2%. More than 164,000 lives would be saved each year from 2030 onwards.¹⁶

The tobacco industry's argument that tobacco taxes are unfair for poor people ignores an important fact: on average, poor people are also more price-sensitive than rich people. They are therefore more likely to stop smoking or reduce consumption when faced with a tobacco tax increase. Apart from the health benefits, there is evidence that, in the longer term, tobacco tax increases are progressive, and shift the tax burden from the poor to the rich.¹² They thereby increase the income available for other types of spending. The largest decline in South African cigarette consumption during the 1990s was among the young and the poor.⁶

In Bangladesh half of the children who are dying from malnutrition could be prevented from dying if their household income was spent on food instead of cigarettes.¹⁷ Tax increases in combination with other tobacco control measures would help to achieve this.

FCTC requirements

Under Article 6 of the WHO Framework Convention on Tobacco Control, parties must:¹⁸

- consider tobacco control objectives when setting tax policies.
- recognise that price and tax measures reduce tobacco consumption, especially among the young.



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Measures can include prohibiting or restricting tax-free or duty-free tobacco products, and implementing policies aimed at reducing tobacco consumption. A new protocol on illicit trade is being negotiated that will fight smuggling and counterfeiting of tobacco products.

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³ WHO report on the global tobacco epidemic, 2008. The MPOWER package. Geneva, World Health Organization, 2008. www.who.int/tobacco/mpower/en/index.html

⁴ Chaloupka F, Hu T-W, Warner K, Jacobs R, Yurekli A. The taxation of tobacco products. In: Jha P, Chaloupka F. Tobacco control in developing countries. Washington, DC: The World Bank, 2000. www1.worldbank.org/tobacco/tcdc/237TO272.PDF

⁵ Guindon G, Tobin S, Yach D. Trends and affordability of cigarette prices: ample room for tax increases and related health gains. Tob Control 2002;1:35-43. www.pubmedcentral.nih.gov/picrender.fcgi?artid=1747639&blobtype=pdf

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⁷ Shafey O, Eriksen M, Ross H, Mackay J. The tobacco atlas (3rd ed.). Atlanta, GA: American Cancer Society, 2009. www.cancer.org/docroot/AA/content/AA_2_5_9x_TobaccoAtlas_3rd_Ed.asp

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⁹ Blecher E, van Walbeek C. An analysis of cigarette affordability. Paris. The International Union Against Tuberculosis and Lung Disease, 2008. <http://www.tobaccofreeunion.org/content/en/217/>

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¹⁸ The Framework Convention Alliance for Tobacco Control. www.fctc.org

¹⁹ WHO Framework Convention on Tobacco Control. Intergovernmental Negotiating Body on a protocol on illicit trade in tobacco products. www.who.int/fctc/inb/en/