

# TAXATION AND PRICE

## Essential facts

A very effective method for reducing tobacco consumption is to increase the price of tobacco products through tax increases.<sup>1</sup>

Higher tobacco prices:<sup>2</sup>

- Encourage cessation among existing tobacco users;
- Prevent initiation among potential users; and
- Reduce the quantity of tobacco consumed among continuing users.

Higher taxes are particularly effective in reducing smoking among vulnerable populations, such as youth, pregnant women, and low-income smokers.<sup>3,4,5</sup>

The World Bank recommends adopting tax policies of countries with comprehensive tobacco control policies where tobacco consumption has fallen. Such countries have tobacco taxes between two-thirds to four-fifths of retail price. Few low- and middle-income countries achieve this level of taxation, and most can significantly increase their tax levels.

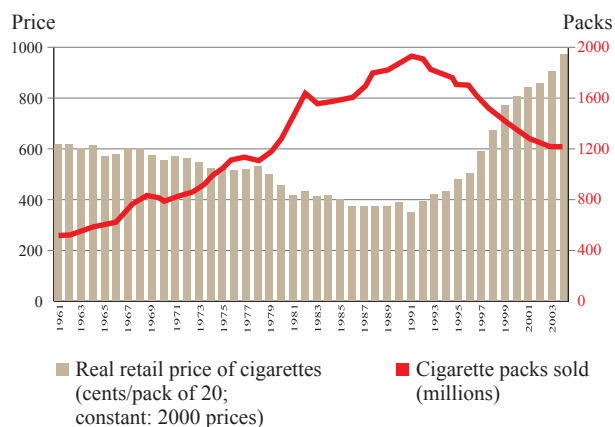
Increasing the price of tobacco through tax increases will decrease its consumption, save lives and raise tax revenue.

### The case for raising taxes on tobacco

**Higher tobacco taxes decrease consumption.** Increasing tobacco taxes to achieve a 10% increase in tobacco prices will decrease tobacco consumption by 4% in high-income countries and by about 8% in low- and middle-income countries.<sup>6</sup>

*Inflation-adjusted cigarette prices and cigarette consumption, South Africa, 1961-2003<sup>7</sup>*

Source: van Walbeek, 2005



**Higher tobacco taxes save lives.** If tax increases result in a 10% increase in cigarette prices, the number of smokers worldwide would decline by 42 million (38 million in low/middle-income countries and 4 million in high-income countries) saving 10 million lives (9 million in low/middle-income countries and 1 million in high-income countries).<sup>8</sup> A 70% increase in the price of tobacco could prevent up to a quarter of all deaths caused by smoking worldwide.<sup>6</sup>

### 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 those 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 altogether,<sup>5</sup> allowing them to reallocate their money to food, shelter, education and health care.<sup>1</sup>

### Higher tobacco taxes increase government revenue.

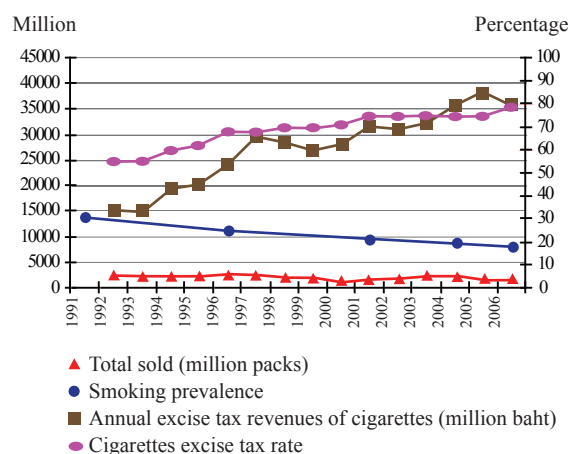
A tax increase directly benefits governments through increased revenues. Every nation and sub-national entity with an efficient tax system that has significantly increased its cigarette tax has enjoyed substantial increases in revenue, even while reducing smoking.

- In South Africa, every 10% increase in excise tax on cigarettes has been associated with an approximate 6% increase in cigarette excise revenues. From 1994 to 2001, excise revenues more than doubled as a result of tobacco tax increase in South Africa.<sup>9</sup>
- In Thailand, tax increases between 1994 and 2007 raised cigarette excise taxes from 60% to 80% of wholesale price, increasing tax revenue from 20,002 million THB in 1994 to 41,528 million THB in 2007 even as consumption decreased.<sup>10</sup>

# TAXATION AND PRICE: Essential facts

Excise tax rate, revenue, sale and smoking prevalence in Thailand<sup>10</sup>

Source: Vathesatogkit, 2008



- In South-East Asia, a study indicated that a 5% increase in real cigarette prices from higher taxes would generate substantial additional revenue for the region. Such a tax would generate an extra USD \$8,300 million in Indonesia, USD \$4,750 million in Thailand, USD \$994 million in Bangladesh, USD \$725 million in Sri Lanka, and USD \$440 million in Nepal by 2010, compared to their revenue in 2000.<sup>2,11</sup>

## WHO Framework Convention on Tobacco Control (FCTC)

Article 6 of the FCTC recommends parties take into account tax policies and price policies as a part of their overall national health policy. WHO recommends governments raise tobacco taxes to reduce tobacco consumption. All tobacco products should be taxed at similar rates to prevent product substitution due to price differences and must be regularly adjusted for inflation.

## Key components of tax increases

- **Increase tobacco taxes to international standards.** All countries should attain tax rates of at least two-thirds to four-fifths of the retail price of tobacco products.
- **Tax all tobacco products equally.** All products must be taxed at equivalent rates to prevent tobacco users from switching tobacco brands and types due to price differences.
- **Ensure that tobacco taxes are passed on to the consumer in the form of increased prices.**
- **Tie tobacco tax to the rate of inflation and consumer purchasing power.** Adjust taxes so that retail prices of tobacco products increase by at least the sum of the inflation rate and the per capita GDP growth.
- **Allocate tobacco tax revenues to tobacco control or other health programs.** High income countries have found that the public will support tobacco tax increases more strongly when the tax revenue is directed towards tobacco prevention or other health programs. Also, by supporting programs that prevent youth from starting to use tobacco and help people quit, countries can further reduce tobacco use and save lives.

## Key messages

- Raising tobacco taxes is the single most effective way to reduce tobacco use and save lives.
- Higher tobacco taxes target our most vulnerable populations, preventing youth from starting to smoke and helping low-income populations quit.
- Higher tobacco taxes increase government revenues, even with reduced consumption.
- Increased revenue from tobacco taxes can provide the government with funds for other tobacco control efforts, further reducing tobacco use and saving lives.

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