Tobacco taxation as a global response to Non-Communicable Disease challenge

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Tobacco use as a risk factor for mortality and NCD diseases
Tobacco use is a health and development problem

- Diseases and premature mortality due to tobacco => higher health costs and less human resources for productive uses => lower potential growth in an economy

- Tobacco use, particularly in lower income households, reduces investments in human capital

- Lower investment in human capital at the household level => lower labor productivity => lower potential growth
Tobacco taxation is one of the most effective tools for reducing tobacco use

**Article 6 of the WHO FCTC**

“The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population.”

**World Bank, Curbing the Epidemic (1999)**

“In reality, the most effective way to deter children from taking up smoking is to increase taxes on tobacco. High prices prevent some children and adolescents from starting and encourage those who already smoke to reduce their consumption.”
Tobacco Taxation for members of the WHO Framework Convention (FCTC)

*Guidelines for implementation of art. 6 (6th COP, 2014)*

...the simplest and most efficient system that meets their public health and fiscal needs, taking into account national circumstances

...taxes rates should be monitored, increased or adjusted on a regular basis,... taking into account inflation and income growth...

...to make tobacco product less affordable... to reduce consumption and prevalence
What type of excise system?

- **Rely more on specific rates or mixed system with high share of specific rates in total excise taxation**
  - Specific rates have greater price and public health impact
  - Single specific rates produce lower price differentials reducing opportunities for switching down in response to tax/price increases
  - Sends clear message that all brands are equally harmful
  - Produces more stable, higher revenues stream less susceptible to industry price manipulation
## Average price and excise tax by tax structure, 2012

<table>
<thead>
<tr>
<th>Average excise PPP</th>
<th>Average price PPP</th>
<th>Excise tax structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.57</td>
<td>3.73</td>
<td>Specific only</td>
</tr>
<tr>
<td>1.28</td>
<td>2.50</td>
<td>Ad valorem only</td>
</tr>
<tr>
<td>1.32</td>
<td>2.86</td>
<td>Mixed system</td>
</tr>
<tr>
<td>1.67</td>
<td>3.84</td>
<td>Relying more on specific</td>
</tr>
<tr>
<td>1.11</td>
<td>2.29</td>
<td>Relying more on ad valorem</td>
</tr>
<tr>
<td>-</td>
<td>1.70</td>
<td>No excise</td>
</tr>
</tbody>
</table>

Source: WHO 2013
Excise tax rates should be adjusted to preserve revenues and to make tobacco product less affordable

- Real excise tax per pack or unit of tobacco product should be regularly increased to avoid revenue erosion
- The ratio of tobacco prices to personal income should be also increased to reduce affordability and consumption
- Countries have introduced pre-determined rules to adjust specific rates according to inflation or to income
  - Australia (monthly incomes)
  - Colombia, Costa Rica (CPI)
  - Ecuador (CPI without tobacco products)
  - Brazil (pre-determined increases over expected inflation)
  - Philippines (predetermined increases over expected inflation and then with expected inflation)
Cigarette excise tax reform in a context of high smuggling: Brazil

Source: Brazilian Tax Authorities
Cigarette excise tax reform in a context of high smuggling: Brazil

Source: Brazilian Tax and Health Authorities
Combating Tax Avoidance & Evasion

• Illicit tobacco trade protocol to the WHO FCTC
  – Adopted November 2012; currently in process of being signed/ratified; provisions calling for:
    – Strong tax administration
      • Prominent, high-tech tax stamps and other pack markings
      • Licensing of manufacturers, exporters, distributors, retailers
      • Export bonds
      • Unique identification codes on packages
    – Better enforcement
      • Increased resources
      • Focus on large scale smuggling
    – Swift, severe penalties
    – Multilateral/intersectoral cooperation
Technical assistance on tobacco taxes

- The WBGB has been assisting several governments to analyze and modify excise tobacco and alcohol taxation
- Supported the recent Philippine Sin Tax reform
- Work in Africa and South East Asia
- Analysis of fiscal impacts
- Analysis of other economic impacts: tobacco farmer employment, smuggling, equity, etc.
THANK YOU

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**REAL EXCISE TAX AMOUNT PER PACK (2012 LCU)**

- 2008: 1,1071
- 2010: 3,1982
- 2012: 3,7748

**RATIO OF PRICE TO INCOME (100 PACKS/GDP PER CAPITA)**

- 2008: 0,0122
- 2010: 0,0233
- 2012: 0,0242