

# Impact of excise tax on price, consumption and revenue



# Introduction

- Increase in tobacco tax that leads to price increase is expected to reduce tobacco consumption and improve public health.
- This section reviews existing empirical evidence on the effects of excise tax on price, consumption, government revenue and public health.
- Tobacco taxes account for a fraction of tobacco product prices and the percentage reduction in tobacco use resulting from a price increase is smaller than the percentage increase in price in most countries. As a result, tobacco tax increases will increase tax revenues over the short to medium term.



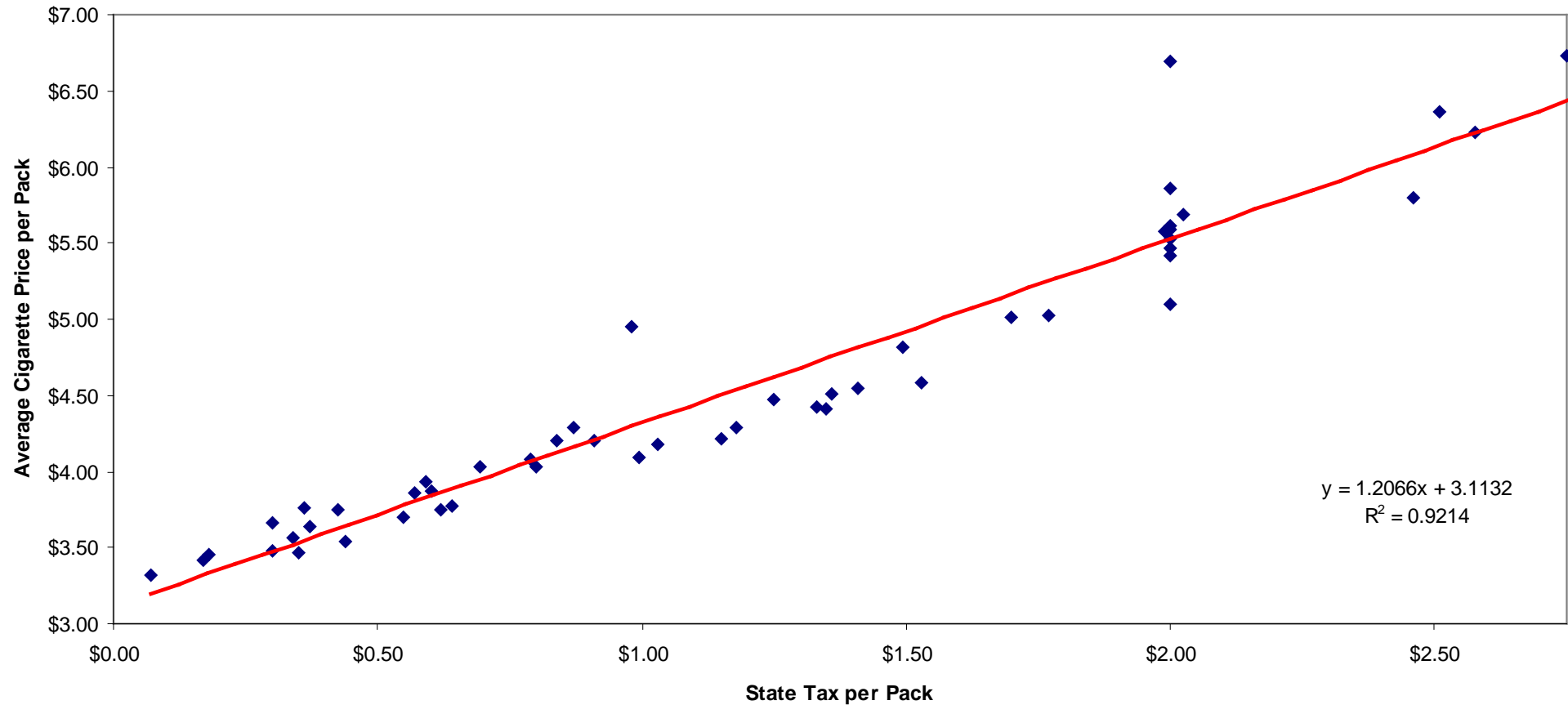
# Outline

- Impact of excise tax on tobacco price
- Impact of excise tax on tobacco consumption
- Impact of excise tax on government revenue
- Cost-effectiveness of tobacco control through taxation
- Harm reduction and product differentiation
- Illicit trade and taxation
- Employment of tobacco farmers and taxation



# Taxes and prices in the USA

State Cigarette Taxes and Prices  
November 1, 2008



Source: Frank J Chaloupka



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# Inflationary impact of tobacco tax increase

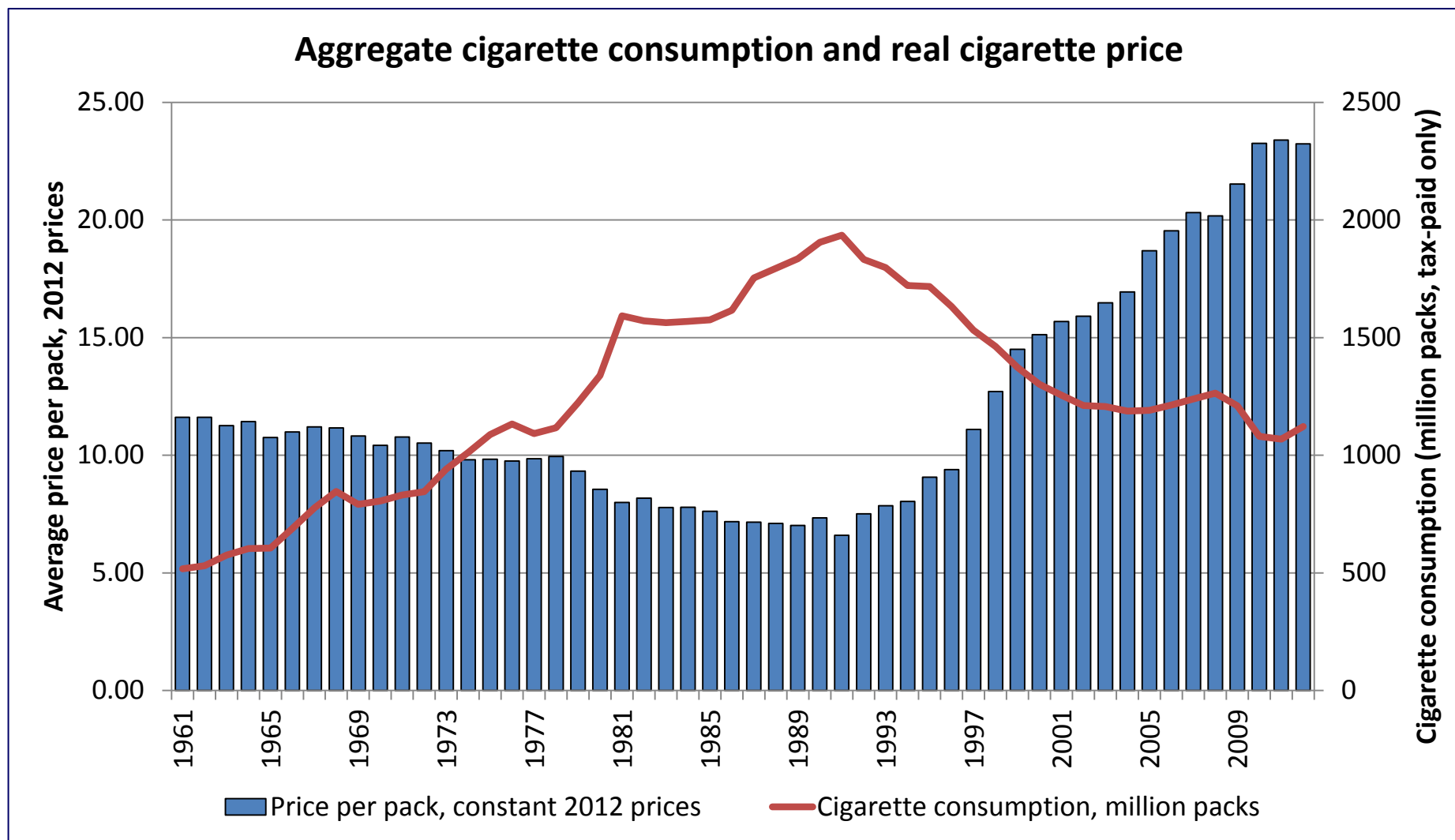
Tax as a share of price			Tobacco weight in price index			Inflationary impact		
Low (<40%)	Medium (40-70%)	High (>70%)	Low (<2%)	Medium (2-4%)	High (4-8%)	Low (<1.0%)	Medium (1-2.5%)	High (>2.5%)
X			X			X		
	X		X			X		
		X	X			X		
X				X		X		
	X			X			X	
		X		X			X	
X					X		X	
	X				X		X	
		X			X			X

Source: WHO Technical Manual on Tobacco Tax Administration, WHO, 2011.



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# Impact of excise tax on tobacco consumption in South Africa

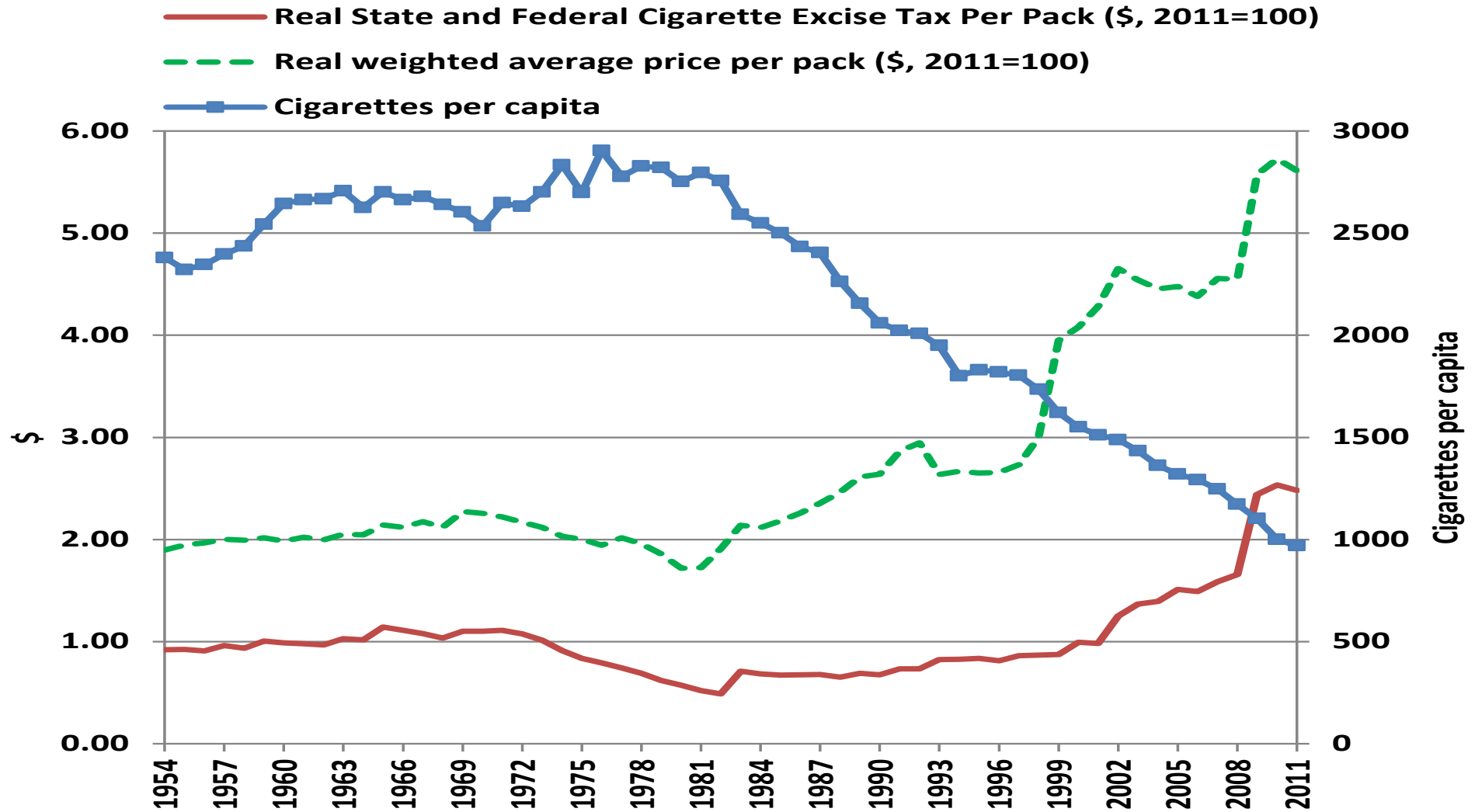


Source: Corne van Walbeek, data derived from National Treasury, South Africa and Statistics South Africa, 2014.



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# Impact of excise tax on tobacco consumption in USA



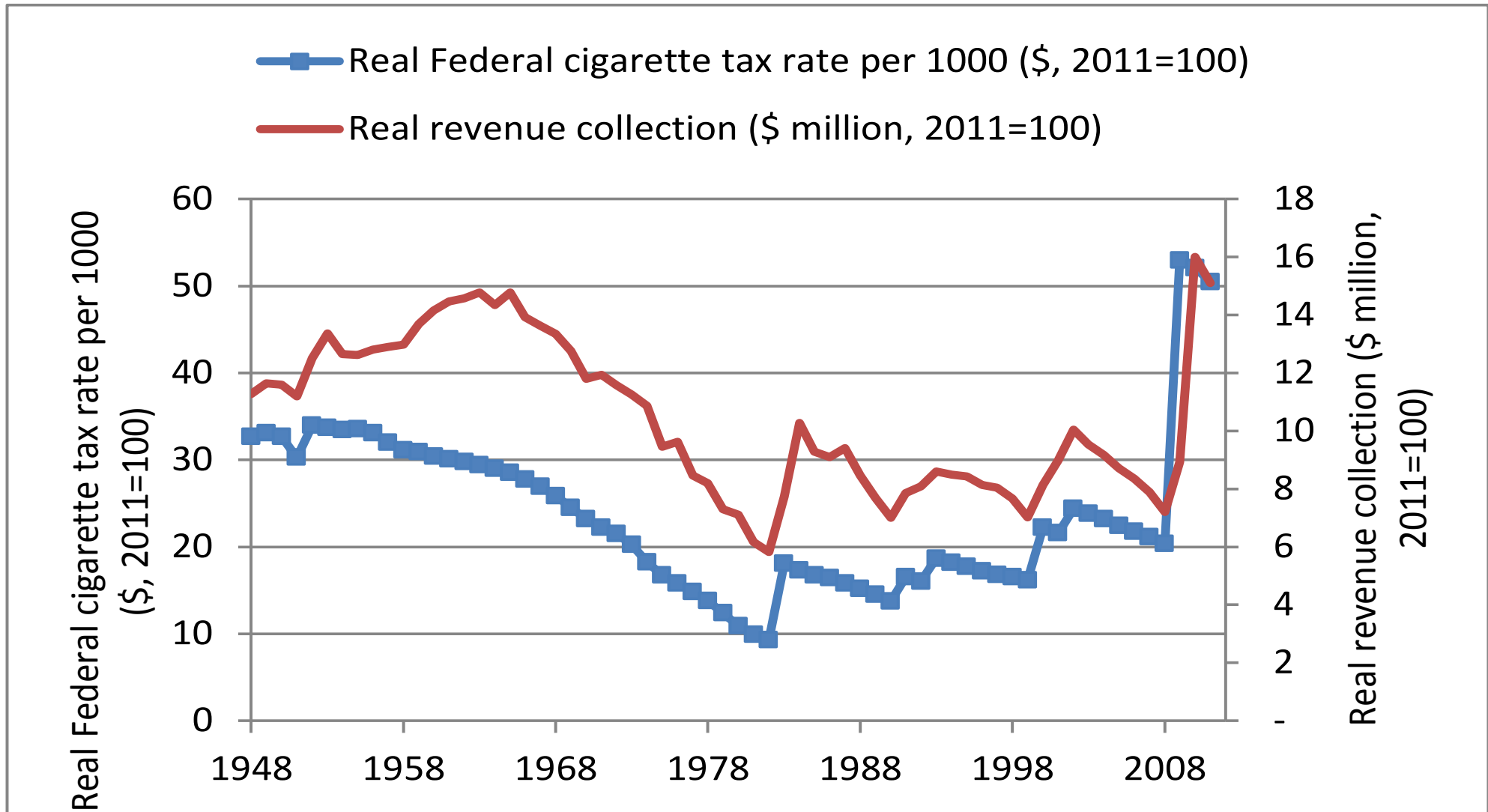
Source: WHO calculations based on data from Frank Chaloupka



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# Impact of excise tax on government revenue

## Inflation Adjusted Federal Cigarette Taxes and Cigarette Tax Revenues, USA, 1940-2011



Source: WHO calculations based on data from Frank Chaloupka

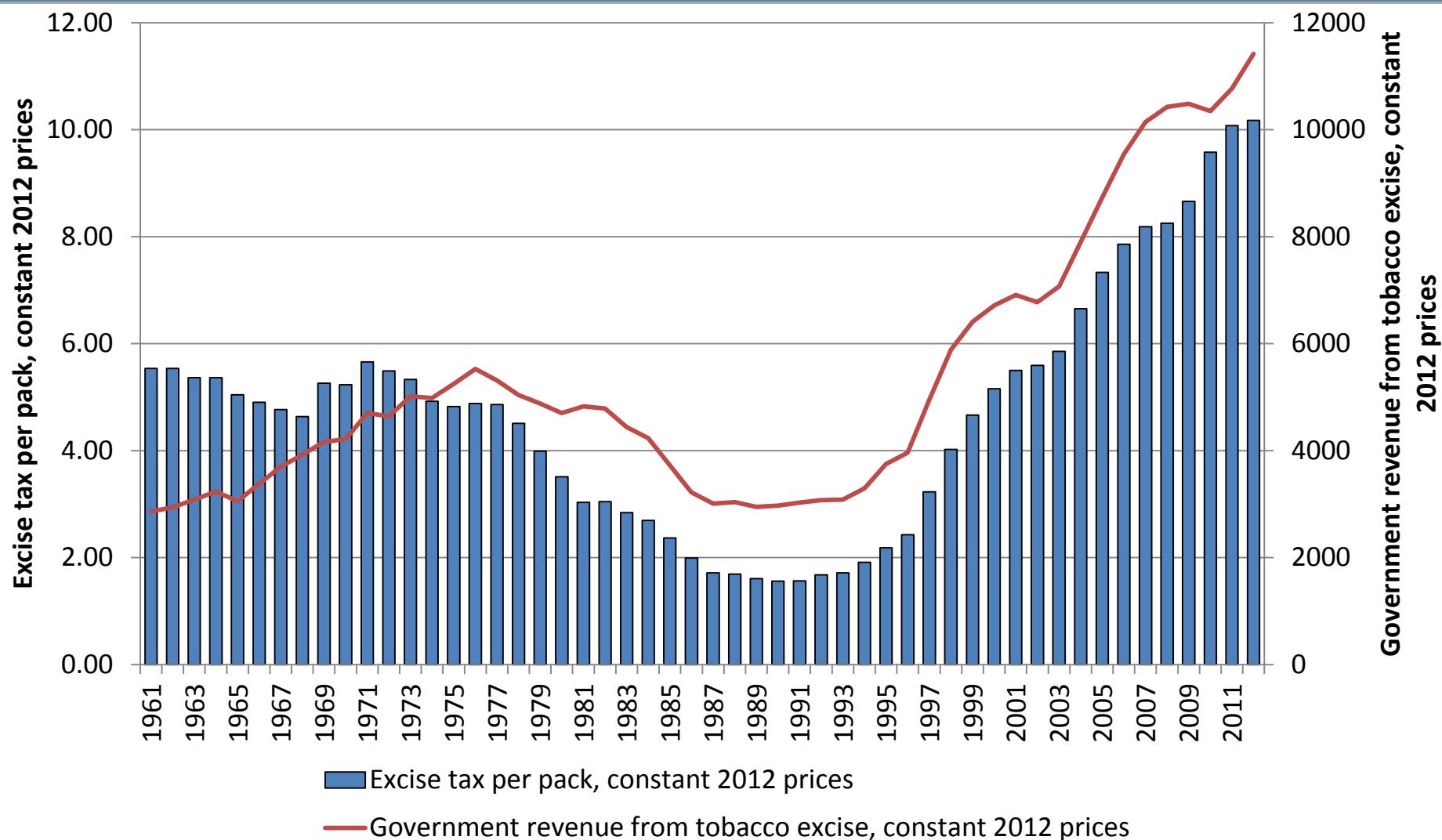


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# Impact of excise tax on government revenue

## Inflation Adjusted Cigarette Taxes and Cigarette Tax Revenues, South Africa, 1961-2012



Source: Corne van Walbeek, data derived from National Treasury, South Africa and Statistics South Africa, 2014.



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# Tobacco control is cost-effective

- “There is robust evidence that tobacco control is cost-effective compared to other health interventions.”
- Best buys: Key cost-effective interventions include
  - tobacco tax increases,
  - timely dissemination of information about the health risks of smoking,
  - restrictions on smoking in public places and workplaces, and
  - comprehensive bans on advertising, promotion and sponsorship
- Good buy: to provide smokers in particular, and tobacco users in general, with treatment for tobacco dependence



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# Harm reduction approach and product differentiation

- “..smokers smoke predominantly for nicotine, .. nicotine itself is not especially hazardous, and .. if nicotine could be provided in a form that is acceptable and effective as a cigarette substitute, millions of lives could be saved.”-- John Britton, Chair, Tobacco Advisory Group of the Royal College of Physicians, 2007
- The harm caused by tobacco smoking can be potentially reduced by making effective but less hazardous substitute products available to the smoker
- The tobacco industry took advantage of this harm reduction approach and employed product differentiation to sustain the market of smokers by introducing products, e.g.,
  - Filtered cigarettes: In the 1950s, cigarettes companies designed filtered cigarettes to mitigate consumers’ concerns about the health hazards of smoking
  - ‘Light’ or ‘Mild’ cigarettes: In the 1950s and 1960s, these descriptors were introduced in cigarette packs to give smokers the impression that these products are less harmful for health
  - E-cigarettes: New marketing strategy of the tobacco industry in the 21<sup>st</sup> century



# E-cigarettes: a moral quandary

- Although e-cigarettes might reduce harms compared with traditional cigarettes, appropriate regulation of safety and product consistency is essential. Marketing also needs to be monitored to ensure that the easy availability of e-cigarettes does not encourage people to start smoking.
  - Harm reduction should be our guiding principle, but the prospect of colluding with one of the industries most devastating to health presents a moral quandary that needs to be addressed through strong public and professional engagement.
- The Lancet, Editorial, Vol 382 September 14, 2013



# Tobacco taxation and harm reduction

- Research has clearly demonstrated that smokers' perceptions that "reduced risk" products are safer than regular cigarettes led many who might have otherwise quit smoking to continue, while the health hazard may not necessarily diminish from the use of these products.
- Recognizing the uncertainty of health outcome of using the usually known "safer" products, the tax system should not be designed so as to favor the products perceived to be safer while disfavoring those perceived to be more harmful.



# Illicit trade

- Tobacco industry often uses the argument against excise tax increase that it induces larger volume of illicit trade of cigarettes that may take the form of smuggling or counterfeit production,
- However, literature does not suggest any clear evidence on the effect of tax increase on sales and tax evasion through illicit trade.
- More detailed discussion is available in a separate presentation on “Illicit Trade”.



# Employment of tobacco farmers

- Opponents of tobacco tax increases often suggest that tax increases will result in loss of livelihood and income of tobacco farmers. This argument is relevant for only a few agrarian countries that depend heavily on tobacco leaf growing for domestic production and exports
- The spectre of employment loss is overstated for many countries due to
  - improvement in farming technique
  - opportunities for crop diversification
  - Scope for government support for alternative livelihood options
- Given the current upward trend in global demand, higher taxes and other tobacco control measures are unlikely to lead to a sharp drop in demand in the short run. It may slow down the growth in global demand in the short run and lead to falling in the longer run. It implies that employment loss will be a gradual process in the tobacco growing countries for many years, allowing gradual transition from tobacco to other sectors.



# Summary

- Tobacco taxation has proven to be one of the most effective and cost-effective measures of reducing tobacco consumption and contributing to improved public health.
- While reducing consumption, tobacco tax increase can contribute to higher government revenue.
- Tobacco industry has historically opposed tobacco tax increases by following counter strategies, such as:
  - Harm reduction through product differentiation
  - Arguing that tax increase induces illicit trade and loss of employment to tobacco farmers.

