

Administrative issues on tobacco tax implementation



**World Health
Organization**

The administration of effective tax policy enforcement requires

The following administrative procedures

- Taxpayer registration & licensing,
- Time and Stage of Tax payment
- Refunds and Credits
- Floor stock tax
- Compliance
 - audits, appeals, and taxpayer services.
 - Physical controls
 - Strengthening tax authority

Registration and Licensing

- Effective enforcement begins with a licensing system covering;
 - all importers,
 - producers,
 - wholesalers and
 - Retailers that sell tobacco products.
- In addition:
 - Retailers can be required to purchase products only from licensed importers, wholesalers, or producers
- Relatively severe penalties for not obtaining a license facilitate the administration of the tax.
- Before issuing a license to suppliers;
 - Important to conduct a background check if there is suspicion of a criminal background or involvement with smuggling.

Timing of Tax Payment

- Tax liability is born by the manufacturers or importers when the products leave the production facilities or imported respectively.
- Tax authority fixes the "*deferment of the payment of the tax*" a certain timeframe -
 - Usually 45 days after the products leave the manufacturing facilities or.
 - Second week of the following month after the production
- This gives manufacturers enough time to collect revenues because
 - Retailers often pay both excise and VATs to distributors by the time products delivered and
 - Wholesalers or distributors deposit the excises to the govt account within determined time frame.



Stage of excise and VAT tax collection

- To limit opportunities for evasion and to ease administration:
 - Levy tobacco excises at the manufacturing stage
- It is NOT a good practice to wait the tax payment until the consumers buy the cigarette or other tobacco products by the retailers.

Provide Refunds and Credits

- *Institute an excise law that provides for a refund or credit of excise tax previously paid on a product that is:*
 - destroyed prior to being marketed, or
 - that is returned to the manufacturer.
- *In addition, if excise stamps are used, fully credit the manufacturer for any stamps that are:*
 - destroyed or damaged in transit or
 - in the manufacturing process.

Do not undermine the importance of Floor-Stock Tax

Producers often engage in over production when they expect an excise tax increase, or other significant tobacco control measures (such as introduction of pictorial health warnings).

Based on industry's expectation, floor stock could be excessive to jeopardize the government's expected revenues

Cigarettes are taxed at the previous lower rate and may be kept as inventory by the producers, wholesales and even by retailers.

impose the tax difference on
the "floor stock,"
to the manufacturers.

Floor-Stock Tax Administration

Governments should be aware of the quantity of over supply.

- Comparing the production level 3 to 4 month before tax increase become effective with the same period of previous year, charge the floor tax on manufacturers.
- Conduct audits at manufacturers, wholesalers and distributors' inventories to determine quantity of cigarettes taxes at the previous lower rate.
- This floor-stock tax limits the downstream windfalls:
 - that result when tax increases raise prices immediately, even when distributors and retailers are holding inventory taxed at the previous lower rate.
- A floor-stock tax is not necessary every time an excise rate is increased, only when the rate increase is significant.
- Further, any floor-stock tax should exempt a minimum, "necessary" level of inventory.