

Tax, Price and Tobacco Use

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Economics of Tobacco and Tobacco Control Session
World Conference on Tobacco or Health
Singapore, March 23, 2012

Why Tax Tobacco?

*"Sugar, rum, and **tobacco**, are commodities which are no where necessaries of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation.*

*Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations*, 1776*

Why Tax Tobacco?

- **Promote public health**

*"... We [] have a package of six policy measures, known as MPOWER, that can help countries implement the provisions in the Convention. All six measures have a proven ability to reduce tobacco use in any resource setting. **But tobacco taxes are by far the most effective.**"*

Director General Dr. Margaret Chan, WHO, 2008

DEVELOPMENT IN PRACTICE

Curbing the Epidemic

Governments and the
Economies of Tobacco Control



A WORLD BANK PUBLICATION



Tobacco control in developing countries

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WHO Technical Manual on Tobacco Tax Administration



World Health Organization



The International Tobacco Control Policy Evaluation Project

Tobacco Price and Taxation

ITC Cross-Country Comparison Report



IARC HANDBOOKS OF CANCER PREVENTION

Tobacco Control



International Agency for Research on Cancer
World Health Organization

Volume 14

Effectiveness of Tax and Price Policies for Tobacco Control

IARC
2011



This Handbook was produced within the EC-funded grant (HEALTH-F2-2009-223323): Pricing Policies and Control of Tobacco in Europe (PPACTE)



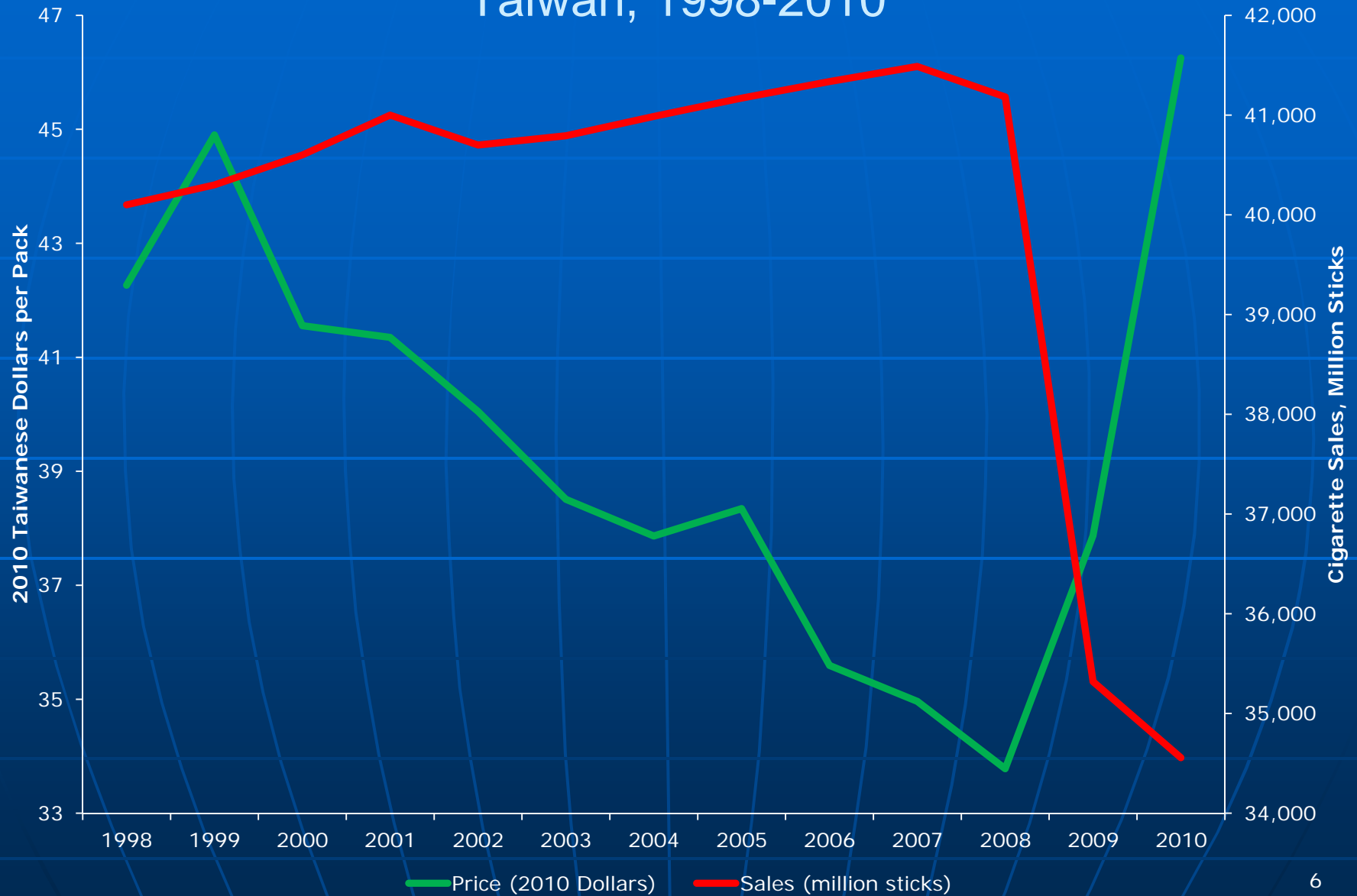
International Tobacco Control Policy Evaluation Project

Taxes and Tobacco Use

Increases in tobacco excise taxes that increase prices result in a decline in overall tobacco use.

Taxes, Prices and Tobacco Use

Taiwan, 1998-2010



Source: Euromonitor, 2011

Tobacco Taxes and Prevalence of Tobacco Use

Increases in tobacco excise taxes that increase prices reduce the prevalence of adult tobacco use.

Cigarette Prices and Adult Smoking Prevalence, United States, 1970-2010

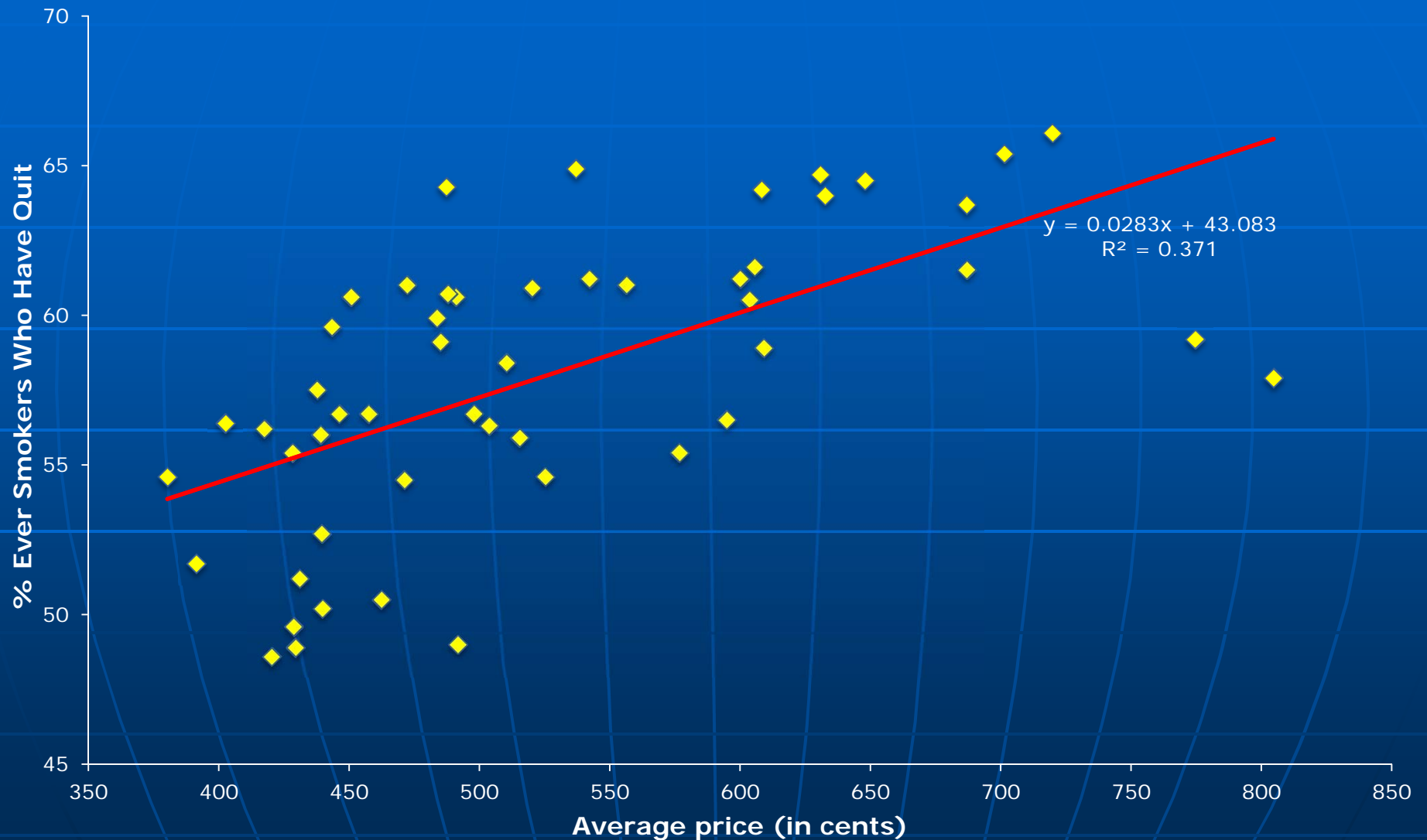


Source: *Tax Burden on Tobacco*, 2011, National Health Interview Survey, and author's calculations

Tobacco Taxes and Cessation

Increases in tobacco excise taxes that increase prices induce current tobacco users to quit.

Cigarette Prices and Cessation US States & DC, 2009

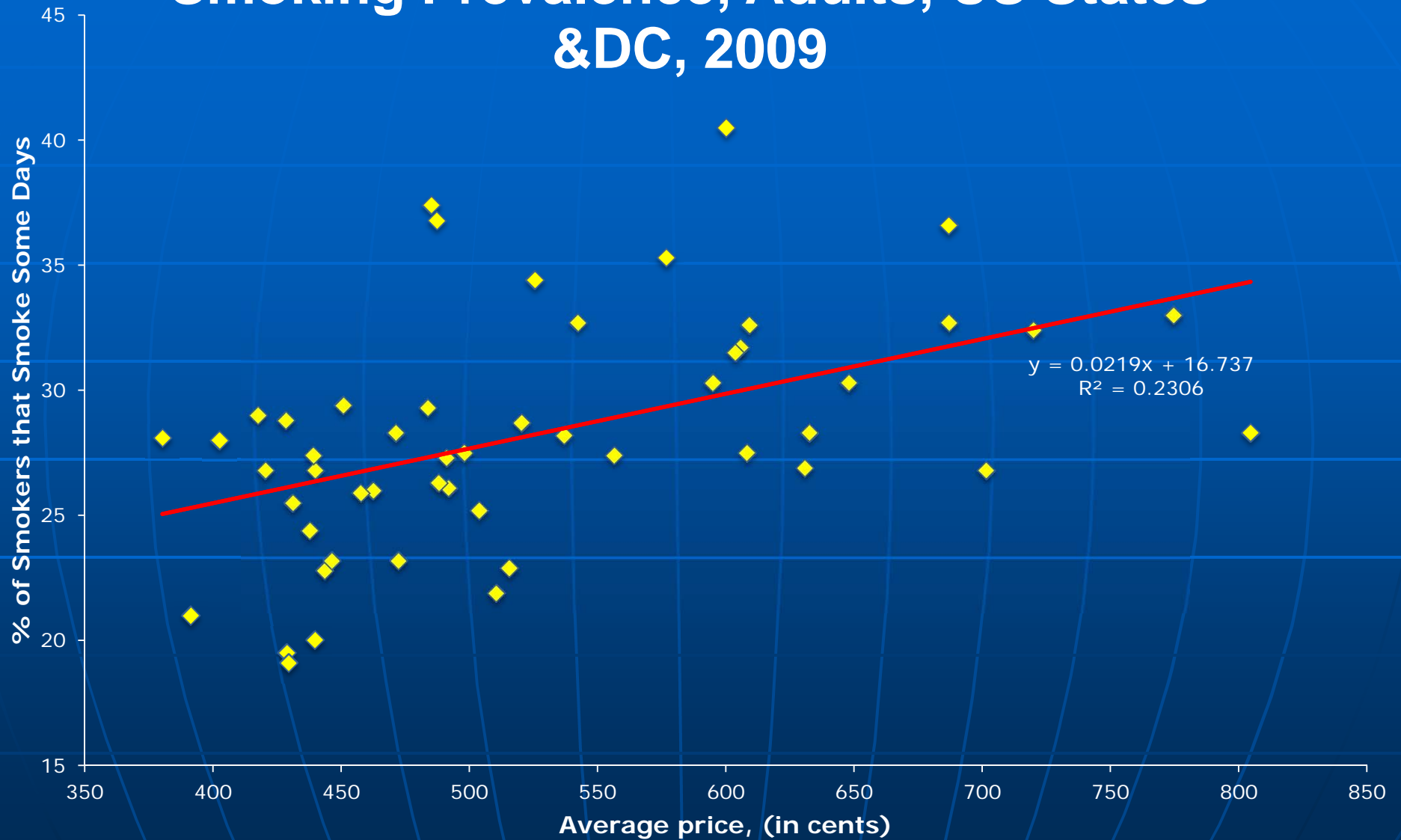


Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author's calculations

Tobacco Taxes and Intensity of Tobacco Use

Increases in tobacco excise taxes that increase prices lower the consumption of tobacco products among continuing users.

Cigarette Price and Less than Daily Smoking Prevalence, Adults, US States & DC, 2009



Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author's calculations

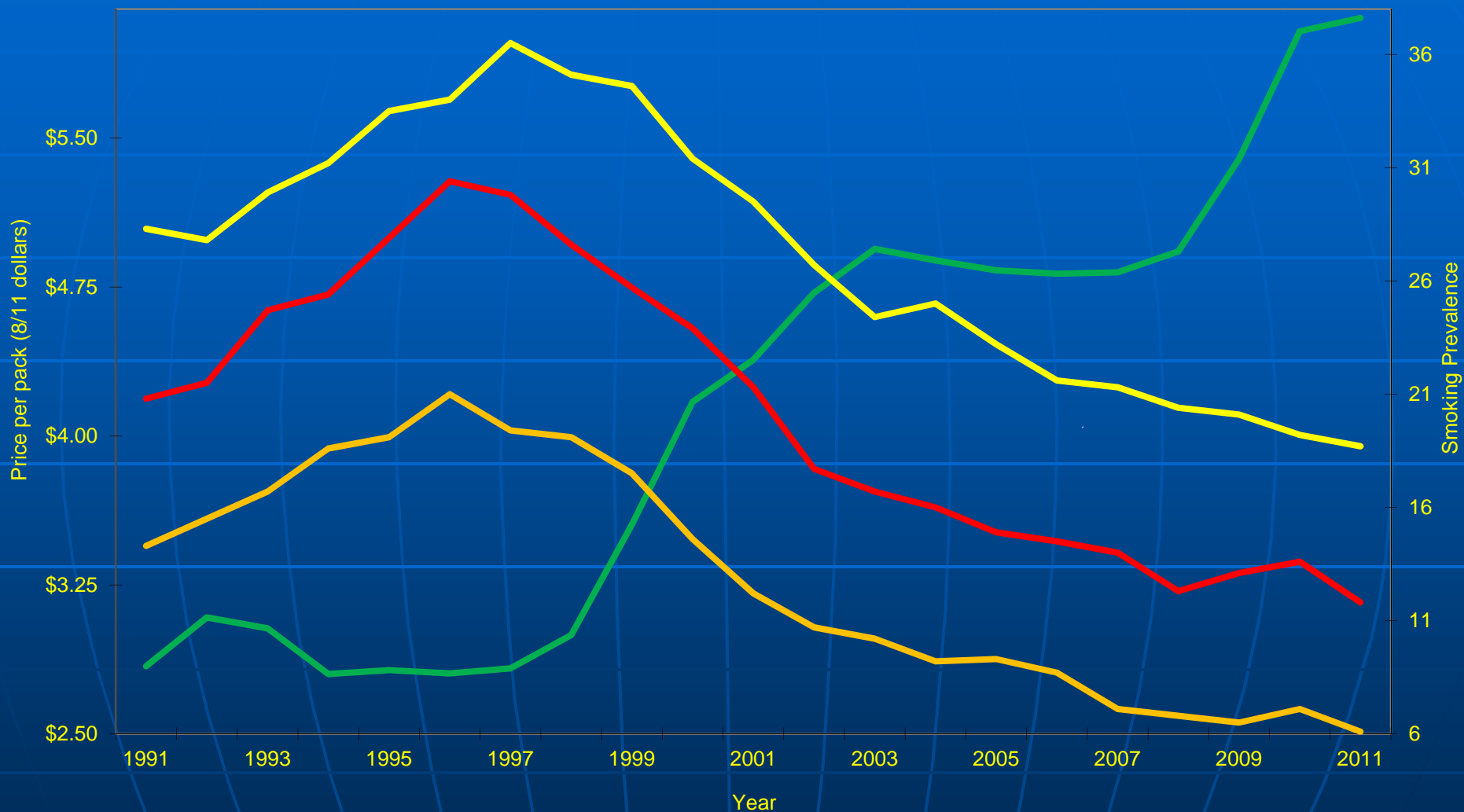
Tobacco Taxes and Youth Tobacco Use

Increases in tobacco excise taxes that increase prices reduce the initiation and uptake of tobacco use among young people, with a greater impact on the transition to regular use.

Tobacco Taxes and Youth Tobacco Use

Tobacco use among young people responds more to changes in tobacco product taxes and prices than does tobacco use among adults.

Cigarette Price and Youth Smoking Prevalence United States, 1991-2011



— Cigarette Price

— 12th grade prevalence

— 10th grade prevalence

— 8th grade prevalence

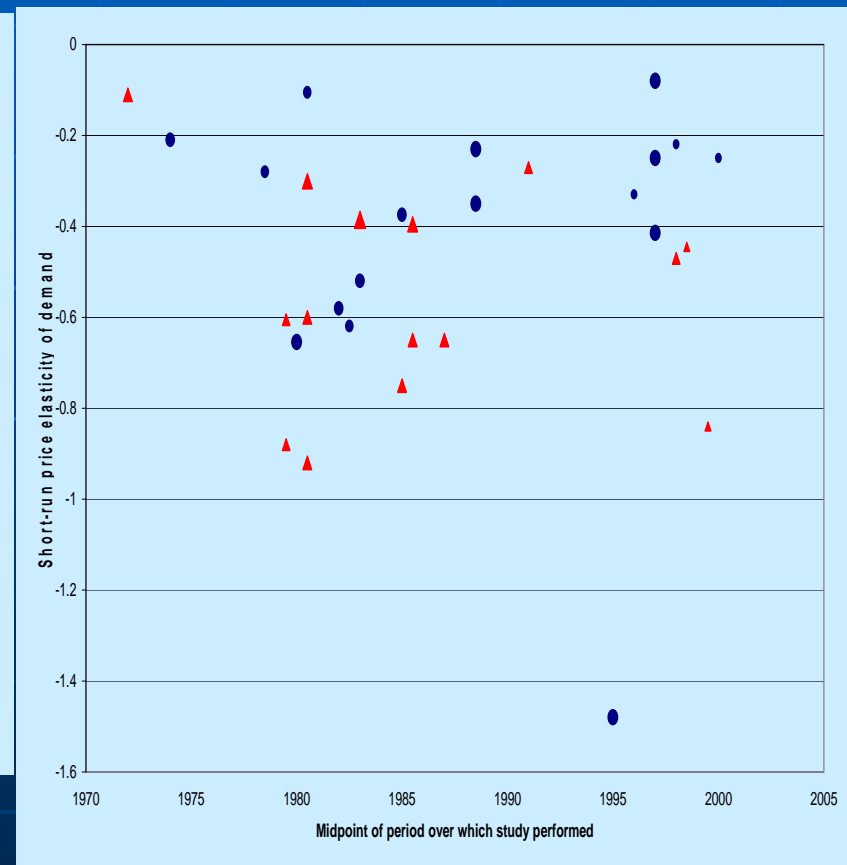
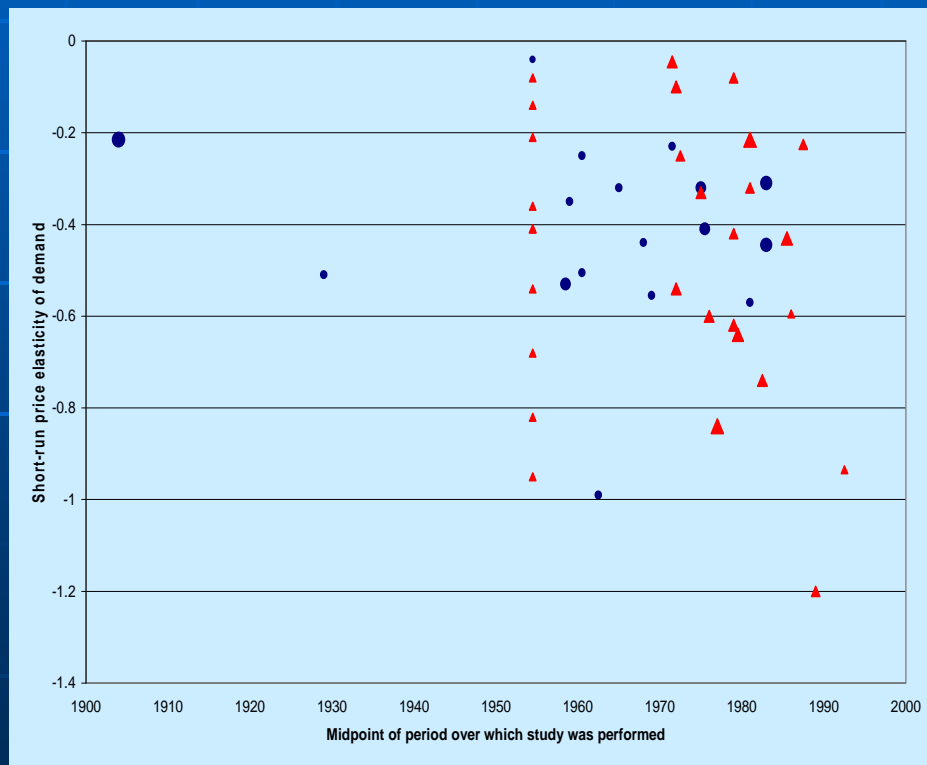
Differential Impact of Tobacco Taxes

The demand for tobacco products in low-income countries is at least as responsive to price as is the demand for tobacco products in high-income countries.

Elasticity Estimates

Aggregate Demand Studies

High-Income, Non-US Low/Middle-Income



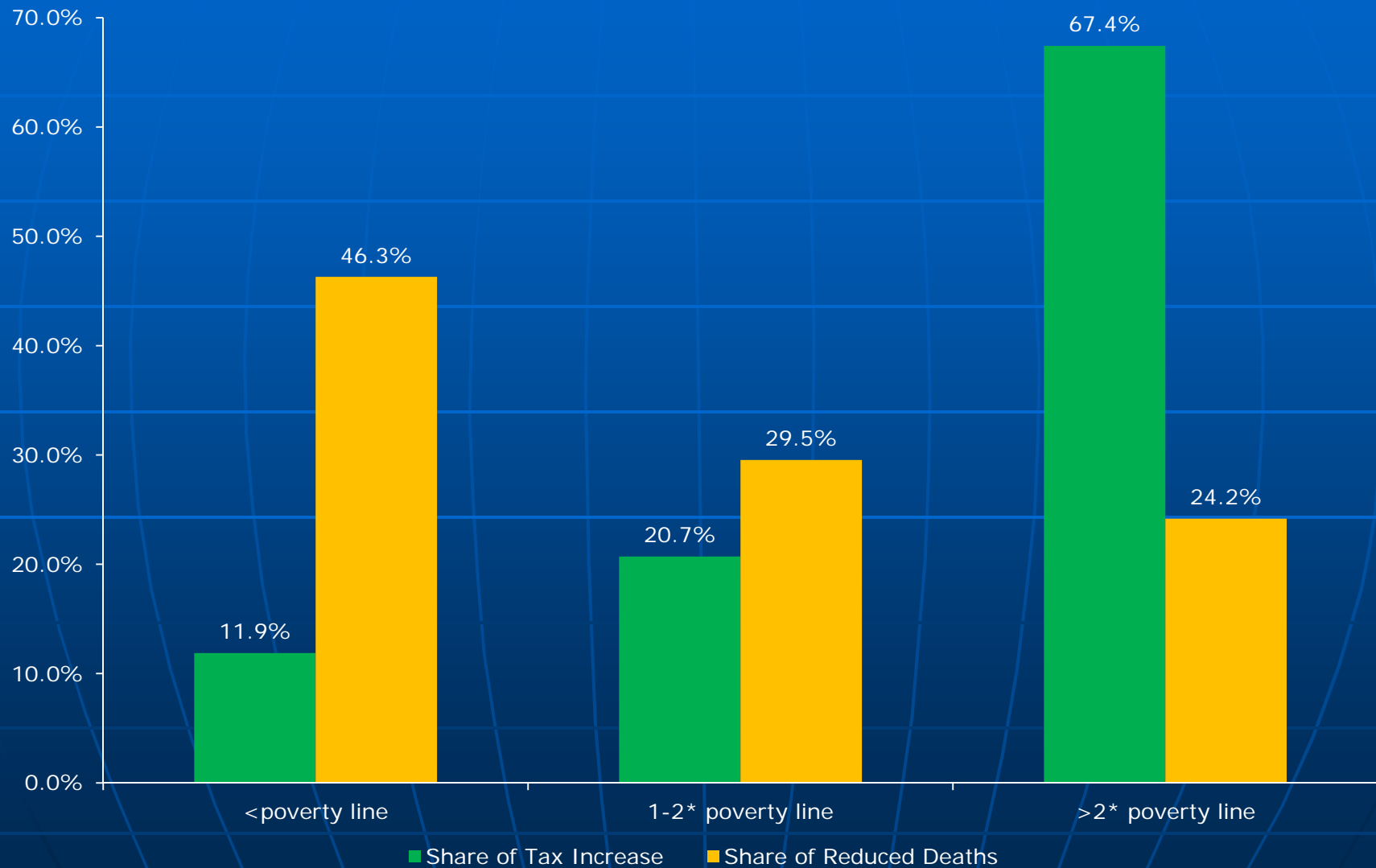
Source: IARC Handbook 14, 2012

Differential Impact of Tobacco Taxes

In many countries, tobacco use among lower-income populations is more responsive to tax and price increases than is tobacco use among higher-income populations.

Who Pays & Who Benefits

Impact of Federal Tax Increase, U.S., 2009



Source: Chaloupka et al., in progress; assumes higher income smokers smoke more expensive brands

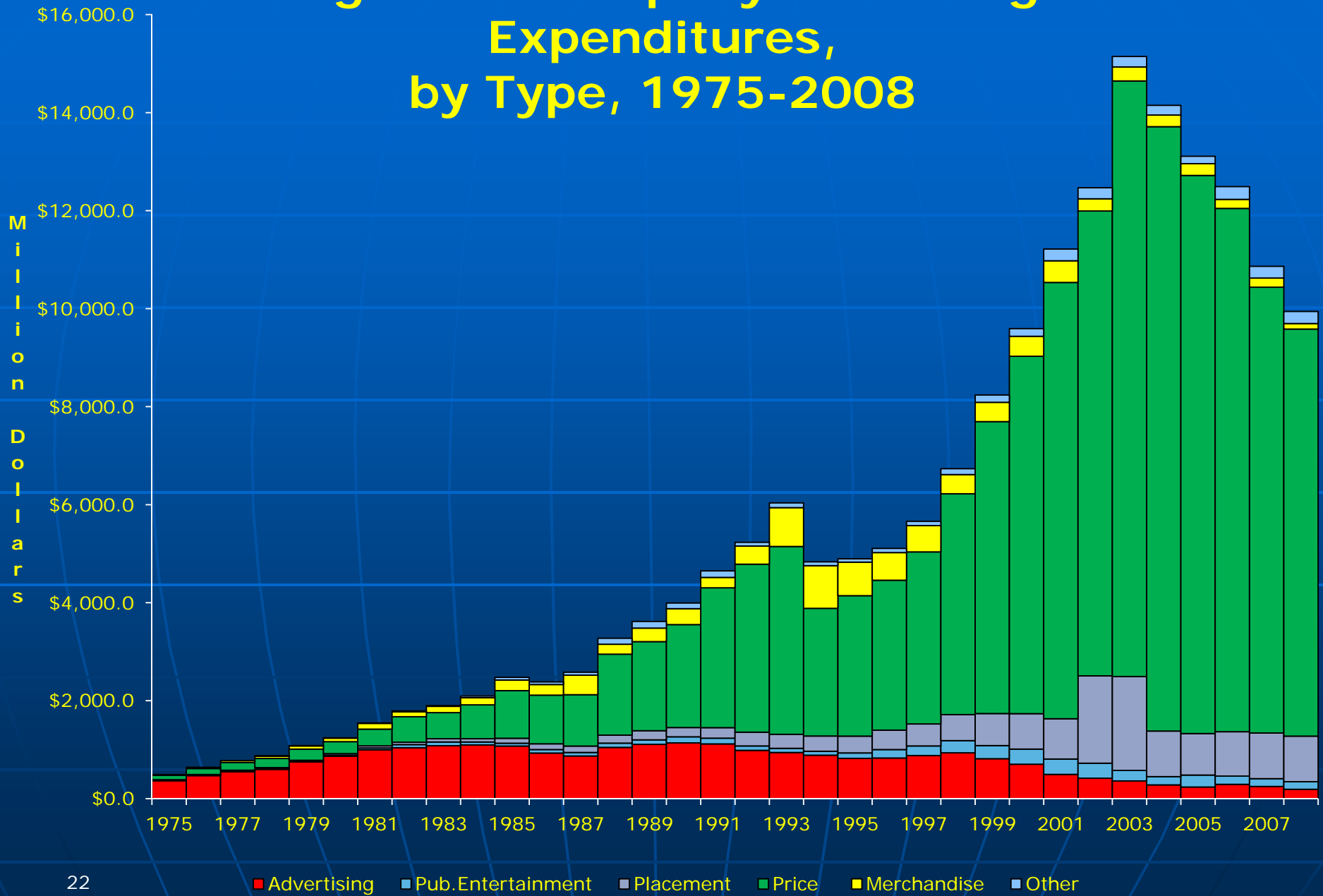
Differential Tobacco Taxes And Tobacco Use

Changes in the relative prices of tobacco products lead to some substitution to the products for which the relative prices have fallen.

Tobacco Industry Strategies

Tobacco industry price discounting strategies, price-reducing marketing activities, and lobbying efforts mitigate the impact of tobacco excise tax increases.

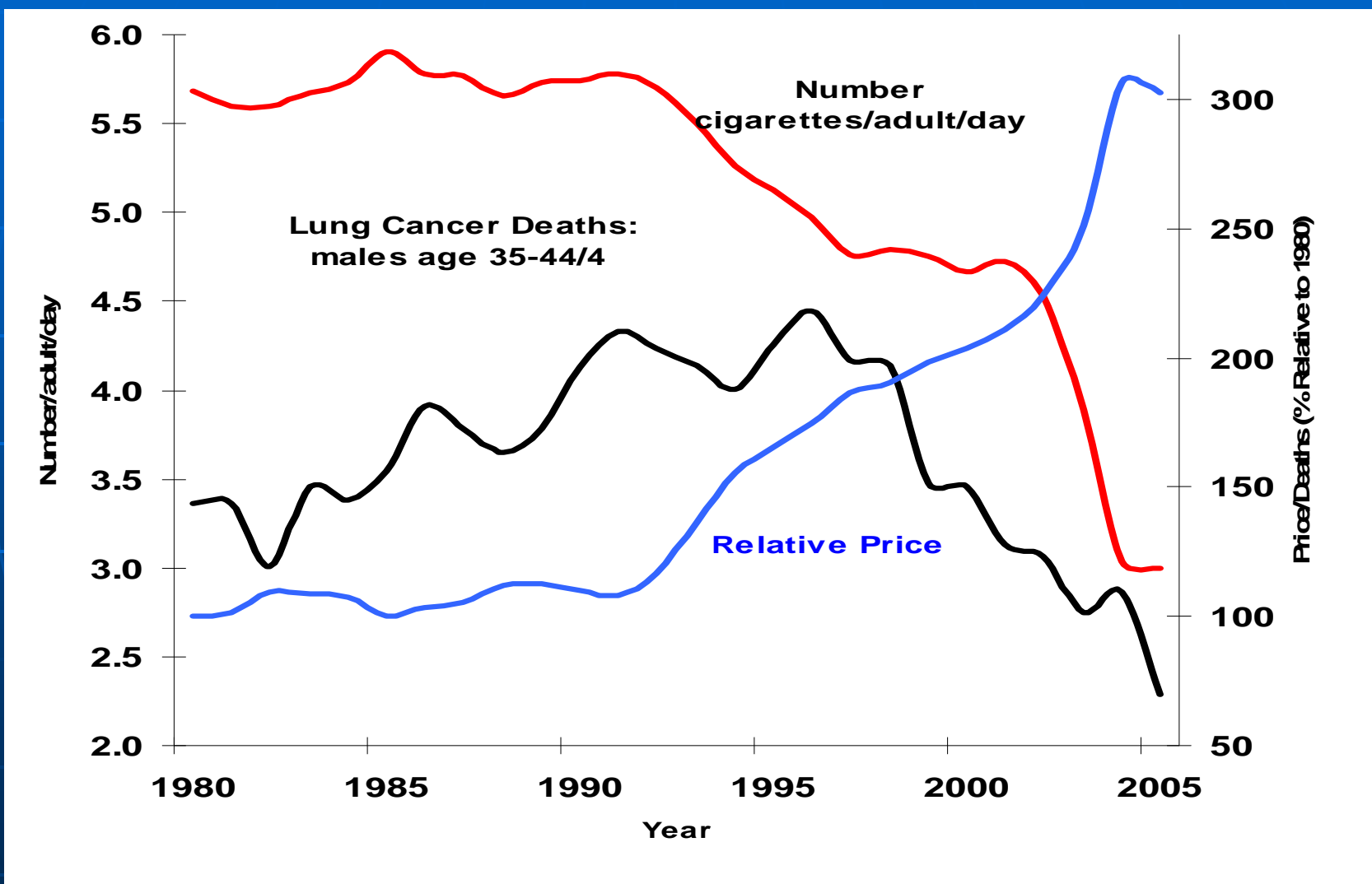
Cigarette Company Marketing Expenditures, by Type, 1975-2008



Tobacco Taxes and Population Health

Tobacco tax increases that increase
prices improve population health

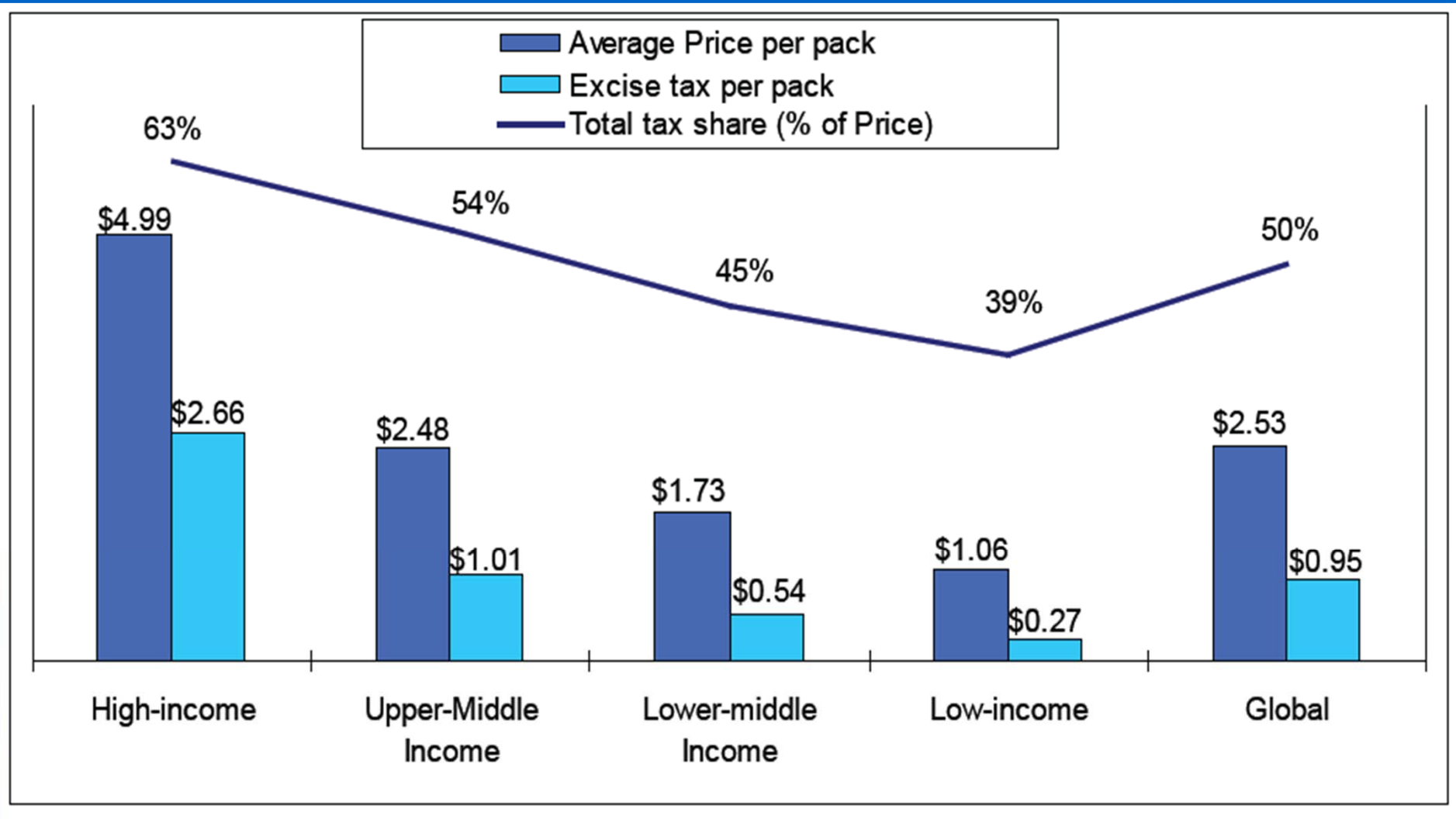
France: smoking, tax and male lung cancer, 1980-2005



Tobacco Tax Structure

Higher and more uniform specific tobacco excise taxes result in higher tobacco product prices and increase the effectiveness of taxation policies in reducing tobacco use.

Cigarette Taxes and Prices Globally



Source: WHO 2010

Cigarette Taxation Globally

Income Group	Excise System on Cigarettes			No Excise	Total countries *
	Only specific	Only ad valorem	Both specific and ad valorem		
High	11	2	25	7	45
Upper Middle	16	11	9	6	42
Lower Middle	18	19	12	3	52
Low	10	28	2	3	43
By Region					
AFRO	14	29	1	2	46
AMRO	13	16	2	3	34
EMRO	1	7	5	7	20
EURO	10	3	36	0	49
SEARO	3	2	2	1	8
WPRO	14	3	2	6	25
All Countries	55	60	48	19	182

* Countries for which data are available

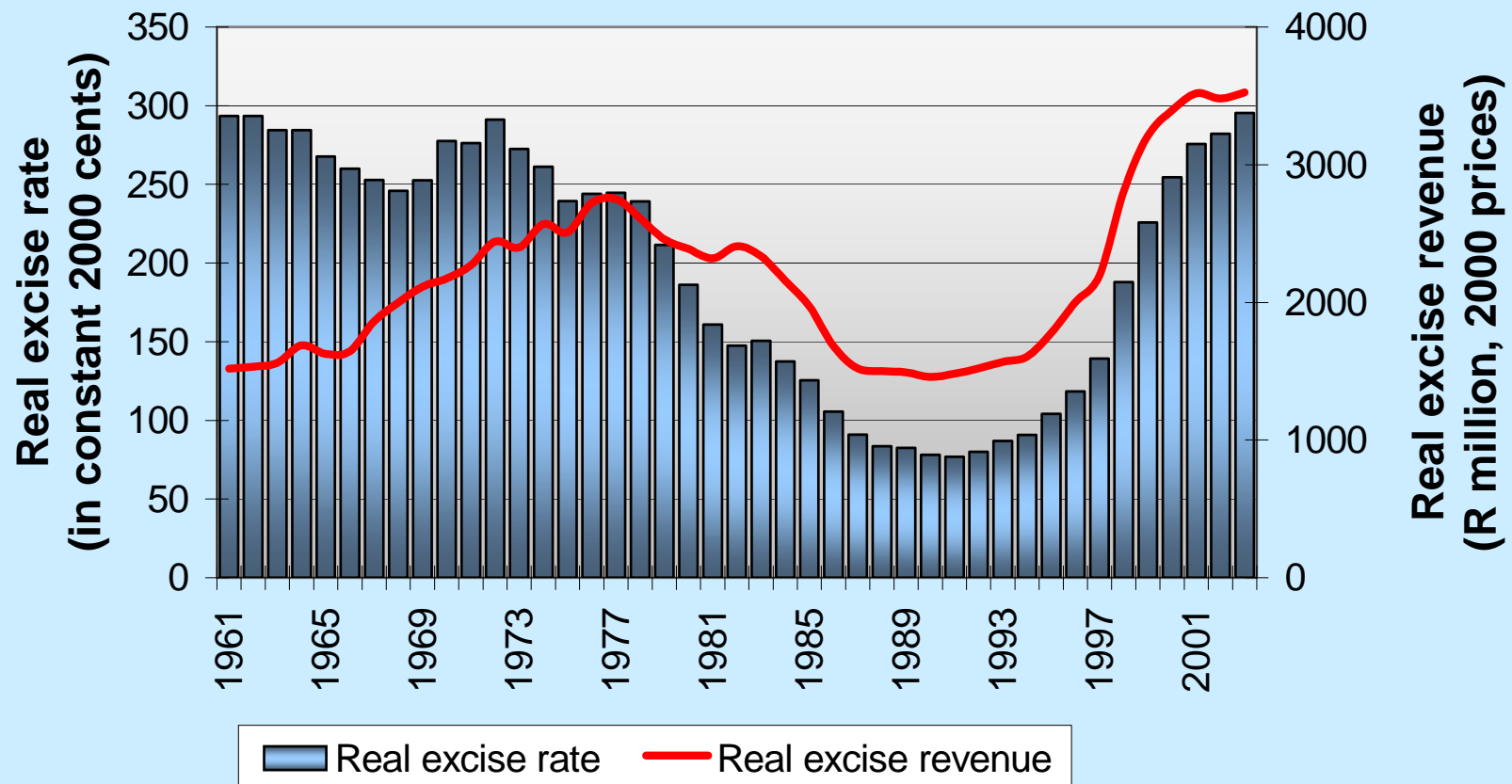
Source: WHO calculations using WHO GTCR 2009 data

Tobacco Taxes and Tobacco Tax Revenues

Tobacco tax increases increase
tobacco tax revenues.

Tobacco Taxes and Revenues

Inflation Adjusted Cigarette Taxes and Cigarette Tax Revenues, South Africa, 1961-2003

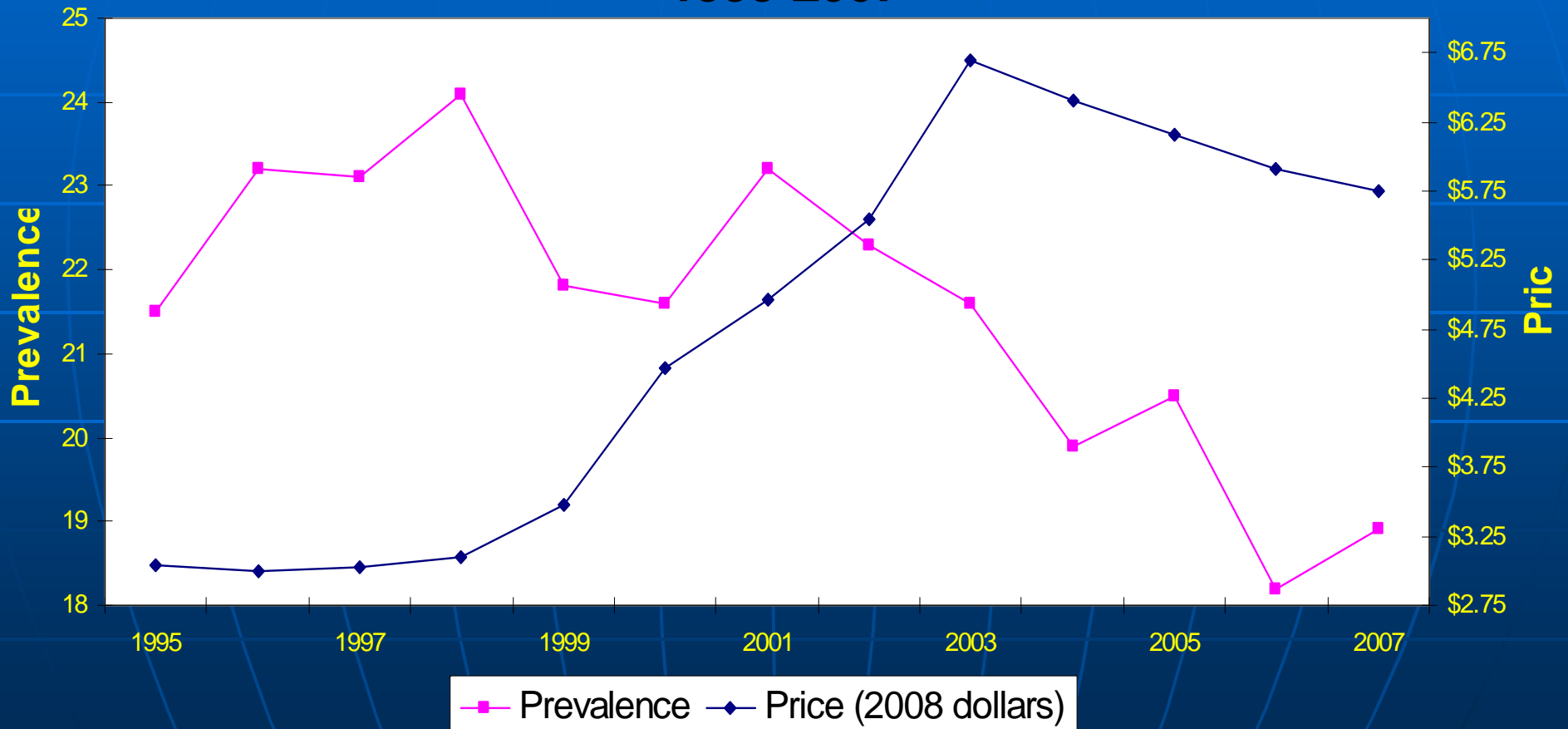


Impact of Tax Avoidance And Tax Evasion

Tax avoidance and tax evasion reduce, but do not eliminate, the public health and revenue impact of tobacco tax increases.

Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes

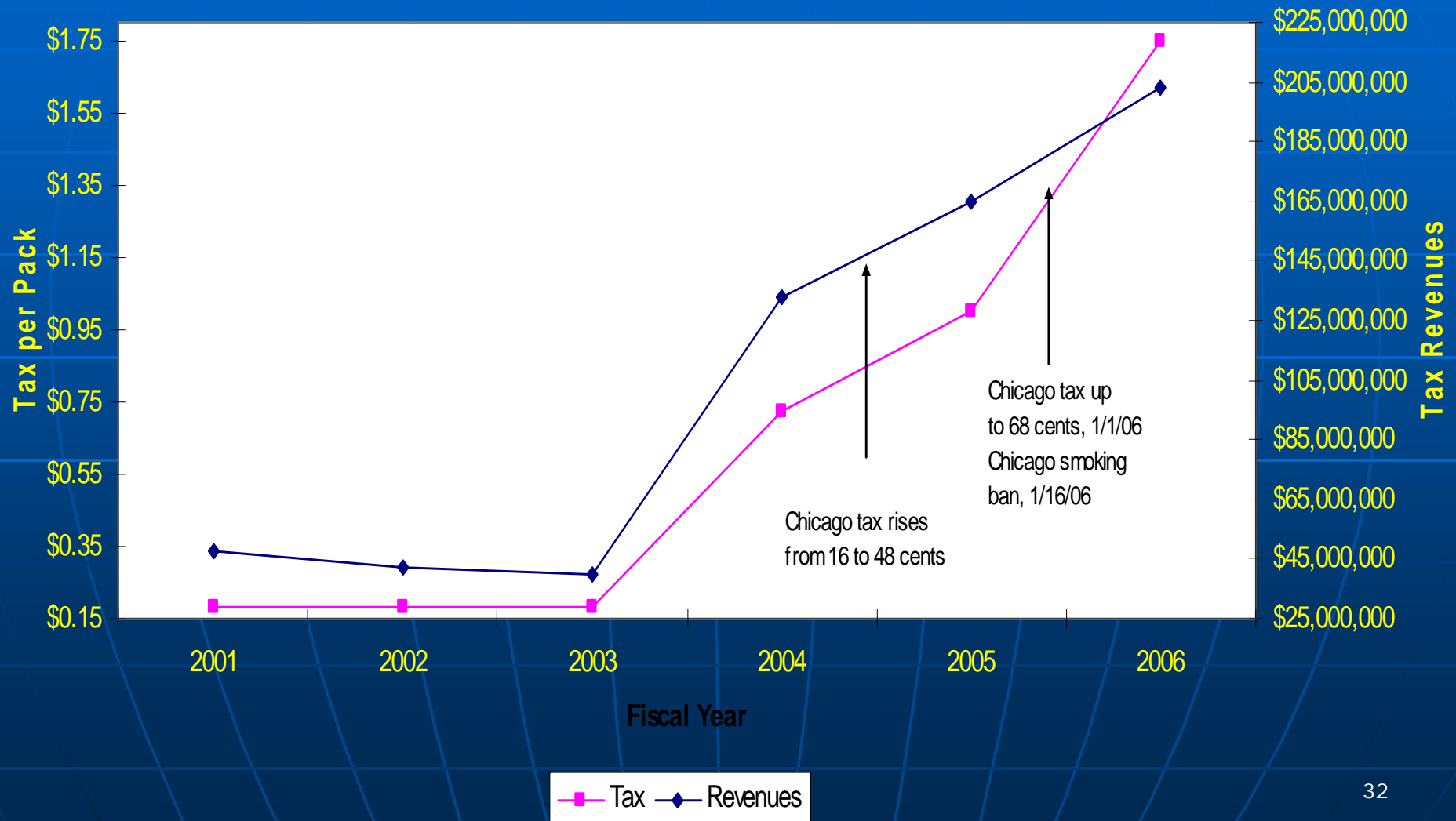
Cigarette Prices and Adult Prevalence, New York, 1995-2007



Source: Tax Burden on Tobacco, 2008 and BRFSS

Tax Increases and Tax Avoidance

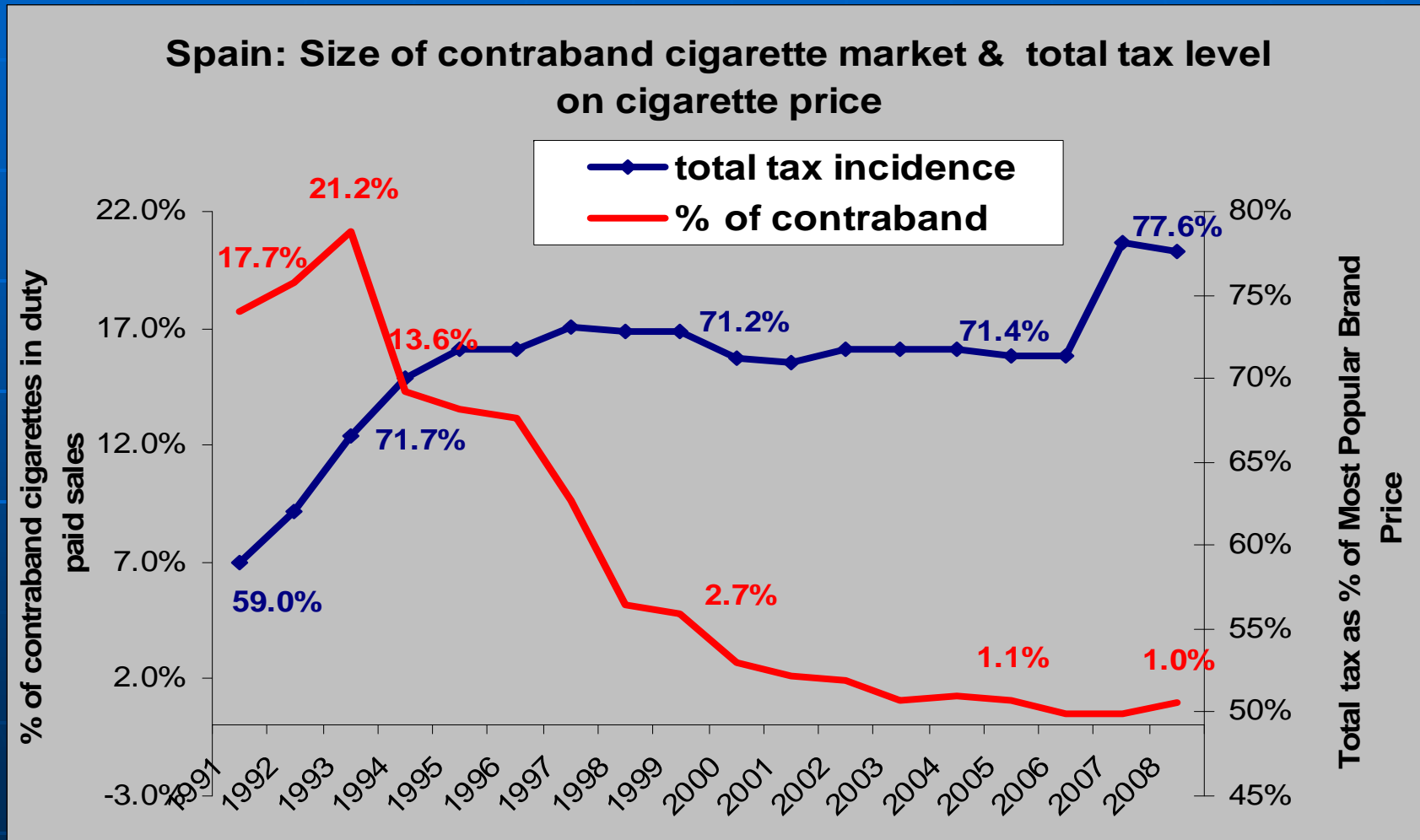
Cook County Cigarette Tax and Tax Revenues - FY01-FY06



Curbing Tax Evasion

A coordinated set of interventions that includes international collaborations, strengthened tax administration, increased enforcement, and swift, severe penalties reduces illicit trade in tobacco products

Cigarette tax and illegal cigarette market, Spain 1991-2008



For more information:

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