TOBACCO TAXATION
Countering Industry Arguments

Claim	Truth
Higher Tobacco Taxes Will Hurt The Economy. Tax increases will lead to significant reductions in employment in tobacco growing and manufacturing, as well as more general wholesale, retail, and other economic sectors. Consequently, the tax increases will have an adverse impact on the entire economy.	Tobacco farming and manufacturing account for a small and, in most countries, declining share of economic activities.[1] In Indonesia, a recent report found that tobacco farming constitutes only 0.3% of the agricultural sector and 0.03% of gross domestic product.[2] Most tobacco farmers do not profit from tobacco farming, and farmers who switched to growing other crops were better off than tobacco farmers.[2] Generally, employment in tobacco farming is low relative to other farming activities. Due to the addictive nature of tobacco products, any decline in the demand for tobacco will be gradual allowing tobacco farmers time to transition from tobacco to alternative crops.[1] Tobacco manufacturing is not labor intensive and thus generates very few jobs. These jobs are also declining due to the tobacco industry's automation and mechanization of the manufacturing process.[3] The impact of increases in tobacco taxes on other sectors is likely to be positive as the money smokers would have spent on tobacco products will be spent on other goods and services — many more likely to be local. The net employment effect of this shift in consumers' preferences will most likely be positive, producing more jobs in other sectors. Raising the price of cigarettes is a very effective measure for discouraging consumption and avoiding the initiation of tobacco use among children and youth. Reduced tobacco consumption will result in a healthier and more productive workforce, which will help boost the economy.[4,5] This will also reduce tobacco-caused harm to the economy such as dramatically increased health care costs and environmental damage. Increased government revenues from higher taxes and reduced health care costs for tobacco-related diseases can finance government programs that benefit the economy.[6]

Claim	Truth
Higher Tobacco Taxes Will Increase Illicit Trade In Tobacco. Tax increases on tobacco products will lead to increased illicit tobacco trade, illegal cigarette production, and related criminal activity.	Tobacco companies have a long history of using the illicit trade argument to oppose tobacco taxes because they know the overwhelming evidence that tobacco taxes reduce use, save lives and healthcare dollars, and generate significant new revenue. In their desperate and aggressive attempts to stop this critical tobacco control measure, they exaggerate the degree of illicit trade, have been show to be complicit in it in order to use the argument, and oppose measures to prevent and reduce illicit trade. Tobacco taxes are not the primary reason for the illicit tobacco trade and cigarette tax avoidance. Illicit trade is primarily driven by weak enforcement, corruption, and supply chain gaps rather than tax rates. Recent evidence from the Philippines shows that illicit cigarette trade was driven primarily by weak enforcement and border control challenges, particularly in port cities with open trading routes, rather than by national tobacco tax increases.[7]

Claim	Truth
Higher Tobacco Taxes Will Increase Illicit Trade In Tobacco.*(cont.)*	Levels of illicit trade are generally higher with lax law enforcement and criminal prosecution, weak penalties for illicit tobacco trade crimes, and corruption in a country. For example, despite the high taxes on cigarettes and some of the highest cigarette prices in the world, the market of illicit tobacco in New Zealand is almost non-existent.[8,9] In contrast, illicit cigarettes can be easily purchased in Eastern Europe where taxes are already low and cigarettes are cheap.[10] Many countries have significantly increased tobacco taxes without experiencing changes in market share of illicit tobacco/illicit productions. Experience shows that these illegal activities can be controlled by legislative or regulatory means (e.g. use of prominent tax stamps, serial numbers, special package markings, health warning labels in local languages) and by customs and law enforcement (e.g. improving corporate auditing, better tracking systems, and good governance) and stronger penalties for violators. Revenue generated by a tax increase can finance these activities.[11] The benefits of higher tobacco taxes in terms of health and revenue far outweigh any downsides, even in countries where some illicit tobacco trade exists. Higher taxes reduce consumption and increase government revenue, even in the presence of cigarette illicit tobacco trade.[12]
Tax increases on tobacco products will lead to increased illicit tobacco trade, illegal cigarette production, and related criminal activity.	
Higher Tobacco Taxes Will Reduce Tax Revenues.	Higher tobacco taxes produce higher tax revenues alongside the life-saving declines in tobacco use they cause. While use is reduced, the addictive power of tobacco mitigates the impact on demand such that the higher tax rates more than offset the impact of the tax on demand. Thus, even though demand is reduced when taxes and prices increase, the higher tax rate will result in overall increases in tax revenues.[5] 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 tobacco use. • In the United Kingdom, tobacco taxes have been increased regularly since 1993. As a result, the price of cigarettes in the United Kingdom increased more than 200% between 1992 and 2011, the market share of illicit cigarettes fell from 21% to 9% during about the same period (2000–2012), cigarette sales declined 51% and government revenue from tobacco taxes increased 44%.[13] Adult smoking prevalence dropped from 27% in 2000 to 20% in 2010.[14] • The Philippines passed a major tobacco tax reform in 2012 that annually increased the excise tax and simplified the number of tax tiers from 2012 to 2018. As a result, the price of cigarettes increased by more than 78%, domestic cigarette sales decreased by 28.1% between 2012 and 2015,[15] government revenue from tobacco taxes more than tripled,[16] and the adult smoking prevalence fell from 28.3% in 2009 to 22.7% in 2015.[17] • In Ukraine, tobacco taxes have been increased annually since 2008. As a result, the price of cigarettes has more than tripled,[18] tobacco sales dropped by almost 50%[19] and tax revenue collected from tobacco excises increased more than fifteen-fold.[20] Adult smoking prevalence fell by 19% from 2010 to 2017.[21]
The reductions in tobacco sales caused by tax increases will be so large that it will offset the impact of the increased tax rate.	

Claim	Truth
Higher Tobacco Taxes Will Hurt The Poor. Tobacco tax increases are regressive and fall dispro-portionately on the poor. Poor people have only few pleasures, and higher taxes will make tobacco unaffordable to them.	Tobacco is disproportionately consumed by the poor. Spending on tobacco and resulting health care costs often pushes users into poverty.[22] In almost all countries, rates of tobacco use are higher among low-income groups, and tobacco companies aggressively target the poor with its advertising. Low-income groups spend a greater percentage of their income on tobacco products than on essential products.[22] For example, Turkish households with smokers spent 8% of their household budget on tobacco products on average, but poor households with smokers spent 10.3%. Additionally, households with no smokers spent 9% more on food, utilities and housing than smoking households.[23] Tobacco tax increases can help motivate low-income groups reduce the amount of tobacco consumed or stop using tobacco altogether, allowing them to reallocate their money spent on tobacco and tobacco-caused illness to food, shelter, education and health care and thus improve their quality of life. Half of lifetime users of tobacco die prematurely from tobacco-related disease, and many more users and their families are forced to suffer the hardships and pain of tobacco-caused diseases and disabilities. Lower income populations are more responsive to increases in tobacco prices than people with higher income. Increased tobacco taxes will reduce tobacco use among lower income people, therefore reducing the burden of tobacco disproportionally imposed on the poor.[24] Tobacco prices are determined by other factors besides taxes. Tobacco companies raise the prices of their products all the time—they don't seem to mind charging their customers more as long as they reap the profits.[25]
Higher Tobacco Taxes Will Not Reduce Tobacco Use. Since tobacco addiction is very strong, higher prices will not impact demand; therefore raising taxes is not justified.	This is a basic law of supply and demand, and the evidence is overwhelming that tobacco taxes work to reduce tobacco use and save lives. The tobacco companies have known this for decades, which is why they fight them so fiercely. They know tobacco taxes are bad for their business and a boon for public health and revenue. Numerous studies and experience of many countries have demonstrated that higher taxes reduce the number of tobacco users and the number of tobacco-related diseases and deaths. Higher prices encourage cessation among current tobacco users, prevent initiation, and stop re-initiation by ex-users. Higher prices also reduce the number of cigarettes smoked per day among continuing smokers.[5] Increasing tobacco taxes to achieve a 10% increase in tobacco prices will decrease tobacco consumption by 4% in high-income countries and by about 5% in low- and middle-income countries.[5] Higher tobacco taxes also raise government revenues and cover the health care and environmental costs of tobacco use, which in many countries far outweigh tobacco tax revenues.[5]

"Of all the concerns, there is one — taxation — that alarms us the most. While marketing restrictions and public and passive smoking (restrictions) do depress volume, in our experience taxation depresses it much more severely. Our concern for taxation is, therefore, central to our thinking" —Philip Morris

Claim	Truth
Tax Rates Are Already Too High. Most countries already have very high rates of taxes on tobacco products.	In much of the world, tobacco taxes remain low and tobacco is cheap. Tobacco products in many countries have become more affordable over time as economies have grown and household incomes have increased, even when prices, adjusted for inflation, have remained stable or increased.[26] Tobacco taxes are not high enough to cover the huge costs tobacco imposes on individuals, families and countries, including health care costs for tobacco-related diseases, lost productivity due to premature deaths, fires due to tobacco use, and environmental deforestation for tobacco farming.[27] Higher tobacco taxes can be used to pay these costs, produce funds for efforts to reduce tobacco use, and reduce the burden tobacco use places on society. As of December, 2024, only 21 percent of countries meet the level of cigarette tax recommended by WHO.[28] By keeping their tobacco taxes low, countries are missing a tremendous opportunity to reduce tobacco use, save lives, and save healthcare dollars and instead, protecting the interests of the tobacco companies.
Higher Tobacco Taxes Punish Tobacco Users. Tobacco users shouldn't be punished for using a legal product.	Although tobacco is legal, tobacco use and exposure to tobacco smoke kills smokers and non-smokers. Most tobacco users start using and become addicted to tobacco before the age of 20 when they are too young to realize the risks of tobacco use.[29] Though they may want to quit, most people who use tobacco regularly do not because they are addicted. High tobacco taxes and prices encourage tobacco users to quit and save lives.[4]
Higher Cigarette Taxes Will Encourage Smokers To Switch To Cheaper Cigarette Brands And/Or Other Tobacco Products To Avoid Quitting. There will be no overall reduction in tobacco use.	Not all smokers will be tempted to switch to cheaper cigarettes or cheaper tobacco products. Even when substitutes are available, multiple studies from around the world confirm that higher taxes on cigarettes will prevent people from starting to smoke, encourage them to quit, and reduce the quantity of cigarettes smoked.[5] Tax systems that favor uniform specific excise taxes reduce price differences among the various brands and products, thus limiting substitution among tobacco products when taxes go up.[5]

Claim	Truth
Governments Interfere With Consumers' Freedom Of Choice When They Tax Tobacco And Discourage Use. Governments' responsibility should end with making the risks of tobacco use widely known to people.	Even in high-income countries, many tobacco users are unaware or underestimate the risks of tobacco. Most tobacco users begin using tobacco when they are too young to realize the risks of tobacco use. Tobacco is not like any other consumer product because it kills when used exactly as intended. Tobacco is an addictive substance and, by the time users try to quit, they are addicted. The tobacco industry spends billions of dollars each year to market its products.[30] Young people and tobacco users are bombarded every day with misleading advertising about tobacco. Tobacco advertising minimizes the perceived risks of tobacco use and makes people think that tobacco use is glamorous and fun. Tobacco use imposes enormous costs on families and governments. Tobacco use costs USD 1.4 trillion globally due to health care costs for tobacco-related diseases and lost productivity due to pre-mature deaths.[30] This cost is incurred by non-smokers who develop diseases and/or die prematurely due to secondhand smoke exposure.[31] For all these reasons, governments have the responsibility to intervene to prevent children from starting to use tobacco and spur tobacco users to stop or reduce their use to reduce the costs that tobacco use imposes on the whole society.
Tobacco Companies Agree With Sensible Industry Regulation, Including Small And Predictable Tax Increases That Do Not Encourage Illicit Tobacco Trade.	Small tax increases are often not effective in reducing consumption, as they have limited effect on tobacco prices and thus on the affordability of tobacco products for consumers. In many countries, tobacco prices remain very low, and significant increases in price are needed to make tobacco less affordable, reduce use and save lives.[32] The industry likes predictable tax changes which enables it to manipulate the market to its advantage, for example by pre-purchasing tax stamps or suggesting consumers stock up. And while tobacco companies may argue for small tax increases, they often increase the price of tobacco products to coincide with tobacco tax increases.[32] By increasing the price, companies increase their profit. Such actions indicate that the companies are fully aware that the market can support higher prices. Keeping tax increases small is one strategy to ensure the companies gain the profit from increased prices, rather than the government from increased taxes. For example, between 2011–2013, Australia raised the excise tax on cigarettes by 2.8%, but tobacco companies' average net price increased by 27%. This helped increase the profits of the three largest tobacco companies in 2013 by 100% from 2008.[33] While price differentials, small or large, may provide an incentive for the illicit tobacco trade, they are not the main causes of illicit trade. The market presence of illicit tobacco is a reflection of levels of law enforcement, criminal prosecution, penalties for illicit tobacco trade crimes, and degree of corruption in a country.[11]

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