TOBACCO TAXATION

Tobacco Taxes Save Lives and Raise Revenue

The most effective policy for reducing tobacco use and its devastating health and economic impact is to increase the price of tobacco products through tax increases.[1,2]

Higher tobacco prices:

- Prevent initiation, especially among young people
- Encourage existing tobacco users to quit; and
- Reduce the quantity of tobacco consumed among continuing users.[3]

Higher taxes are particularly effective in reducing smoking among vulnerable populations, such as youth, pregnant women, and low-income smokers.[4,5,6] By increasing the price of tobacco products, tobacco taxes always:

- Reduce tobacco use
- Save lives
- Save health care dollars
- Create significant new revenue for health programs or other critical issues

No one understands the impact of tobacco taxes on tobacco use better than the tobacco companies. That is why they oppose them so ferociously and why governments must raise taxes to protect kids and public health from companies that prey on the vulnerable to boost profits.[1,7]

Framework Convention on Tobacco Control Article 6

Article 6 establishes that:[2]

- **Price and tax measures are an effective and important means of reducing tobacco consumption.**
- **Parties should adopt tax policy and price policies in tobacco products, so as to contribute to health objectives aimed at reducing tobacco consumption.**

The Case for Raising Taxes on Tobacco

Higher tobacco taxes decrease consumption

Increasing tobacco taxes to achieve a 10% increase in tobacco prices typically decreases tobacco consumption by 4% in high-income countries and by 5% in low- and middle-income countries.[8]

- In Pakistan, cigarette consumption was estimated to have decreased by 19.2% following the increase of the Federal Excise Duty in 2022–23.[9]
- In the Philippines, cigarette pack sales dropped by 32.5% in the first two years following the passage of the 2012 Sin Tax Law, and smoking prevalence declined substantially from 29.7% in 2009 to 19.5% in 2021.[10]

Higher tobacco taxes save lives

Bigger tax increases of course create even greater benefits. Raising excise taxes enough to increase prices by 50% would lead 102 million people globally to quit smoking due to the higher prices, including 84 million people in low- and middle-income countries.[11] An estimated 27 million premature deaths could be averted and 536 million years of life could be gained over 50 years if countries raised the price of tobacco by 50% through tax increases.[12]

Higher tobacco taxes help the young and the poor

Youth and low-income people are much more sensitive to the price of goods than those with higher incomes and are thus more responsive to tobacco tax increases.[13] Youth have less money to spend, and higher tobacco taxes make tobacco products less affordable for them.[14,15] People with low incomes have less disposable income so are more motivated by tobacco tax increases to quit or reduce their smoking. This not only improves their health and saves health care dollars, but also allows them to reallocate their money spent on tobacco and tobacco-caused illness to critical needs like food, shelter, education and health care.[1,16] Tobacco tax systems that attempt to make tobacco products more affordable for low-income people serve to increase health inequities and disproportionately place a higher burden of health and economic costs on the poor, often driving them into poverty.[6]

Higher tobacco taxes increase government revenue and save money

Tobacco tax increases directly benefit governments through increased revenues. It is estimated that a one-time 50% tax increase on tobacco would increase tax revenue by USD 3.0 trillion over 50 years.[17] 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 smoking.

- In the Philippines, following implementation of the 2012 Sin Tax Law, tobacco excise revenue increased from PHP 26.0 billion in 2011 to PHP 176.5 billion in 2021 despite the live-saving declines in smoking.[10]
- In Pakistan, the 2022-23 tobacco excise reforms resulted in a 49% increase in tobacco excise revenue compared to the previous year, even as tobacco use declines[18]
- Following the 2015 tobacco excise tax increase in China, tax revenues from cigarettes increased by 14%, from 740 to 842 billion Chinese yuan between 2014 and 2016, reflecting an extra 101 billion Chinese yuan in tax revenues for the government.[19]
- In South Africa, every 10% increase in excise tax on cigarettes has been associated with an approximate 6% increase in cigarette excise revenues. From 1994 to 2001, excise revenues more than doubled as a result of tobacco tax increases.[20]

Tobacco use harms economic and human development, particularly in low- and middle-income countries. In Latin American countries, smoking was estimated to be responsible for 6.9% of the overall health budget (0.6% of GDP).[17] By reducing deadly tobacco use, tobacco taxes reduce health care costs for governments and individuals and also avert productivity losses from illness and early death. A 50% increase in cigarette price in Latin America was projected to save over USD 26 billion in health care costs over 10 years, avert over 300,000 deaths, and add an estimated 9 million healthy life-years to the population, yielding a total economic benefit to the region of USD 43.7 billion.[17]

Significant opportunities exist to raise tobacco tax and price

Tobacco taxes and prices in most countries are too low. Only about 20% of countries globally currently meet the WHO recommended tax level, and only about one-third have ever reached that level.[1] Governments around the world are missing a huge opportunity to save lives, reduce health care costs for governments and individuals, and raise critical new domestic resources for important health programs.

Best Practices in Tobacco Taxation

- Use tobacco excise tax increases to achieve the public health goal of reducing the death and disease caused by tobacco use.[1]
- Increase tobacco taxes to international standards. WHO recommends at least 75% of the retail price as the benchmark for high tobacco taxation.[1]
- Develop simple tax structures to ease tax administration, reduce tax avoidance and evasion, and enhance revenue, and to have a greater impact on tobacco use by reducing incentive to substitute among tobacco products.[7]
- Ensure that tobacco taxes are passed on to the consumer in the form of increased prices.[7,15]
- Tie tobacco tax to the rate of inflation and consumer purchasing power. Adjust taxes so that retail prices of tobacco products increase by at least the sum of the inflation rate and the per capita GDP growth.[7]
- Allocate tobacco tax revenues to tobacco control or other health programs. Countries have found that the public supports tobacco tax increases more strongly when the tax revenue is directed towards tobacco prevention or other health programs.[2,7] Also, by supporting programs that prevent youth from starting to use tobacco and help people quit, countries can further reduce tobacco use and save lives.

Key Takeaways

- **Raising tobacco taxes is the single most effective way to reduce tobacco use and save lives.**
- **Article 6 calls on countries to use tobacco tax policy to reduce tobacco consumption and meet health objectives. By reducing disease and death, tobacco taxes save health care costs and lost productivity for governments and individuals.**
- **The tobacco industry vigorously opposes tobacco taxes for the same reason public health advocates support them: because they work.**
- **Higher tobacco taxes target our most vulnerable populations, preventing youth from starting to smoke and helping low-income populations quit.**
- **Higher tobacco taxes increase government revenues, even with reduced consumption.**
- **Increased revenue from tobacco taxes can provide the government with funds for other tobacco control efforts, further reducing tobacco use and saving lives.**

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