

Executive Summary

THIS TECHNICAL MANUAL aims to help governments maximize the benefits they can receive – with respect to public health but also public revenues – from higher tobacco taxes by identifying a set of best practices.

Governments have the potential to use tobacco taxes to manage consumption, raise revenue and promote public health. Of all tobacco-product taxes, excises are the most important for achieving the health objective of reduced tobacco consumption, since they are uniquely applied to tobacco products and raise the prices of these products relative to the prices of other goods and services. Both specific and ad valorem excises are instruments the government can use. A single-rate specific taxation would lead to relatively higher price increases and reduce the market share of cheap cigarettes. In addition to specific taxation, depending on the characteristics of the product consumed most widely and the structure of each industry, the government can also impose an ad valorem tax to adjust specification attributes (appeal and variety) to a desired level and raise the required revenue. The long-term goal should be greater reliance on specific taxation.

Raising tobacco taxes so that they account for at least 70 percent of retail prices would lead to significant price increases, induce many current users to quit, and deter numerous youth from taking up tobacco use, leading to large reductions in the death and disease caused by tobacco use. At the same time, such tax increases will generate significant increases in tobacco tax revenues. Taxing all tobacco products consistently reduces the potential for substitution among them.

Variability in tobacco excises is a reflection of differences in governments' objectives and the constraints they face. Higher revenue targets may be constrained by administrative issues. A well-designed tax system is not enough if the tax administration agency is lacking the technical and human capacity needed to implement and enforce it, as well as to reassess the system in the light of changing circumstances. Simplicity and transparency in tax structure and administration reduce administrative and compliance costs, as well as opportunities for tax avoidance and tax evasion, leading to higher and sustainable tax revenues.

Tax avoidance activities, by both consumers and producers, constrain government's ability to raise revenue and control consumption through taxation. Simplifying the tax structure will help reduce opportunities for tax avoidance as well as monitoring costs per unit of revenue raised. Tax evasion involves both illicit trade and illicit production; it may involve genuine products or counterfeit. High tax increases may provide financial incentives for smuggling, when enforcement and tax laws are weak, penalties are small, and it takes a long time to prosecute smugglers. Up-to-date technologies and a coordinated action including international collaboration, strengthened administration and enforcement with swift penalties are required.

Whether or not tax increases fall more heavily on low-income groups depends on how tobacco use among low- and high-income groups changes in response to these tax increases. Higher taxes on all tobacco products lead to a relatively large reduction in tobacco use among low-income groups and an increase in the overall share of tobacco-product taxes paid by higher-income groups. Thus, tobacco tax increases result in a progressive distribution of the associated health and economic benefits. Moreover, at least part of the extra revenues generated can be used to support public programmes targeted specifically at low-income groups.

In most countries, tobacco tax increases will have either no net impact on employment or, more likely, would lead to a small increase in the number of jobs. Any reductions in tobacco-dependent employment, following tobacco tax increases, would therefore be offset by increases in employment in other sectors. Crop-diversification programmes that support farmers and programmes retraining those involved in tobacco product manufacturing could be financed by a small portion of the extra revenues generated from increases in tobacco-product taxes.

Governments need to establish a mechanism for adjusting specific taxes to keep pace with inflation and increases in real income. The latter is more important in low- and lower-middle-income countries because the evidence suggests that in these countries tobacco consumption increases as income rises.

In most countries, tobacco-product taxes constitute a low share of prices of tobacco products and/or little weight is given to tobacco product prices in computing price indices. Thus, in general, tobacco tax increases will have little impact on inflation.

Increasing tobacco-product taxes increases tax revenues over the short to medium term, because tobacco-product 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. A growing number of governments have used the revenues generated by tobacco excise tax increases to fund a variety of tobacco control activities and other health promotion efforts, while others have used these revenues to finance parts of their health-care systems.

Along these lines, the final chapter summarizes providing a set of “best practices” for tobacco taxation and including suggestions for how governments will best approach them.

Acronyms

AFR	World Health Organization African Region
AMR	World Health Organization Region of the Americas
BI	Bloomberg Global Initiative to Reduce Tobacco Use
CIF	Cost, Insurance and Freight
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EC	European Commission
EMR	World Health Organization Eastern Mediterranean Region
EUR	World Health Organization European Region
EU	European Union
FCA	Framework Convention Alliance
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GST	General Sales Tax
HRT	Hand rolling tobacco
IARC	International Agency for Research on Cancer
JTI	Japan Tobacco International
MoF	Ministry of Finance
MoH	Ministry of Health
MPPC	Most popular price category
NCI	United States National Cancer Institute
RYO	Roll-your-own tobacco
SEAR	World Health Organization South-East Asia Region
TMA	Tobacco Merchants Association
USDHHS	United States Department of Health and Human Services
VAT	Value Added Tax
WAP	Weighted Average Price
WCO	World Customs Organization
WHO FCTC	World Health Organization Framework Convention on Tobacco Control
WHO GTCR	World Health Organization Report on the Global Tobacco Epidemic
WPR	World Health Organization Western Pacific Region
WTO	World Trade Organization