Tax for health: win-win for public health and domestic revenue

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I am here to share with you the story of the success of the tobacco tax increase in Colombia. And in order to explain this properly, let me go back in time to 1995, when the Colombian Congress approved a tax cut that placed the cigarette ad valorem tax at 55%, down from its level of 100%, which used to be tax rate for a long time. During the following years, the tobacco epidemic was barely contained by the reduction in household income and the fact that 60% of the Colombian population lived below the poverty line.

But this changed by the turn of the century. First, because two of the largest global tobacco companies scaled up their presence in the local market and were more aggressive with their promotion strategies. And second, because households improved their purchasing power. These two factors disrupted the landscape in Colombia. For instance, we faced increased cigarette consumption among smokers in the lower income groups, and the prevalence rate among 9 grade students reached 30% in 2007.

Then, fortunately, the country became party to the Framework Convention on Tobacco Control, and the implementation of some of its measures, like smoke free areas and a total ban to tobacco advertising started to curb the epidemic. But this was never enough. The burden of disease caused by tobacco and its ongoing pressure on treatment costs defined a situation unsustainable in terms of the preservation of the right to health and the financial sustainability of the health system.

The 2016 tax reform

More than 20 years after the infamous tax cut, in December 2016, our Congress - following the directive of the Minister of Health and the Minister of Finance, and with the support of civil society - took a crucial decision, which consisted in multiplying by...

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1 Intervention during Panel 2 “Financing for the prevention of NCDS” at the interactive hearing on NCDs, United Nations, New York, 5 July 2018.
3 Ministry of Health data based on GYTS (2007).
three the specific component of the excise tax, splitting the increase over two years. As a result in January 2017 the specific component jumped from 700 pesos to 1200 and since January 2018 it is set at 2100 pesos. Tax transfer to price happened gradually and by May 2018 real prices were 40% above 2016 levels.

Results after the first year indicate that in terms of consumption:

- The number of smokers fell 15% in the first year of the reform. And most of this reduction can be safely attributable to the tax increase.
- Consumption intensity also decreased.
- We still need to assess effects on intention to quit.

Regarding tax revenue:

- Official records indicate that tobacco tax revenues increased by 46% in nominal prices in 2017.
- These new resources are directed to the health system.

And as to the negative side-effect of illicit trade, that was constantly mentioned by the tobacco industry as an obstacle to adopt tax increases, it remains at moderate levels. In 2016 illicit trade penetration in 5 main cities was 3.5% of consumption and in 2017, nine months after the first increase, penetration was 6.4%. The behaviour is very different across regions, and there are some areas were smuggling is a concern, but this only emphasizes the benefits of the tax. It works better in those cities were institutions are stronger.

Steps ahead

These are undisputable advances, but the job is not finished:

- First of all, we emphasize the importance of improving compliance with the Framework Convention on Tobacco Control, including implementation of taxes, but also other FCTC commitments that contribute to better results from tax measures.

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4 Anáas calculations based on National Department of Statistics (DANE), Consumer Price Index.
6 Both DANE, National Survey of Quality of Life, and Anáas, DEICSCOL find that smoking frequency and smoking intensity diminished between 2016 and 2017.
7 Anáas calculations based on Ministry of Finance, Dirección de Apoyo Fiscal.
• Tobacco taxes need to be consistently monitored by independent actors (not by the industry) to document results and to provide evidence for new adjustments. These efforts are affordable: in Colombia both government and civil society have produced measurements that complement the assessment of tax effects in the short term, and we need to continue these joint efforts. At least we need to track the number of smokers, prices, revenues and illicit trade. There is a set of alternatives in methodologies to solve the information issues that are relatively flexible in terms of budget.

• Hand in hand with monitoring, we need to invest in tax management capacity. At least in the Colombian case, the lack of a reliable tracking and tracing system and, in some regions, the difficulties to control the territory, are the main obstacles to advance in the tax agenda. We also need to address the lack of coordination across countries to deal better with smuggling.

• We still need to improve communication of these results in the country and outside the country. Local decision makers keep repeating old prevention rhetoric. For example, during the recent presidential campaign most of the candidates when asked about their strategies to deal with tobacco consumption only mentioned education interventions. Civil society should be aware of this challenge, because this jeopardizes the gains we have obtained. This is also necessary if we want to extend the tobacco tax experience to address more effectively other risk factors, such as obesity or alcohol consumption.

I hope these ideas provide inspiration to advance in the commitment to common, consistent actions to beat NCDs. We definitely cannot wait another twenty years to make the right choices. Choices like healthy taxes.