TAXATION AND PRICE
Essential Facts

The most effective policy for reducing tobacco consumption is to increase the price of tobacco products through tax increases.[1] Higher tobacco prices:

- Encourage cessation among existing tobacco users;
- Prevent initiation among potential users; and
- Reduce the quantity of tobacco consumed among continuing users.[2]

Higher taxes are particularly effective in reducing smoking among vulnerable populations, such as youth, pregnant women, and low-income smokers.[3-5]

Increasing the price of tobacco through tax increases will decrease its consumption, save lives and raise tax revenue.

Framework Convention on Tobacco Control Article 6

Article 6 establishes that:

- 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

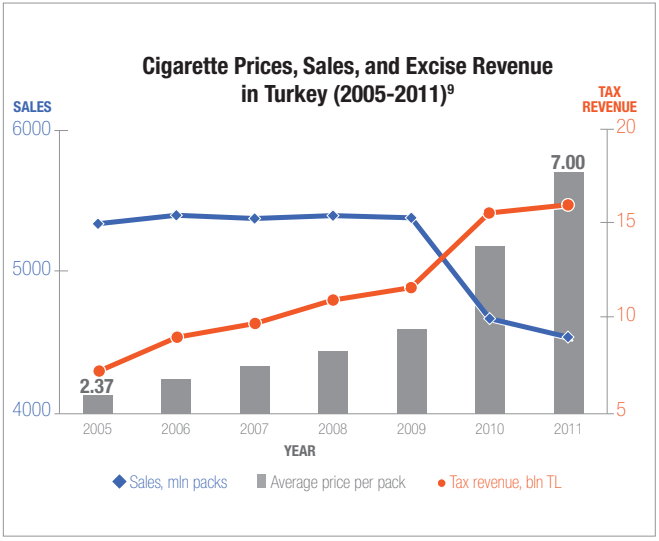
Increasing tobacco taxes to achieve a 10% increase in tobacco prices will decrease tobacco consumption by 4% in high-income countries and by about 6% in low- and middle-income countries.[6]

Higher tobacco taxes save lives

If tax increases result in a 10% increase in cigarette prices, the number of smokers worldwide would decline by 42 million (38 million in low- and middle-income countries and 4 million in high-income countries) saving 10 million lives.[7] A 70% increase in the price of tobacco could prevent up to a quarter of all deaths caused by smoking worldwide.[8]

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. Youth have less money to spend, and higher tobacco taxes make tobacco products less affordable for them. People with low incomes spend a larger percentage of their income on tobacco than people in higher income brackets. Tobacco tax increases can help motivate low-income groups to reduce the amount of tobacco consumed or to stop using tobacco altogether,[5] allowing them to reallocate their money to food, shelter, education and health care.[1] 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.



Higher tobacco taxes increase government revenue

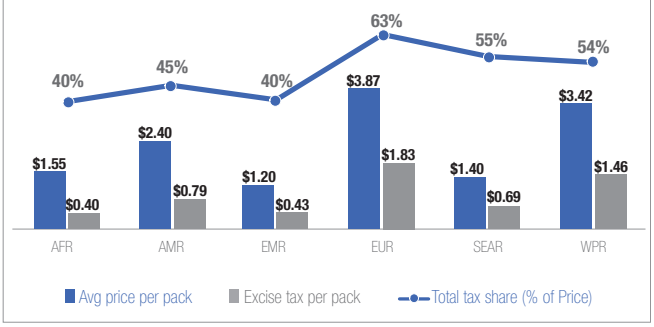
Tobacco tax increases directly benefit governments through increased revenues. Every nation and sub-national entity with an efficient tax system that has significantly increased its cigarette tax has enjoyed substantial increases in revenue, even while reducing smoking.

- In Turkey, government revenue from tobacco taxes increased from 7.1 billion TL in 2005 to 15.9 billion TL in 2011 even while cigarette sales declined by more than 15%.
- 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 in South Africa.[10]
- In Thailand, tax increases between 1994 and 2007 raised cigarette excise taxes from 60% to 80% of wholesale price, increasing tax revenue from 20,002 million THB in 1994 to 41,528 million THB in 2007 even as consumption decreased.[11]

Significant opportunities exist to raise tobacco tax and price

Tobacco taxes and prices in most countries are low. Governments can raise taxes to bring in additional revenue, reduce consumption and save lives.

Average Price of the Most Sold Brand, Excise Tax per pack, and Total Tax Share by Region (2008)[12]



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.
- Increase tobacco taxes to international standards. The World Bank recommends that all countries should attain tax rates of at least two-thirds to four-fifths of the retail price of tobacco products.
- 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.
- Ensure that tobacco taxes are passed on to the consumer in the form of increased prices.
- 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.
- 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. 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 Messages

- 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.
- 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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