In 2012, the Philippines passed the Sin Tax Reform Act (STLA) which increased the specific excise tax on tobacco from PHP 2.72 on low- and medium-priced brands and from PHP 12 on premium brands in 2012 over time to a unitary tax of PHP 30 in 2017. The average price per pack more than doubled by 2017. Total sales dropped by 32.5% in the first two years from 12.18 billion packs to 8.22 billion packs in 2014, but then increased again in 2015.

The most effective method for reducing tobacco consumption is to increase the price of tobacco products through tax increases. Higher tobacco prices encourage cessation among existing tobacco users, prevent initiation among potential users, and reduce the quantity of tobacco consumed among continuing users.

### Tobacco Use Before Sin Tax Law

In 2009, 28.3% of adults (age 15+) smoked; 47.7% of men and 9% of women. In 2011, smoking prevalence among youth (ages 13-15) was 8.9%, with 12.9% of boys and 5.3% of girls smoking cigarettes.

### Tax Change

Before 2013, the Philippine’s excise tax system had 4 tiers, with some brands bearing a tax that was less than one-tenth of the tax per pack levied on other brands. A “price classification freeze” applied from 1996 to 2012 which mandated that the tax rates of brands that existed prior to 1996 remain based on the brands’ 1996 net retail prices. In 2012, the Philippines passed the Sin Tax Reform Act which removed the “price classification freeze”, introduced higher excise rates, started the move towards a unitary rate system (with a single excise rate attained in 2017), and indexed the tax rate to an inflation proxy of 4% annually after 2017.

### Impact of Tax Increase

**Tax and Price.** After the specific excise tax increased from 2.72 PHP to 30 PHP on low- and medium-priced brands and from 12 PHP to 30 PHP on high-priced and premium brands in 2017, the average price per pack increased by more than 78% from PHP 24.25 to PHP 43.29.

**Sales.** Domestic cigarette sales decreased by 28.1% between 2012 and 2015; from 5.79 billion packs to 4.16 billion packs. Total sales (imports + domestic) dropped by 32.5% in the first two years from 12.18 billion packs to 8.22 billion packs in 2014, but then increased to 8.86 billion packs in 2015.

### Industry Reaction

Philip Morris International/Fortune, which holds a majority of the tobacco market, and other local tobacco companies engaged in various activities aimed at avoiding the full impact of the 2012 Sin Tax Reform Act, including frontloading sales in both 2012 and 2013; that is, oversupplying the market prior to the tax increase and thus paying the old tax and avoiding the new tax. Tobacco companies also increased their production of very cheap cigarettes. The growth of the very cheap cigarette segment may encourage smokers to switch to cheaper cigarettes as prices rise due to the tax increase rather than quitting smoking. The advantages of these tactics for the industry reduced over time with the shift to a unitary high tax rate.

### Reduction in Number of Smokers

Adult smoking prevalence among adult Filipinos decreased from 28.3% in 2009 to 22.7% in 2015.3

### Government Revenue

Government revenue from tobacco taxes more than tripled, increasing from PHP 32.9 billion in 2012 to PHP 104 billion in 2016, even as sales declined.2 Due to earmarking, the budget for the Health Department more than doubled, from PHP 53.2 billion in 2012 to PHP 141.1 billion projected for 2017, resulting in 10.8 million more poor and near-poor families being covered by the National Health Insurance Program since 2012.7

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**References**