TOBACCO TAX SUCCESS STORY

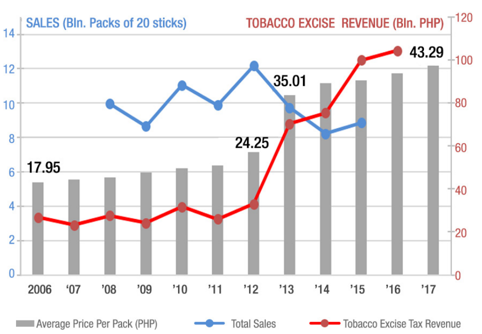
PHILIPPINES

FCTC ARTICLE 6

Price and tax measures are an effective and important means of reducing tobacco consumption... Each party should... adopt... tax policies and... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

In 2012, the Philippines passed the Sin Tax Reform Act (STL) 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.

Tobacco Excise Revenue, Sales, and Average Price, 2006-2017 [1,2]



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.

References

1. CTFK calculations based on Philippine Statistical Authority (PSA) Survey (prices) and Bureau of Internal Revenue (BIR) (Taxation). Available from https://psa.gov.ph/statistics/ and www.bir.gov.ph/. **2.** BIR, Republic of the Philippines, Annual Reports (Tax Removals and Tax Revenue). Total sales include domestic and imported tax removals. Available from www.bir.gov.ph/index.php/transparency/bir-annual-report.html. **3.** Global Adult Tobacco Survey: Executive Summary (GATS). Centers for Disease Control and Prevention; 2015. Available from www.cdc.gov/tobacco/global/gtss/. **4.** Global Youth Tobacco Survey (GYTS): Philippines. World Health Organization; 2011. Available from who.int/tobacco/surveillance/gyts/en/index.html. **5.** Philippine Republic Act No. 10351: An Act Restructuring the Excise Tax on Alcohol and Tobacco Products by Amending Republic Act No. 8424. **6.** Department of Budget Management. General Appropriations Act, Vol. 1, Department of Health. Office of the Secretary. 2009-2015. **7.** Department of Health. Sin Tax Law Incremental Revenue for Health Annual Report, C.Y.2016. Available at www.doh.gov.ph/sites/default/files/publications/2016%20DOH%20Sin%20Tax%20Report.pdf.

Tobacco Use Before Sin Tax Law

In 2009, 28.3% of adults (age 15+) smoked; 47.7% of men and 9% of women.[3] In 2011, smoking prevalence among youth (ages 13-15) was 8.9%, with 12.9% of boys and 5.3% of girls smoking cigarettes.[4]

Tax Structure Change

The Philippines levies a specific excise tax on tobacco products. From 2013 to 2016, two separate excise rates are applied to products based on the net retail price. In 2017, a single uniform specific excise tax will be applied. The specific tax increases each year until 2017 after which the excise rate will increase by 4% annually, as a proxy for automatic inflation adjustment.

Specific Excise Tax Per Pack For Machine-Packed Cigarettes Based On Net Retail Price (In PHP)[5]

Old system		RA 10351 (Sin Tax Reform)						
2012			2013	2014	2015	2016	2017	2018
NRP	Excise tax	NRP	Excise tax					
< 5.00	2.72	11.50 and below	12.00	17.00	21.00	25.00	30.00	annual 4% increase
5.00 to 6.50	7.56							
6.51 to 10.00	12.00	more than 11.50	25.00	27.00	28.00	29.00		
>10.00	28.30							

Excise tax is not comparable between the old system and the new system under RA 10351 because the tax base until 2012 was frozen at 1996 cigarettes price levels.

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.

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.

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.

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[6], resulting in 10.8 million more poor and near-poor families being covered by the National Health Insurance Program since 2012.[7]