

TAXATION AND PRICE

Countering Industry Claims



Claim: Higher tobacco taxes will hurt the economy.

Tax increases will lead to significant reductions in employment in tobacco growing and manufacturing, as well as more general wholesale, retail, and other economic sectors. Consequently, the tax increases will have an adverse impact on the entire economy.

TRUTH

Tobacco farming and manufacturing account for a small and, in most countries, declining share of economic activities.

Generally, employment in tobacco farming is low relative to other farming activities. Due to the addictive nature of tobacco products, any decline in the demand for tobacco will be gradual allowing tobacco farmers time to transition from tobacco to alternative crops.¹

Tobacco manufacturing generates very few jobs, and those jobs are declining due to the tobacco industry's automation and mechanization of the manufacturing process.

The impact of increases in tobacco taxes on other sectors is likely to be positive as the money smokers would have spent on tobacco products will be spent on other goods and services.² The net employment effect of this shift in consumers' preferences will most likely be positive, producing more jobs in other sectors.

Raising the price of cigarettes is the principal measure for discouraging consumption and avoiding the initiation of tobacco use among children and youth. Reduced tobacco consumption will result in a healthier and more productive workforce, which will help boost the economy.

Increased government revenues from higher taxes and reduced health care costs for tobacco-related diseases can finance government programs that benefit the economy.□

Claim: Higher tobacco taxes will increase smuggling.

Tax increases on tobacco products will lead to increased smuggling, illegal cigarette production, and related criminal activity.

TRUTH

Tobacco taxes are not the primary reason for cigarette smuggling and cigarette tax avoidance. Levels of smuggling are generally higher with lax law enforcement and criminal prosecution, weak penalties for smuggling crimes, and corruption in a country. For example, despite high cigarette prices and some of the highest taxes on cigarettes, smuggling is almost non-existent in Scandinavian countries. In contrast, smuggled cigarettes can be easily purchased in Albania, Cambodia, and in Eastern Europe where taxes are already low and cigarettes are cheap.³

Many countries have significantly increased tobacco taxes without experiencing changes in smuggling/illicit productions. Experience shows that these illegal activities

can be controlled by legislative or regulatory means (e.g. use of prominent tax stamps, serial numbers, special package markings, health warning labels in local languages) and by customs and law enforcement (e.g. improving corporate auditing, better tracking systems, and good governance) and stronger penalties for violators.⁴ Revenue generated by a tax increase can finance these activities.

The benefits of higher tobacco taxes in terms of health and revenue have been significant even in countries where smuggling exists. Higher taxes reduce consumption and increase government revenue, even in the presence of cigarette smuggling.⁵ Reduced consumption will also reduce demand for illicit products.□

Claim: Higher tobacco taxes will reduce tax revenues.

The reductions in tobacco sales caused by tax increases will be so large that it will offset the impact of the increased tax rate.

TRUTH

Higher tobacco taxes produce higher tax revenues. The demand for tobacco products is inelastic which means that the proportionate reduction in demand for tobacco is smaller than the proportionate size of tax increase. Thus, even though demand is reduced when taxes and prices increase, the higher tax rate will result in overall increases in tax 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 tobacco use.

- In South Africa, every 10% increase in excise tax on cigarettes has been associated with an approximate 6% increase in cigarette excise revenues, even as tobacco use declined. From 1994 to 2001, excise revenues more than doubled as a result of tax increase in South Africa.⁶
- 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.⁷ □

Claim: Higher tobacco taxes will hurt the poor.

Tobacco tax increases are regressive and fall disproportionately on the poor. Poor people have only few pleasures, and higher taxes will make tobacco unaffordable to them.

TRUTH

Tobacco is disproportionately consumed by the poor. In almost all countries, rates of tobacco use are higher among low-income groups, and tobacco companies aggressively target the poor with its advertising. Low-income groups spend a greater percentage of their income on tobacco products

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than on essential products. Indonesian households with smokers spent 11.5% of their household income on tobacco products compared to 11% spent on fish, meat, eggs and milk combined, 3.2% on education and 2.3% on health.⁸ Tobacco tax increases can help motivate low-income groups reduce the amount of tobacco consumed or stop using tobacco altogether, allowing them to reallocate their money to food, shelter, education and health care and thus improve their quality of life.

Half of lifetime users of tobacco die prematurely from tobacco-related disease, and many more users and their families are forced to suffer the hardships and pain of tobacco-caused diseases and disabilities. Lower income populations are more responsive to increases in tobacco prices than people with higher income. Increased tobacco taxes will reduce tobacco use among lower income people, therefore reducing the burden tobacco disproportionately imposes on the poor.² □

Claim: Higher cigarette taxes will encourage smokers to switch to cheaper cigarette brands and/or other tobacco products to avoid taxes.

Smokers will switch to cheaper brands or cheaper tobacco products. There will be no overall reduction in tobacco use.

TRUTH

Not all smokers will be tempted to switch to cheaper cigarettes or cheaper tobacco products. Even when substitutes are available, multiple studies from around the world confirm that higher taxes on cigarettes will prevent people from starting to smoke, encourage them to quit, and reduce the quantity of cigarettes smoked.³

Tax systems that favor uniform specific excise taxes reduce price differences among the various brands and products, thus limiting substitution among tobacco products when taxes go up. □

Claim: Tax rates are already too high.

Most countries already have very high rates of taxes on tobacco products.

TRUTH

In much of the world, tobacco taxes remain low and tobacco is cheap. Tobacco products in many countries have become more affordable over time as economies have grown and household incomes have increased, even when prices, adjusted for inflation, have remained stable or increased.⁹

Tobacco taxes are not high enough to cover the huge costs tobacco imposes on individuals, families and countries, including health care costs for tobacco-related diseases, lost productivity due to premature deaths, fires due to tobacco use, and environmental deforestation for tobacco farming. Higher tobacco taxes can be used to pay these costs, produce funds for efforts to reduce tobacco use, and reduce the burden tobacco use places on society. □

Claim: Higher tobacco taxes punish tobacco users.

Tobacco is a pleasure to use. Raising tobacco taxes means tobacco users will pay more money for their pleasure.

TRUTH

Tobacco use and exposure to tobacco smoke kills smokers and non-smokers. Most tobacco users start using and become addicted to tobacco before the age of 20 when they are too young to realize the risks of tobacco use.¹⁰ Among tobacco users who understand the risks of tobacco, a majority report wanting to quit¹¹ however the addictive nature of tobacco makes this difficult. High tobacco taxes and prices encourage tobacco users to quit and save lives. □

Claim: Higher tobacco taxes will not reduce tobacco use.

Since tobacco addiction is very strong, higher prices will not impact demand; therefore raising taxes is not justified.

TRUTH

Numerous studies and experience of many countries have demonstrated that higher taxes reduce the number of tobacco users and the number of tobacco-related diseases and deaths.¹²⁻¹⁹ Higher prices encourage cessation among current tobacco users, prevent initiation, and stop re-initiation by ex-users. Higher prices also reduce the number of cigarettes smoked per day among continuing smokers.

Increasing tobacco taxes to achieve a 10% increase in tobacco prices will decrease tobacco consumption by 4% in high-income countries and by about 8% in low- and middle-income countries.⁶

Tax increases that raise the real cigarette prices by 10% worldwide would result in 40 million smokers quitting and prevent 10 million tobacco-related deaths.³

Higher tobacco taxes also raise government revenues and cover the health care and environmental costs of tobacco use, which in many countries far outweigh tobacco tax revenues. □

Claim: Governments interfere with consumers' freedom of choice when they tax tobacco and discourage use. Governments' responsibility should end with making the risks of tobacco use widely known to people.

TRUTH

Even in high-income countries, many tobacco users underestimate the risks of tobacco or are unaware of them. Most tobacco users begin using tobacco when they are too young to realize the risks of tobacco use. Tobacco is not like any other consumer product. When used exactly as intended, tobacco use significantly increases the risk of premature death. Tobacco is an addictive substance and, by the time users try to quit, they are addicted.

The tobacco industry spends billions of dollars each year to market its products.²⁰ Young people and tobacco users are bombarded every day with misleading advertising about tobacco. Tobacco advertising minimizes the perceived risks

of tobacco use and makes people think that tobacco use is glamorous and cool.

Tobacco use imposes costs on families and governments in the form of health care costs for tobacco-related diseases and lost productivity due to pre-mature deaths.²¹ Smoking imposes costs on non-smokers who develop diseases and/or die prematurely due to secondhand smoke exposure.

For all these reasons, governments have the responsibility to intervene to prevent children from starting to use tobacco and to reduce the costs that tobacco use imposes on the whole society.³ □

Claim: Tobacco companies agree with sensible industry regulation, including small and predictable tax increases that do not encourage smuggling.

TRUTH

Small tax increases are often not effective in reducing consumption, as they have limited effect on tobacco prices and thus on the affordability of tobacco products for consumers. In many countries, tobacco prices remain very low, and significant increases in price are needed to make tobacco less affordable, reduce use and save lives.

The industry likes predictable tax changes which enables it to manipulate the market to its advantage, for example by pre-purchasing tax stamps or suggesting consumers stock up. And while tobacco companies may argue for small tax increases, they often increase the price of tobacco products to coincide with tobacco tax increases. By increasing the price, companies increase their profit. Such actions indicate that the companies are fully aware that the market can support higher prices. Keeping tax increases small is one strategy to ensure the companies gain the profit from increased prices, rather than the government from increased taxes.

While price differentials, small or large, may provide an incentive for smuggling, they are not the main causes of smuggling. Levels of smuggling are a reflection of levels of law enforcement, criminal prosecution, penalties for smuggling crimes, and degree of corruption in a country. □

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