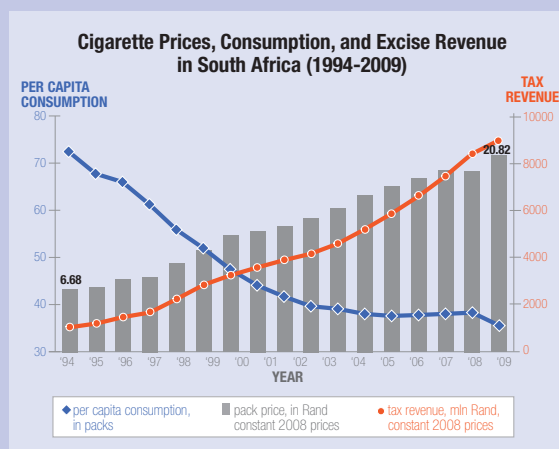


TOBACCO TAX SUCCESS STORY SOUTH AFRICA

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.

Between 1993 and 2009, total taxes on cigarettes (including excise and sales taxes) in South Africa increased from 32% of retail price to 52%. During the same period, cigarette sales declined 30%, government revenue from tobacco taxes increased 800%, and smoking prevalence among adults decreased 25%.



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.

Sources

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Tobacco Use

Approximately 20.5% of adults (age 15+) in South Africa smoke (males 35%; females 9%), down from 32% in 1993. Among youth ages 13–15, 14% smoke.

Tax Structure

Cigarettes in South Africa incur a specific excise tax and VAT. Every year, the National Treasury determines the retail price of cigarettes and adjusts the specific tax so total taxes make up approximately 52% of the retail price.

Tax Change

In 1994, the Treasury set a target of increasing total tobacco taxes from 32% of retail price to 50% (achieved in 1997). Total tobacco taxes stayed at 50% between 1998 and 2003 and was raised to 52% in 2002. The minimum percentage is achieved by raising the specific tax, as VAT has remained at 14% since 1994.

Industry Reaction. The tobacco industry increased prices of cigarettes, and thus profit margins, more rapidly than the government raised tobacco taxes. Between the early 1990s and 2005, the real industry price (net of tax price) increased by more than 80%. On average, for every 10 cents increase in the real level of excise tax, the real retail price of cigarettes increased by approximately 18 cents.

Illicit Trade. The tobacco industry claims higher tobacco taxes led to increases in illicit trade and that it accounts for more than 20% of the cigarette market in South Africa. Based on independent estimates, illicit trade grew in the late 90s and peaked in 2000 between 9.1% and 12.7% of the total market. Estimates for 2009 suggest that illicit trade made up 3.1% to 11.9% of the total market, far below industry claims. However, despite this illicit trade, tobacco use has declined significantly and government revenue from higher excise taxes has risen.

Impact of Tax Increase

Tax and Price

The real excise tax increased from R1.46 to R6.98 per pack between 1993 and 2009, while the real price increased from R6.68 in 1993 to R20.82 in 2009.

Sales

Total cigarette sales between 1993 and 2009 decreased by a third from 1.8 billion packs to 1.2 billion packs. Per capita consumption decreased 50%.

Prevalence

Smoking prevalence among adults decreased from 32% in 1993 to 20.5% in 2008.

Government Revenue

Despite the rapid decrease in cigarette consumption, government revenue from excise taxes increased from 1 billion Rand in 1993 to 9 billion Rand in 2009.