

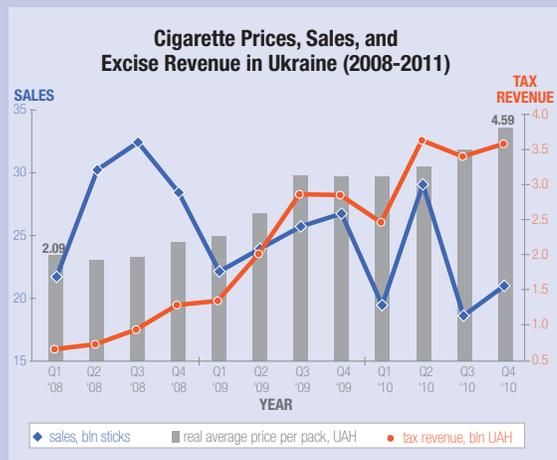
# TOBACCO TAX SUCCESS STORY

# UKRAINE

## 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 2008 and 2010, Ukraine's total tax on tobacco increased from 36% to 60% of the retail price—increasing the real price per pack by 120%. During the same period, tobacco sales decreased 25% and the government collected an additional UAH 9.5 billion in tobacco taxes. Price increases are estimated to have reduced the number of smokers by 2.7 million by preventing smoking initiation and increased cessation among current smokers.



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

- CDC. Global Adult Tobacco Survey—Ukraine. CDC, WHO; 2010.
- Quirk Global Strategies. Ukraine Opinion Poll. Kyiv, Ukraine. 2008.
- Ross H, Stoklosa M, Krasovsky K. Economic and public health impact of 2007–2010 tobacco tax increases in Ukraine. *Tobacco Control*. 2012;21(4):429-435.

## Tobacco Use

In 2010, more than 11 million (29%) Ukrainian adults (age 15+) smoke. Half of men (50%) and more than one in ten (11%) women smoke cigarettes. Among youth (age 13-15), 24% currently smoke cigarettes.

## Tax Structure

Currently, Ukraine's tax system is mixed with an ad valorem tax (based on retail prices) and a specific tax. VAT is applied at 20% of the wholesale price. Total excise taxes must be greater than or equal to 24% of the maximum retail price net of the VAT and the excise tax.

## Tax Change

Between 2008 and 2010, Ukraine increased tobacco taxes five times. The specific excise increased fivefold from UAH 0.28 to UAH 1.80. The total excise increased from UAH 0.50 in August 2008 to UAH 3.14 in July 2010.

**Industry Reaction.** Before 2008, the tobacco industry was able to absorb the small tax increases, keeping prices low. After the major tax hikes in 2009, the tobacco industry passed

the increases on to consumers and at the same time raised its own prices in order to increase profit margins. From January 2009 to December 2010 the real industry price (excluding tax) rose from UAH 1.32 to UAH 1.84, a 39% increase.

**Public Support.** A 2008 public opinion poll found that more than half of Ukrainians (57%) supported increasing taxes on cigarettes to fund improvements to the healthcare system.

Specific Excise in UAH/Pack	% Increase in the Specific Tax	Ad Valorem
prior to SEPT 2008	0.28	12.5% of max retail price minus VAT minus excise
SEPT 2008	0.60 (↑114%)	16% of max retail price minus VAT minus excise
FEB 2009	0.75 (↑25%)	16% of max retail price minus VAT minus excise
MAY 2009*	1.20 (↑60%)	20% of max retail price minus VAT only
JAN 2010	1.38 (↑15%)	25% of max retail price minus VAT only
JUL 2010	1.80 (↑30%)	25% of max retail price minus VAT only

\* Beginning May 2009, ad valorem was applied to maximum retail price minus VAT only, effectively doubling the amount of ad valorem excise levied.

## Impact of Tax Increase

### Tax and Price

Between the first quarter of 2008 and the last quarter of 2010, the real cigarette excise tax increased 400% from UAH 0.40 to UAH 2.00. Real cigarette prices increased 120% from UAH 2.09 to UAH 4.59 during the same period.

### Sales

Cigarette sales declined 25% from 112.8 billion sticks in 2008 to 84.3 in 2010.

### Reduction in Number of Smokers

Between 2008 and 2010, the cigarette price increases are estimated to have reduced the number of smokers by 2.7 million by preventing smoking initiation and increased cessation among current smokers.

### Government Revenue

Increases in tobacco tax and price led to higher tobacco tax revenues despite falling consumption. Government revenue increased more than 400% from UAH 2.4 billion for 2007 to UAH 13.1 billion in 2010.