

# The NCD Alliance

Putting non-communicable diseases on the global agenda



## TOBACCO TAX: GOOD FOR HEALTH, GOOD FOR GOVERNMENT FINANCES

Tobacco use kills over 5 million people each year and is the largest single preventable cause of premature death.<sup>1</sup> Tobacco is very costly to society through high costs to treat tobacco-induced disease or through loss of productivity as a result of the premature deaths. But governments have a tool to combat the costs of tobacco use — tobacco taxation.

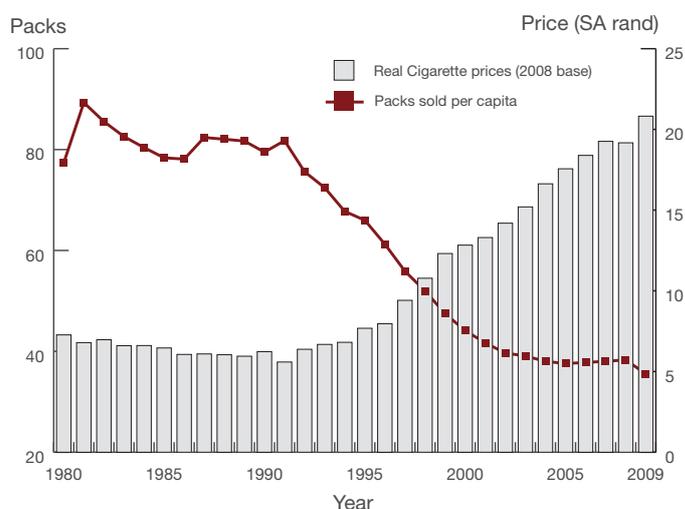
### Higher tobacco prices decrease consumption and encourage people to quit

Increasing the price of tobacco products is the single most effective way to reduce consumption.<sup>2</sup> Raising prices discourages uptake of tobacco use by young people and motivates people to quit tobacco use, while raising government revenues.<sup>3</sup>

Numerous studies in high income countries have shown that a 10% increase in cigarette price decreases consumption by about 4%.<sup>4</sup>

Available data indicate that consumption in low and middle income countries is even more responsive to price. For example, the estimated decreases would be about 5.5% in China, 5.2% in Mexico and 5.4% in South Africa.<sup>5,6,7</sup>

For tobacco products other than manufactured cigarettes, studies are comparatively rare, although similar effects have been found.<sup>8</sup>

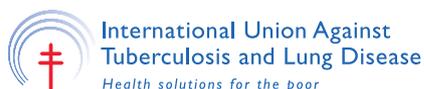


Inflation-adjusted cigarette prices and cigarette consumption, South Africa, 1980-2009

### Higher tobacco prices save lives

Decreasing consumption would translate into lives saved. The World Bank has estimated that tax increases to raise the price of cigarettes by 10% would:

- Cut the number of smokers in the world by 42 million — 38 million of them in low to middle income countries;
- Save 10 million lives — 9 million of them in low to middle income countries.<sup>9</sup>



# HOW MANY LIVES COULD TOBACCO TAX INCREASES SAVE?

Recent economic analyses for countries with large numbers of smokers found that:

## IN CHINA:

Increasing tax from 40% to 68% of the retail price would:

- Generate US\$16.4 billion a year in additional tax revenue
- Help 54.6 million smokers to quit
- Save 13.7 million lives<sup>12</sup>

## IN INDONESIA:

Increasing tax from 37% to 70% of the retail price would:

- Generate US\$6.5 billion a year in additional tax revenue
- Help 10 million smokers to quit
- Save 3.5 million lives<sup>13</sup>

## IN RUSSIA:

Increasing tax from 33% to 70% of the retail price would:

- Generate US\$4.9 billion a year in additional tax revenue
- Help 5.4 million smokers to quit
- Save 1.3 million lives<sup>14</sup>

## Tobacco and poverty

Those living on lower incomes are more likely to smoke,<sup>10</sup> and policy makers are sometimes concerned that increasing tobacco tax will penalise people who are already living in reduced circumstances. But it is important to note that poorer smokers are also the most price sensitive — in other words, they are the most likely to quit or reduce their consumption of tobacco when taxes are increased. This has been confirmed in multiple studies. For example, when tobacco excise was increased in South Africa over several years in the mid to late 1990s, the largest reductions in smoking prevalence were seen among young people and low-income earners.<sup>11</sup>

When smokers quit, their families benefit in two ways: through improved health and through improved finances — money previously spent on tobacco products can be spent on food, education and other necessities. If policy makers are concerned about the economic impact of tobacco tax increases on low-income smokers who do not reduce their consumption, they can invest part of the added tobacco tax revenue in social spending.

## Tobacco tax increases benefit the economy

Governments benefit directly from tobacco tax increases. Increased revenue can pay for tobacco control interventions, combating infectious disease or other priority national programmes. Countries with efficient tax systems have benefitted from substantial tax increases:

- In Thailand, tax increases between 1994 and 2007 raised cigarette excise from 60% to 80% of wholesale prices, more than doubling tax revenue even while consumption decreased.<sup>15</sup>
- In South Africa, from 1994 to 2001, excise revenues more than doubled as a result of tobacco tax increases.<sup>16</sup>
- A World Health Organization (WHO) study estimated that an increase in tobacco tax of 5% greater than the rate of inflation over 10 years could generate an extra US\$8,300 million in Indonesia, \$4,750 million in Thailand, \$994 million in Bangladesh, \$725 million in Sri Lanka and \$440 million in Nepal.<sup>17</sup>

In addition to savings to the public sector, business can also benefit from a healthier workforce, with lower absenteeism and fewer losses of skilled workers through early retirement due to illness or early death. A cost-benefit analysis in the UK showed that a 5% tobacco tax increase over the rate of inflation would increase government tax revenues by over US\$814 million a year and result in wider economic benefits of over \$440 million per year in the first five years of the policy.<sup>18</sup>

**Tobacco use is the one risk factor common to the main groups of NCDs. Accelerated implementation of the FCTC is an essential way to tackle NCDs and save lives.**

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