

## FACT SHEET

# IMPORTANCE OF TOBACCO TAXATION

The demand for tobacco is strongly influenced by its price. Taxation is the most cost-effective way of reducing tobacco consumption, especially among young people and those with low income.

### Effects of tobacco taxation

Price increases encourage people to stop smoking, prevent others from starting smoking, and discourage ex-smokers from starting it again. When tobacco tax rates were increased by 250% in South Africa in the 1990s, cigarette consumption fell by 5-7% for every 10% increase in cigarette prices. Approximately 40% of the decline in consumption was due to smokers quitting.

### Cigarettes consumption falls when taxes rise

Studies have shown that the effect of taxation is more pronounced in developing countries. A price rise of 10% decreases consumption by 4% in developed countries and by up to 8% in developing countries. There is considerable scope of increase tobacco prices through taxation. In many countries cigarette prices have not kept pace with increases in the price of other goods and services.

Studies have also predicted that cigarette price increase of 33% would prevent 22 -65 million smoking-related deaths worldwide, or 5-15% of all such deaths. An increase of 70% would save 46-114 million smoking-related deaths. Most would be among young men in developing countries.

The tobacco industry's argument that tobacco taxes are unfair for poor people ignores an important fact: on average, poor people are also more price sensitive than rich people. They are therefore more likely to stop smoking or reduce consumption when faced with a tobacco tax increase.

Apart from the health benefits, there is evidence that, in the longer term, tobacco tax increases actually shift the tax burden from the poor to the rich. They thereby increase the income available for other types of spending.

### Pakistan's requirements under Framework Convention on Tobacco Control (FCTC)

1. The government should consider tobacco control objectives when setting tax policies.
2. Recognize that price and tax measures reduce tobacco consumption, especially among the young.
3. Measures should include prohibiting or restricting tax-free or duty-free tobacco products, and implementing policies aimed at reducing tobacco consumption.

### Recommendations

1. Set the tax at between two thirds and four fifths of the total retail price on all tobacco products.
2. Apply the taxes at manufacturer level and have them certified by a stamp.

3. Apply the same taxes to imported cigarettes as to domestically manufactured cigarettes.
4. Tax all tobacco products at comparable rates to prevent product substitution.
5. Tie the tobacco tax to the rate of inflation and consumer purchasing power.
6. Allocate tobacco tax revenues, or a portion of them, to tobacco control or health promotion programs.
7. Ban the 'duty free' sale of tobacco products.
8. Keep taxes simple and easy to implement.

#### **In short**

- Tobacco excises are a win-win policy tool for public health and for the government. Virtually all governments tax tobacco products.
- Generally higher taxes account for greater share of price in higher-income countries. Higher tobacco taxes lead to increased prices for tobacco products.
- Higher tobacco taxes reduce tobacco use.  
Promote cessation.
- Prevent initiation and restarting
- Reduce consumption by those who continue.

#### **Greater impact on:**

- Younger persons
- Lower income. Less-educated populations

#### **Tobacco taxes should be used to promote public health**

- Good for public health Improve health outcomes Change smoking behavior
- Youth and the poor are more sensitive
- Increase budget share for other goods and services.

#### **Recommendations:**

1. Tax incidence in many countries still much lower than 2/3<sup>rd</sup> to 4/5<sup>th</sup> of retail price.
2. Cigarettes are becoming more affordable jeopardizing the efforts on curbing smoking among youth & the poor.
3. Tobacco attributable economic and health burden (mortality & morbidity) will fall heavily on developing countries.
4. Governments have a lot of room to increase their taxes; they should impose harmonized tax system by reducing the level of differential excise system gradually and should impose excise tax and examine which types of excises fits best on their needs.

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