Tobacco Taxation Systems: A Financial Strategy to Combat the Prevalence of Tobacco Use and the Resulting Poverty, Inequality, and Health Risks

CONTEXT: THE TOBACCO EPIDEMIC IN EUROPE

High prevalence: Compared to the rest of the world, the WHO Europe Region has the highest prevalence of tobacco smoking adults and among the highest smoking rates among adolescents.¹

High costs: Direct health costs: Tobacco-related disease
Indirect costs: Premature death, disability due to disease, decreased productivity

High morbidity and mortality: Tobacco use is estimated to be responsible for 16% of all deaths in adults above the age of 30 in the WHO Europe Region and a major contributor to socioeconomic disparity.¹

WHAT IS THE IMPACT OF LOW COST TOBACCO?

Affordable tobacco contributes to public health inequalities as it places a higher economic burden on low-income families. This causes poverty and deepens national internal inequalities, especially in less-developed countries.

WHAT IS TOBACCO TAXATION?

Taxation is a sustainable model to reduce tobacco use by decreasing affordability. Effective tobacco taxation has been found to lead to reduced consumption and prevalence of related products.²

WHAT IS THE CURRENT EU TOBACCO TAXATION POLICY?

Current EU Taxation Policies, as set by Directive 2011/64/EU
• Minimum rate of excise duties on cigarettes are required. These consist of a specific component of between 7.5% and 76.5% of the total tax burden of at least EUR 90 per 1000 cigarettes and an ad valorem component of at least 60% of the weighted average retail selling price.³ 2011/64/EU
• While minima are set by EU legislation, Member States have flexibility above these rates.⁴

WHAT ARE THE BENEFITS OF TAXATION?

Boosts public resources available for development investment and tobacco prevention programs
• Raises tax revenue due to the relatively inelastic demand
• Productively allocates revenue to halt the cycle of addiction through education program
• Reduces government expenditures for related health care costs

Serves as a poverty reduction measure with the potential to minimize economic inequality
• Price-elasticity of cigarette demand is 0.4 in low-income countries, double that of high-income countries leading to greater reductions⁵
• Decreased affordability lowers amount of income spent on tobacco products; leaves a higher percentage of income available for other needs

Combats the youth tobacco-use epidemic
• Young people are 2 to 3 times more likely to respond to the tax and price changes than their adult counterparts ²
• Potential to reduce the chances of experimentation, initiation, and addiction among young people
Recommendations for tobacco taxation

Link increased taxes to increased spending

- The use of soft earmarks to reallocate the tax revenue towards tobacco prevention and cessation programs was successful in increasing grass- root public support for the programs in U.S. and Australia.
- Program examples include disease prevention, raising awareness, cessation services, tobacco clinics, educational early intervention pro- grams, finance appropriate structures for tobacco control.

Develop an effective, simple tax structure and ensure the tax is passed on to the

- Limit substitution to cheaper alternatives by avoiding the price discrepancies in solely ad valorem tax systems by using excise and mixed tax systems which tax by quantity, rather than on price alone.
- Simultaneously strengthen the tax administration system through improved monitoring, tracing systems, enforcement measures, and border policies to reduce avoidance and evasion.

Increase the tax substantially and repeatedly and putting more weight on the excise to keep

- Have a regular adjustment process consisting of periodic revaluation of tax levels based on the following factors: tobacco products less affordable over time by accounting for price elasticity, inflation, household changes, and income elasticity of demand.
- Decisions should be made in respect to the broader national economic policies.

Continue to conduct and publicize scientific and economic analysis to counter advice given by the tobacco industry in their own interests

- It is important to take a strong stance against the financial and political pressure applied by the tobacco industry in resistance to taxation.
- Impose effective anti-forestalling measures to prevent manufacturers and importers from taking advantage of the current or lower tax by increasing production or stock of products before it rises.
- Use fiscal marketing to increase tax law compliance.

References: