



## Increasing taxes on tobacco products

### Why increase tobacco taxation?

*Is it a legal obligation?*

Article 6 of the WHO Framework Convention on Tobacco Control (FCTC) states that:

"Price and tax measures are an effective and important means of reducing tobacco consumption ... each Party should ... adopt ... tax policies and, where appropriate, price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption".

This means that all Parties to the FCTC are obliged to undertake fiscal measures to reduce tobacco consumption as per the Convention and according to international best practices. Governments should raise tobacco taxes on a regular basis while taking into account political considerations such as the expected impact of a tax increase on inflation and increased consumer purchasing power.

*What does evidence tell us?*

International accumulative evidence shows that increasing taxes on tobacco products on a regular basis helps to prevent a significant number of premature deaths. Higher prices deter youth from using tobacco and encourage adult smokers to quit. This leads to substantial reductions in the health and economic burden caused by tobacco use.

*Taxes on what?*

Taxes should be increased on all tobacco products, with no exceptions. Tobacco is consumed in many different forms. In addition to cigarettes, tobacco products include raw tobacco for bidis, handrolled tobacco and tobacco for waterpipes (*shisha*), chewing tobacco, tobacco snuff and *snus*. These products are either minimally taxed or are even out of the taxation bracket. If taxes were raised on cigarettes only, the tobacco user would likely shift from one form of tobacco to another, and so tax increases must be levied on all tobacco products.

*How much tax?*

A 70% increase in the price of tobacco through increased taxes could prevent up to a quarter of all smoking-related deaths worldwide.

Increasing tobacco taxes by 10% generally decreases tobacco consumption by 4% in high-income countries and by about 8% in low- and middle-income countries, while tobacco tax revenues increase by nearly 7%. These figures are only approximate based on available international evidence. Each country must conduct its own research before determining the actual percentage of increase and on the exact taxation model that it would follow.

*What type of tax should be applied?*

There are two recommended types of excise taxes to be applied on tobacco products.

- Specific taxes which are levied on a given quantity of tobacco, such as a tax paid per pack or carton of cigarettes.
- *Ad valorem* taxes which are based on a percentage of the wholesale or retail price.

In some countries, a combination of excise taxes is used.

Specific taxes provide more predictable revenue and make it harder for the tobacco industry to influence retail prices. While *ad valorem* taxes help tobacco prices maintain pace with inflation.



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The overall tax structure should be simple and easy for countries to implement. Excise taxes should be levied at the level of the manufacturer rather than at the distributor or retail level. This helps increase effectiveness by centralizing revenue collections and minimizing record-keeping burdens on small businesses.

As with other commodities, tobacco products are usually liable to import duties and domestic taxes. Whereas import duties can be subject to international and bilateral agreements within states; domestic excise and value added taxes constitute a greater share of the price of tobacco products in most countries.

### **Tobacco taxes in the Region**

In the Eastern Mediterranean Region, 19 Member States are Parties to the FCTC but the Region has the lowest average tobacco prices in relation to other WHO Regions.

The average tax incidence is also the lowest and accounts for 40% of prevalent retail prices. As there is variation in taxation structures, the prices of cigarettes and the total tax share also vary considerably across countries. Almost half of the countries in the Region do not apply domestic taxation on tobacco products rather they apply a customs tariff only. Excise tax incidence in the remaining countries is also fairly low. There is an opportunity to enhance revenues, and at the same time, achieve health gains by increasing taxes.

Two regional Parties to the Convention took action recently, based on evidence and research, to change their taxation regime and to increase taxes. This led to a significant increase in revenues. The health impact of this step is still being documented.

### **How to implement a tax increase**

The following steps should be followed before implementing a tax increase.

- Identify the responsible national authority in tobacco control and financial issues, i.e. Ministry of Finance, Ministry of Trade.
- Establish a working/study group comprising concerned parties.
- Enlist the help of economists/domestic tax experts to suggest appropriate taxation regimes that benefit the country and conform to national laws.
- Arrange training and conduct research to collect national data.

#### **National data can be used to:**

- persuade decision-makers and relevant national authorities
- determine next steps
- identify the exact increase required at national level

- Engage relevant national entities to ensure that strong actions are taken with regard to certain measures, such as smuggling, and to help guarantee an increase in revenues and a decrease in consumption as a result of increased taxation measures.

#### **Implement measures to control smuggling through:**

- keeping records
- improving border security and security measures
- establishing a committee comprising representatives of finance, customs and other agencies involved in tax collection and enforcement to meet regularly and share information
- affixing tax stamps to every package intended for retail sale
- mandating pictorial health warnings in local languages to further reduce incentives for illicit trade



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- Decide on a simple and effective tax structure that is easy for decision-makers to digest and defend.
- Sensitize the media to the idea to garner support.
- Conduct a mini political mapping exercise to generate the support of key people in the country.
- Propose a plan for use of the newly-generated revenues, for example, use a proportion to support health via health insurance. This has already been done in the Region in many countries, including Egypt, whereby 10 piastres are taken from each pack to support the health insurance of students.
- Ensure preparedness and support from political and health allies in parliament.

The tobacco industry says that increases in taxation increase smuggling

**This is not true**

Smuggling is related not to tax increases but to poor governance and soft control measures. Law enforcement and compliance measures must be addressed if smuggling is to be controlled, not lowering taxes on tobacco products.



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