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# Tobacco Taxes and Innovative Financing

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Based on presentation prepared by Ayda Yurekli, Senior Economic Adviser and Anne Marie Perucic, Economist, WHO Tobacco Free Initiative

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# Taskforce on Innovative International Financing for Health Systems

- Recommendation 2:

Expand the mandatory solidarity levy on airline tickets and ***explore the technical viability of other solidarity levies on tobacco*** and currency transactions.

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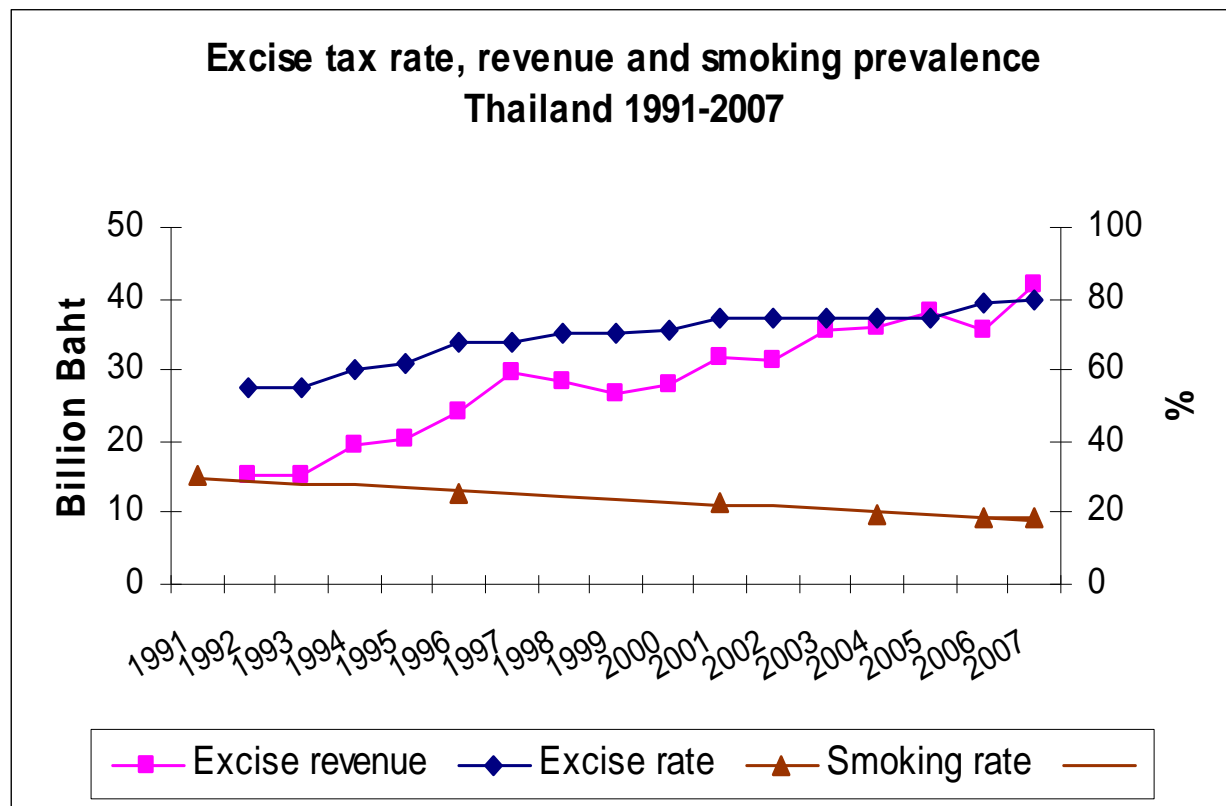
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# Tobacco taxes and innovative financing

- Are tobacco taxes a feasible solidarity levy for innovative financing of health systems?
    - Is taxing tobacco a form of regressive taxation, disproportionately adversely impacting the poor?
    - Can countries raise tobacco taxes further?
    - How much money could be raised?
    - Can countries earmark tobacco taxes for health systems?
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# Revenue rises and consumption falls as tobacco taxes increase

- On average, a price increase of 10%;
- Decreases consumption by 8% in developing countries and 4% in developed countries
- Increases revenue by 11%



Source: WHO estimates for 2007/2008

Source: upcoming WHO publication

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# Why tax tobacco?

- Good for public health: reduction of consumption and burden of disease - a 70% increase in the price of tobacco could prevent up to a quarter of all smoking-related deaths worldwide
- Good for governments in terms of revenue generation
- Considered progressive in the context of a price/tax increase – with increasing taxes, the largest decreases in tobacco use are in the young and the poor

*Source: GTCR 2008 and World Bank 1999*

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# WHO Framework Convention on Tobacco Control

- Currently 167 Parties with legal obligations to implement Articles contained in the treaty.
  - Article 6 of the WHO FCTC: *Price and tax measures to reduce the demand for tobacco*
    - *"The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption ..."*
    - *"... each Party should take account of its national health objectives concerning tobacco control and adopt or maintain, as appropriate, measures which may include:*
      - *(a) implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption; and*
      - *(b) prohibiting or restricting, as appropriate, sales to and/or importations by international travellers of tax- and duty-free tobacco products."*
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# Types of taxes on tobacco products

- Excise Taxes ('Sin' taxes - levied on producer in country, primary role is to control consumption)\*
  - VAT or Sales Taxes
  - Import Duties
  - Other Taxes
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- Total taxes = Excise + VAT+ Import Duty + Other Taxes
  - Retail Price = Total Taxes+ Producer's Price+ Retailers and Wholesalers' Margin (Profit)

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\*"The motive for the implementation of excise should be nothing more than to curb the pursuit of goods and services harmful to our health and morals." Adam Smith

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# Implementation of Taskforce Recommendation on Tobacco Taxation for Innovative Financing

## 1. **SOLIDARITY LEVY**

- If G-20 countries increased their excise taxes on cigarettes by **US\$0.05/pack**,
  - This would generate **US\$3.2 billion revenues** each year
  - Providing more than **30% of the targeted \$10 billion USD**
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## High-income G-20 countries income generation with additional US\$0.05/pack of cigarettes

	Revenues generated by the 5 cents tax, million USD	Price of most sold brand of cigarettes (pack of 20), USD	Share of the 5 cents in the price of a pack of cigarettes
Australia	56	6.65	0.75%
Canada	73	6.48	0.77%
Japan	633	3.31	1.51%
Saudi Arabia	43	1.60	3.13%
South Korea	207	1.98	2.53%
United States	875	4.58	1.09%
EU *	1,358	5.30 **	1.09% **
<b>Total</b>	<b>3,245</b>		

Source: WHO calculations using internal data and consumption data from ERC 2007

Notes: Estimates for one year (2008)

\* Data from 21 EU countries

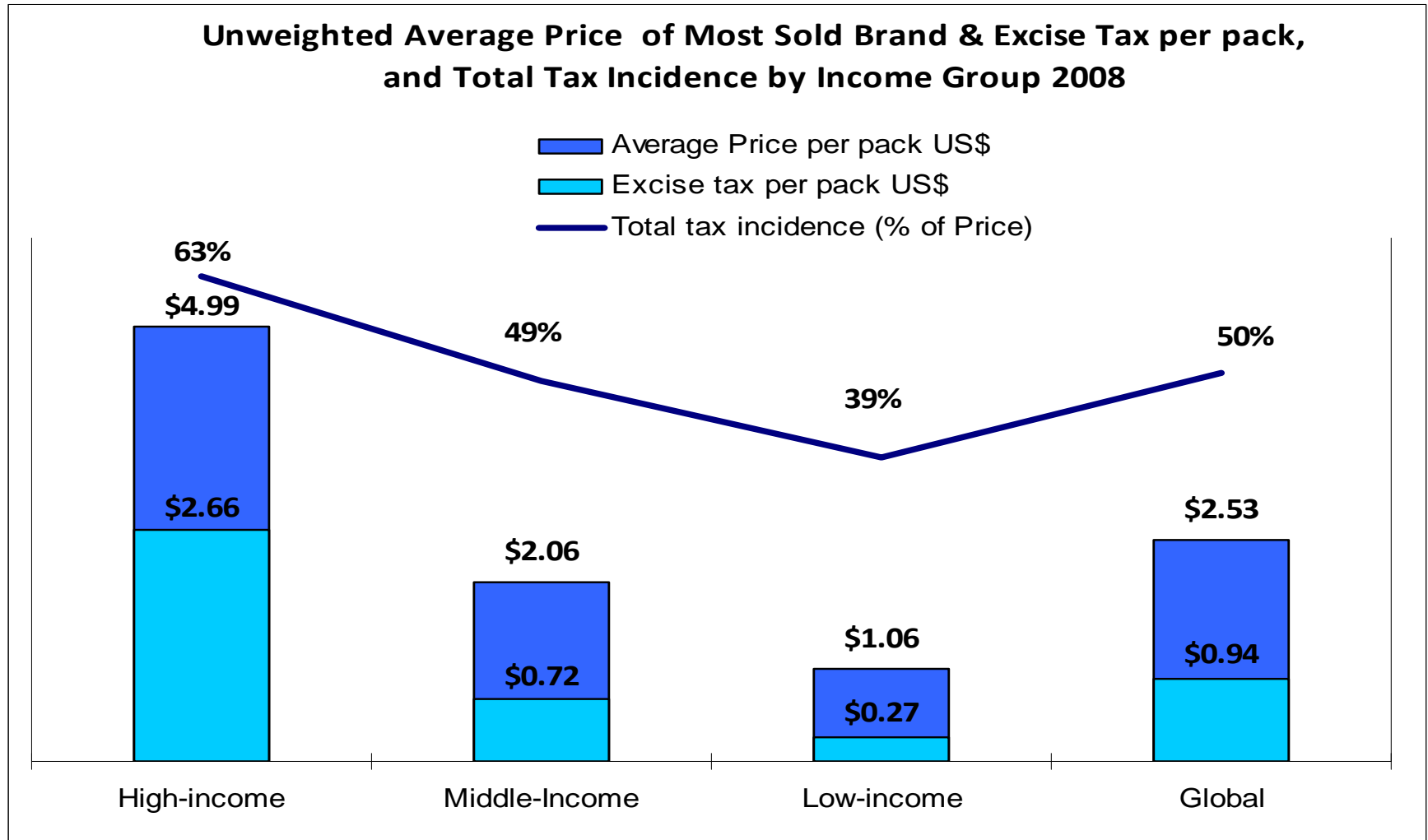
\*\* Unweighted average for 21 countries

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# Implementation of Taskforce Recommendation on Tobacco Taxation for Innovative Financing

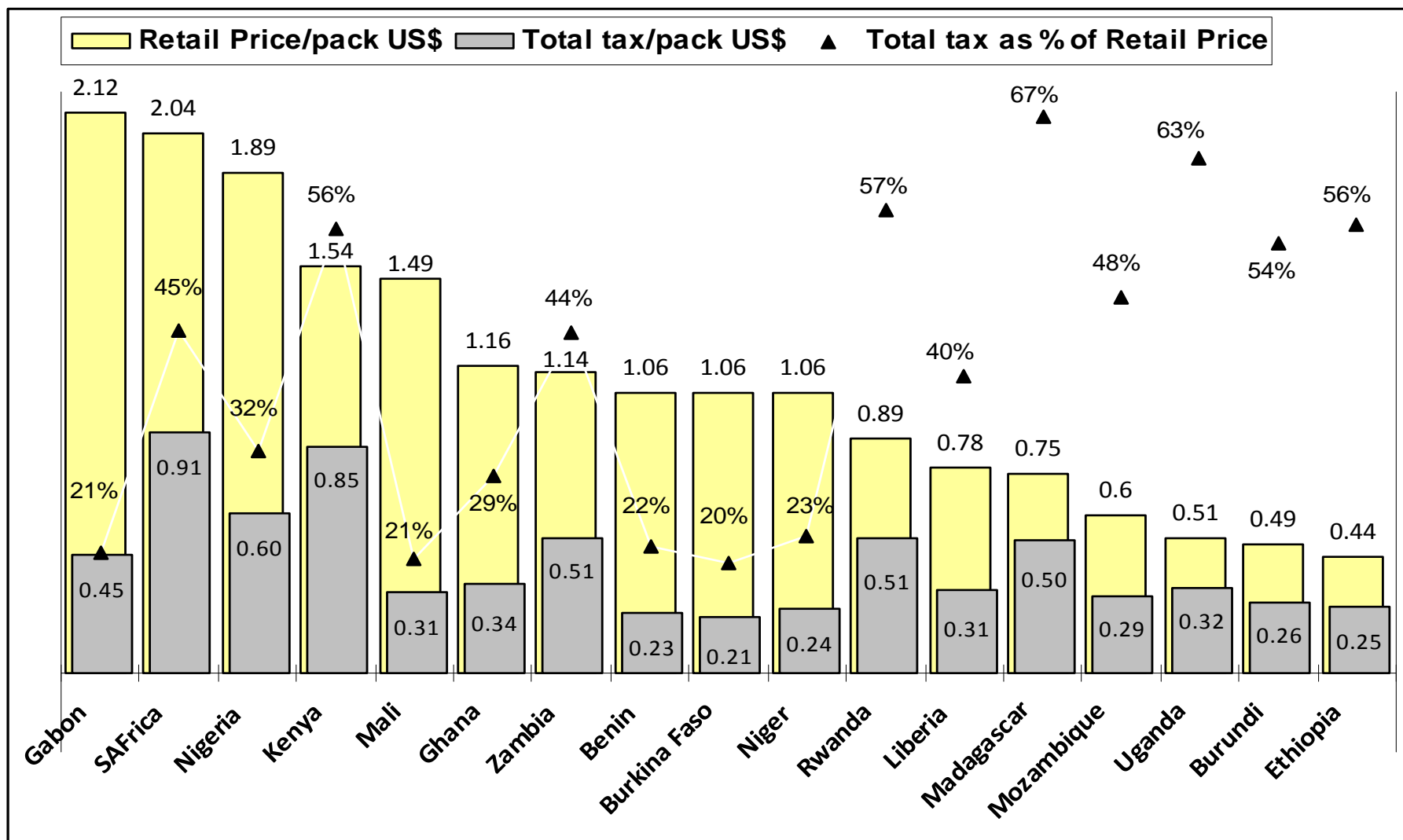
2. **Raise taxes internally to support health systems**
    - Taxes are still too low in developing countries and governments are *not generating enough revenues*
    - There is room to increase taxes!
    - Extra tax revenues can supplement external financing on health
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# Prices and taxes on cigarettes by country groups 2008



Source: WHO unpublished data 2009

# Prices and taxes on cigarettes in Africa 2008



Source: WHO unpublished data 2009

# Examples of national tobacco tax earmarking

<b>Country</b>	<b>Amount</b>	<b>Allocation</b>
Comoros	20% surcharge levied on CIF price of tobacco	Health Development Fund
Jamaica	5% of excise tax on cigarette price	National Health Fund
Iceland	At least 0.9% of gross tobacco sales	Public Health Institute of Iceland
Thailand	2% of tobacco excise tax revenues	ThaiHealth Promotion Foundation
Mongolia	2% of tobacco excise tax revenues	Mongolian Health Promotion Foundation

Planned: Egypt and Turkey

➤ Earmark tobacco tax to fund health insurance

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# Progress

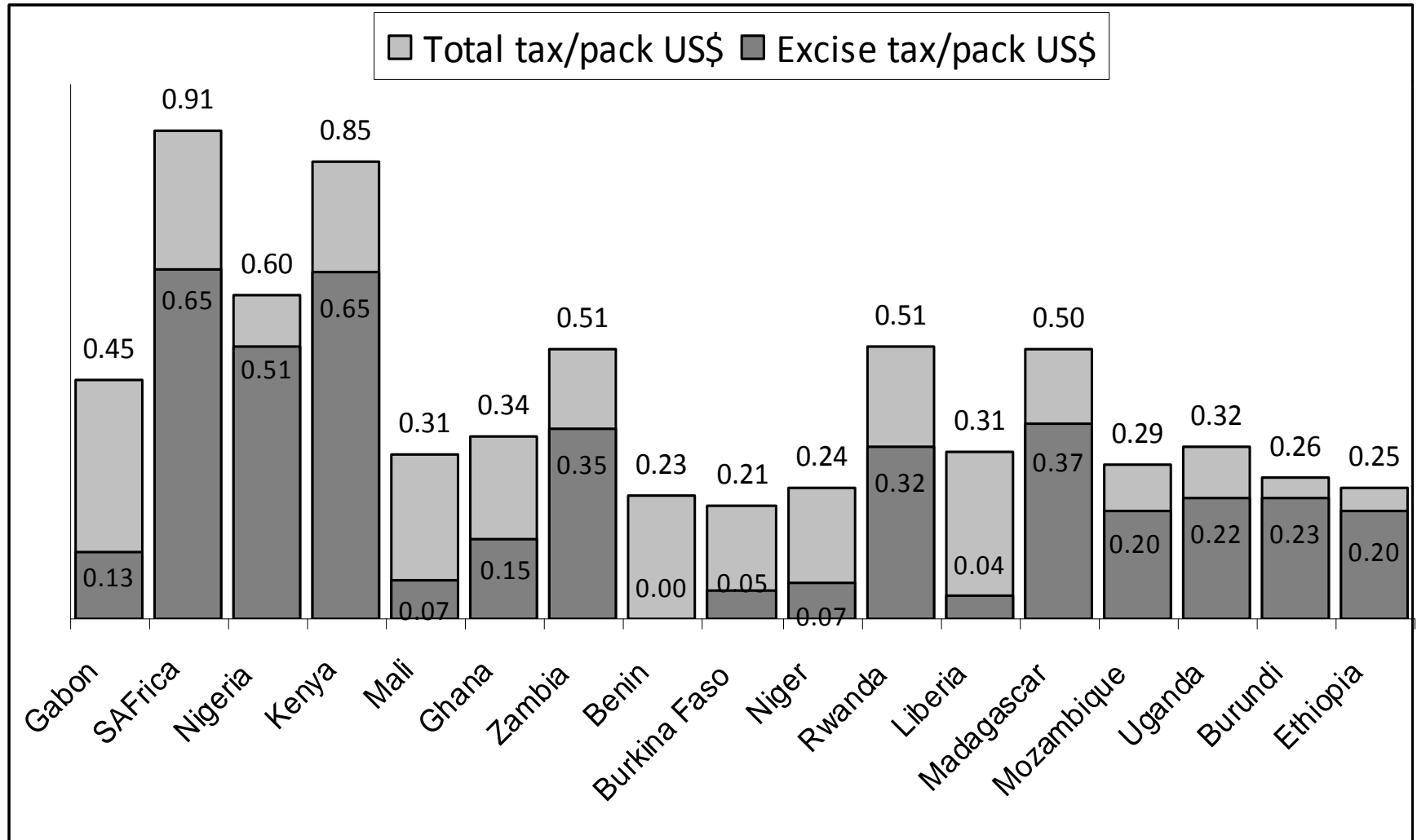
- Presentation at 'Consultative Meeting of African Parliamentary Committees on Health and Development Financing', Addis Ababa, 7-9 Sep 09
  - Technical working group to be established
  - Link to Working Group on Innovative Financing in Global Noncommunicable Disease Network (NCDNet)
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# Annex

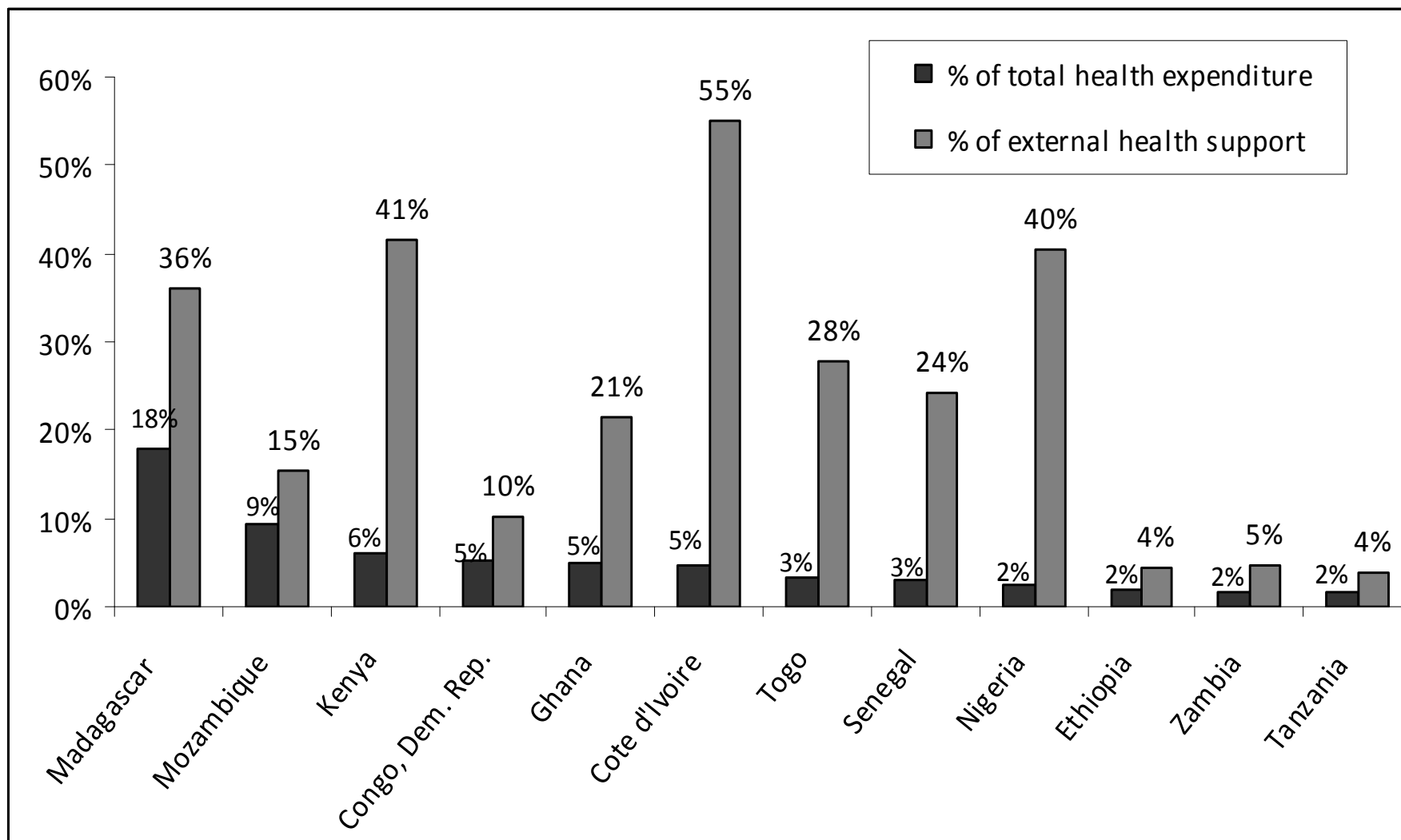
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# Taxes on cigarettes in Africa 2008



Source: WHO unpublished data 2009

## A 50% increase in excise taxes on cigarettes can supplement external health financing



Source: Estimated by data from WDI 2006, WHO 2006