

Tobacco Tax – Economic Impact

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<http://www.tobaccoevidence.net>

Effects of Higher Tobacco Taxes

- Improve **public health**
- Reduce **budget deficit**
- Change economic **incentives** resulting in lower tobacco consumption, with possible implications for for employment and illegal imports
- Reduce gap between **the rich and the poor**
- Change business environment for the **tobacco industry**

Public Health:

Higher Taxes

- Prevent uptake of smoking among young
- Reduce adult and youth smoking prevalence
- Reduce cigarette consumption among continuing smokers

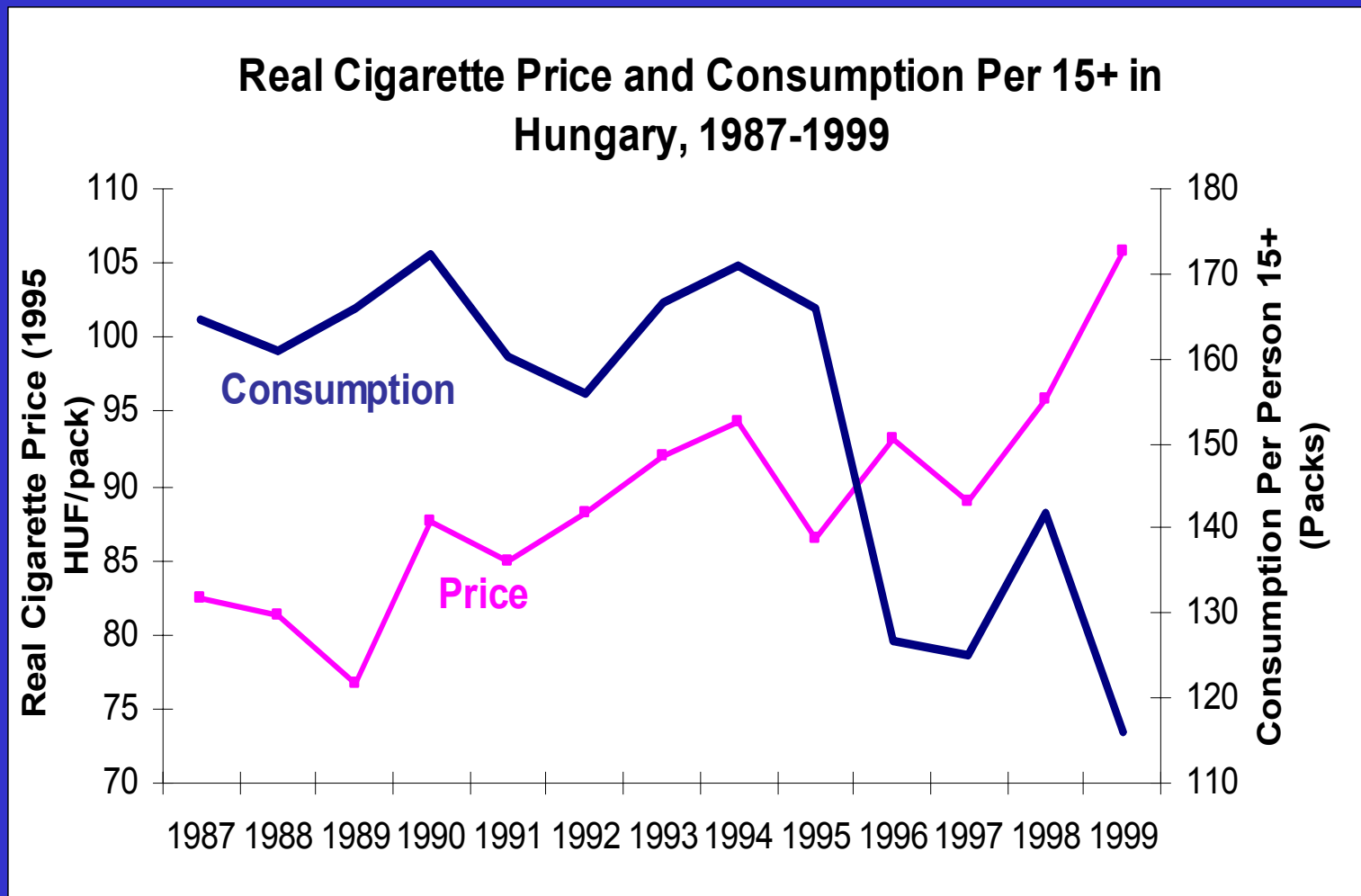
Research Evidence

- **10% increase in the price of cigarettes reduces the number of smokers by 4% in high income, but by 8% in low income countries**
- **Youth are 2 to 3 x more sensitive to cigarette price changes than adults (USA)**
- **10% increase in the price of cigarettes will reduce smoking rates among pregnant women by 7% (USA)**
- **Lower income smokers are 4x more likely to quit than higher income smokers**

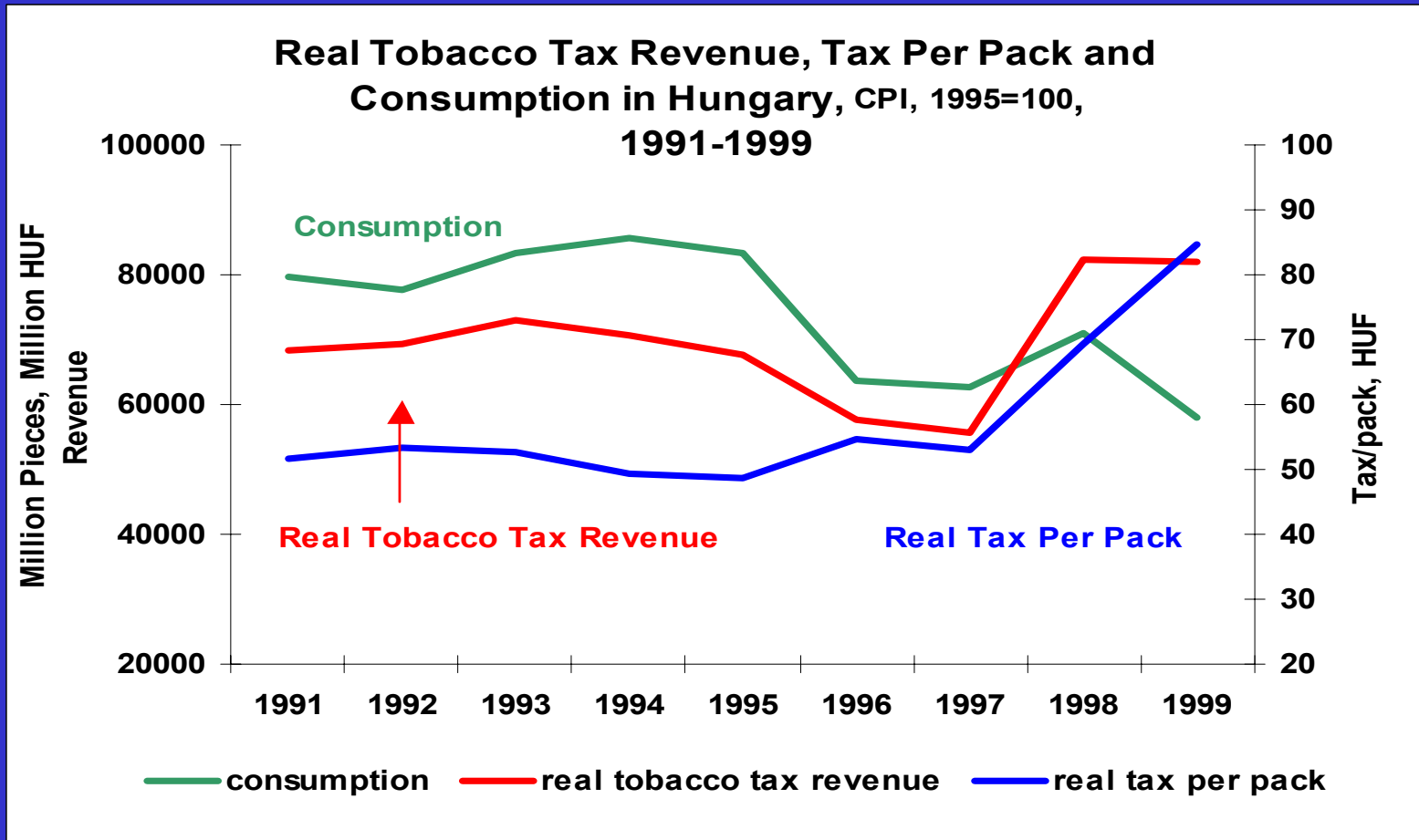
Research Evidence (continues)

- **Low income smokers reduce overall expenditures on cigarettes (GB)**
- **Price effect is doubled in long-run**
- **PM documents: “A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population”**

Cigarette price and consumption show opposite trends

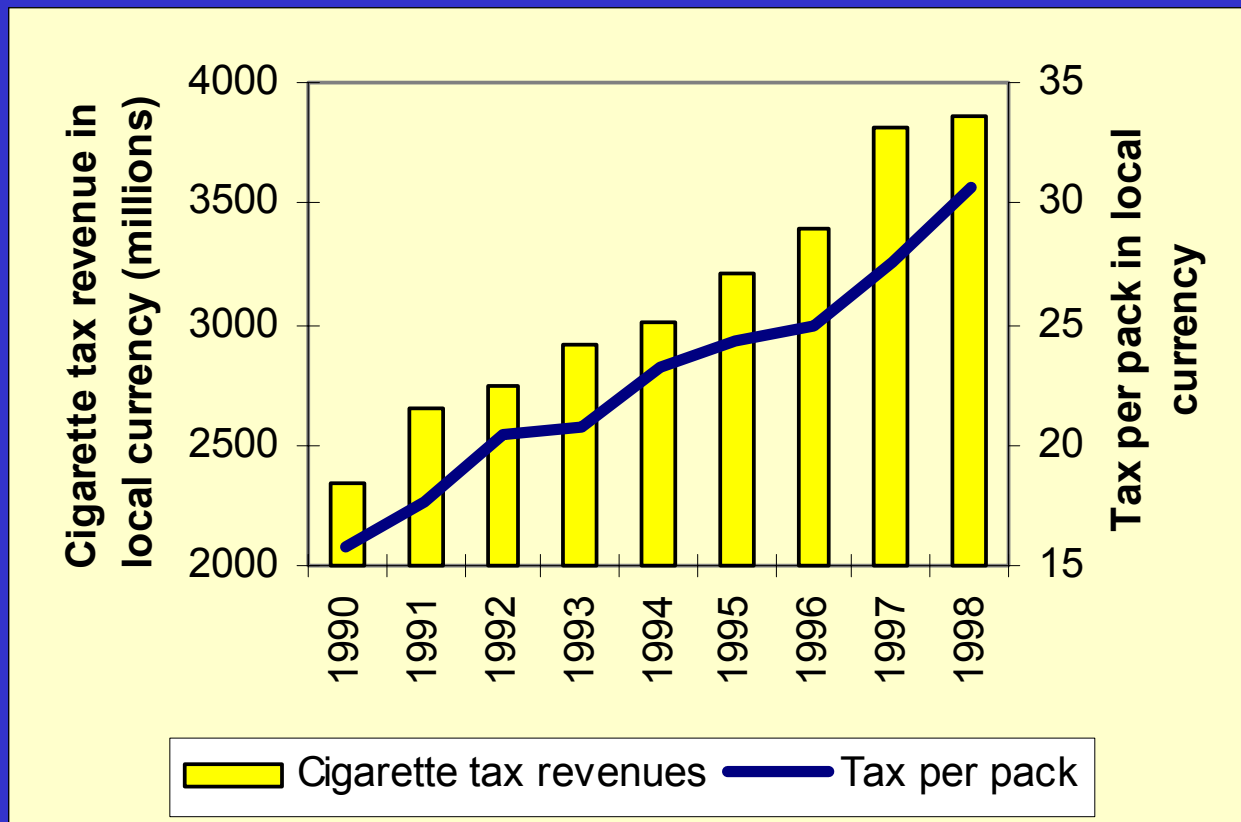


And It Helps the Budget, Too



As cigarette tax rises, revenues increase

Example from Norway



Impact on the Poor

- **Tax increase is progressive**
 - **Greatest sensitivity to price in lowest income populations**
 - **Revenues generated from tax can be used to support programs targeting the poor**
- **Health benefits of tobacco control are progressive**
 - **Tobacco accounts for about half of health gap between the rich and poor**

Impact on Employment

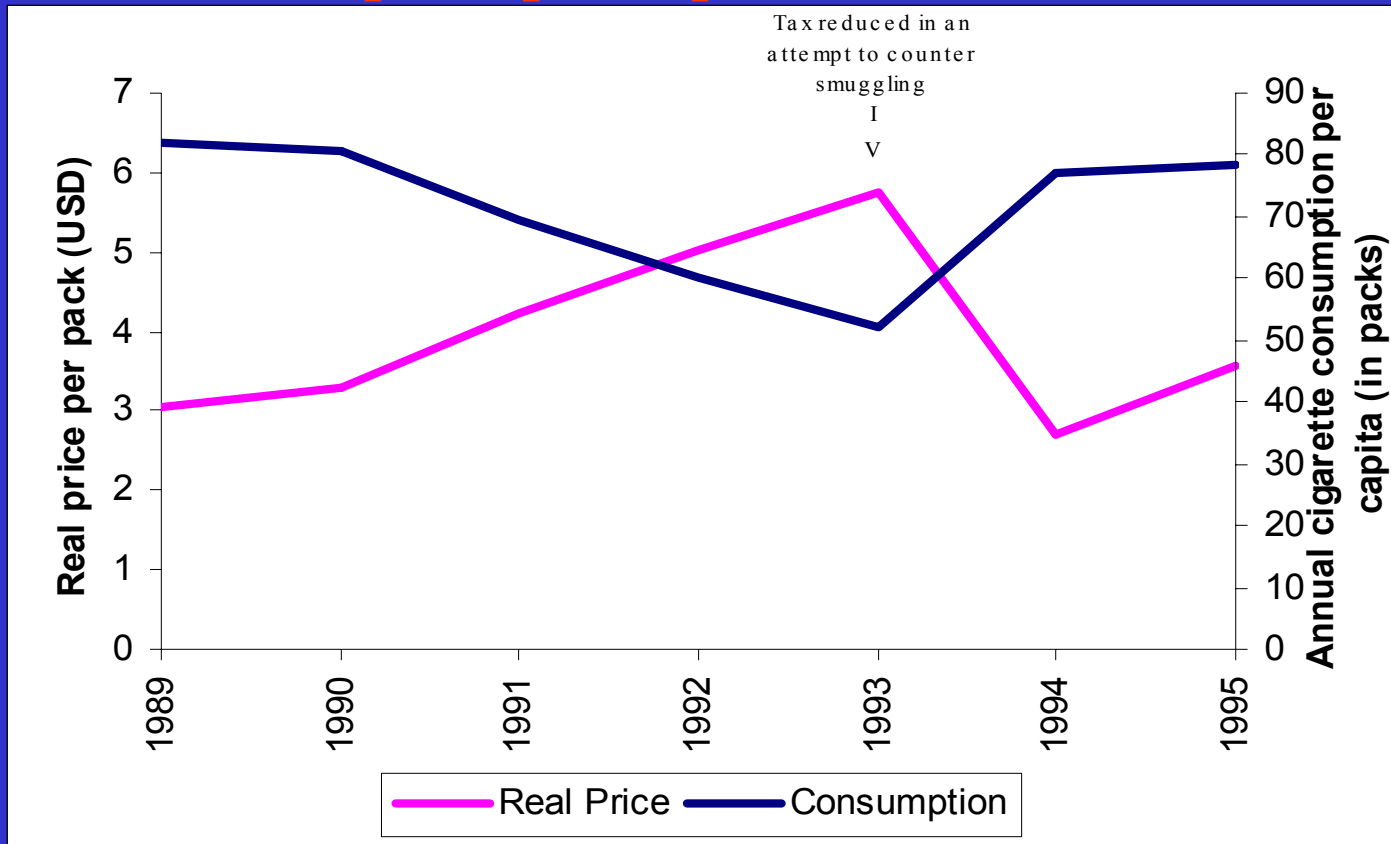
- **Only small % of labor force is involved with tobacco farming and manufacturing**
- **Gradual adaptation of the economy** –successful policies will slow down the total demand, and in long-run may reduce demand; money saved from cigarettes spent elsewhere
- **Tobacco companies themselves reduce jobs in tobacco industry due to automation, product improvements, increased efficiency**

Is There a Smuggling Problem?

- **Industry** has been implicated in tobacco smuggling; it has economic incentive to smuggle: Increase market share and decrease tax rates
- **Best estimate: 6 to 8.5% of total consumption**
- **Non-price variables important**
 - Perceived level of **corruption** more important than cigarette prices
- **Tax increase will lead to revenue increase, even in the event of increased smuggling**

Lower tax rates in Canada in response to smuggling

Real price of cigarettes and annual cigarette consumption per capita, Canada, 1989-1995



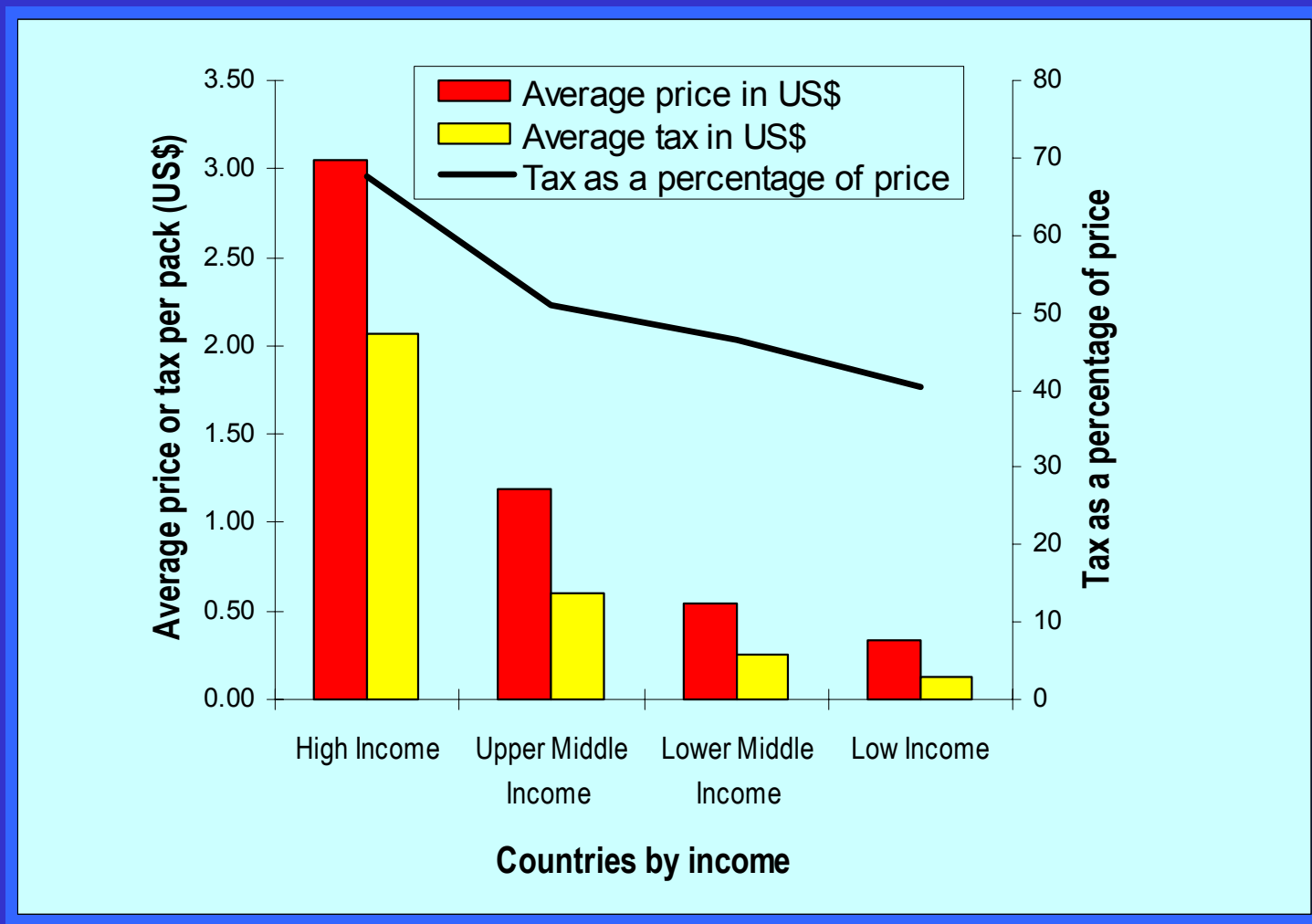
What is the “right” level of tax?

- **Complex question**

Depends on various factors, such as degree to which society wishes to **protect children, revenue** considerations, **health care costs**, state of public health & **development**, etc.

- **Useful yardstick:** where comprehensive programs used, tax is at least $2/3$ to $4/5$ of retail price.

There is still ample room, especially in lower-income countries, to raise cigarette taxes



The Industry and Tobacco Tax

- **Fighting** adoption of new taxes
- **Several strategies** after a tax increase (in TTC documents)
 - **pass the tax on consumers**
 - **accommodate** the tax increase by price reduction
 - **increase advertising**
 - **new brands**

Summary

- **Revenue loss? No! Revenue gains likely**
 - a 10% tax increase would raise revenue by 7%
- **Job loss? temporary, minimal, and gradual**
- **Possible smuggling? Solution: crack down on criminal activity, lower taxes are not a solution**
- **Costs to individuals, especially the poor? partially offset by lower consumption**