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WORLD BANK

Recent Gains on Global Tobacco Taxation



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[HTTP://BLOGS.WORLDBANK.ORG/HEALTH/RECENT-GAINS-GLOBAL-TOBACCO-TAXATION](http://blogs.worldbank.org/health/recent-gains-global-tobacco-taxation)



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The landmark **Surgeon General's Report on Smoking and Health**, issued by U.S. Surgeon General Dr. Luther Terry in 1964, represented the first time that a government report linked smoking and ill health, including lung cancer and heart disease. The scientific evidence accumulated over the past five decades has helped us understand how tobacco use imposes a heavy health and economic burden across countries.

Action to curb tobacco use makes solid economic sense, given the high costs of tobacco-related illnesses and premature death and disability among adults in their most productive years. Smoking harms health, incomes, earning potential, and labor productivity. Smoking also undermines human capital development—a critical factor for inclusive economic and social development.

Raising tobacco taxation commensurate with affordability levels is proven to be the most effective measure to curve consumption. Tax increases are most effective in countries where the social acceptability of smoking is reduced by curtailing smoking in public places and educating the population about its negative health impact.

Contrary to the assumption that tobacco taxes are regressive, the results of recent studies done in **Chile** and the **United States** show that the benefits of this policy measured in terms of lower medical

expenses and an increase in working years outweighs any relative increase in tobacco prices, largely benefitting the poor more than the rich.

Over the past decade, the World Bank Group (WBG), in partnership with the **Bill & Melinda Gates Foundation** and the **Bloomberg Foundation**, and in coordination with other organizations, such as WHO, has expanded its tobacco taxation work globally to assist countries implement their public health and domestic resource mobilization efforts. Simultaneously, technical assistance is being provided to strengthen countries' legal and regulatory capacity to control illicit tobacco trade. Support is also being provided to facilitate knowledge-sharing, building upon existing platforms such as the **Joint Learning Network** (JLN).

The experience of **Philippines** over 2012-2016 is one of the most compelling examples of ambitious national tobacco tax reform. It involved a fundamental restructuring of the country's tobacco excise tax structure, including reduction in the number of tax tiers; indexation of tax rates to inflation; and substantial tax increases which expanded the fiscal space to fund the increase in the number of families enrolled in the health insurance scheme from 5.2 million primary members in 2012 to 15.3 million in 2015.

More recently, national governments in several countries have adopted significant tobacco tax reforms to improve public health and mobilize domestic resources, covering a total population of 200 million people. In the Ukraine, the 2017 budget includes a 40% excise tax increase on tobacco products, above the 2016 level, while maintaining a 12% ad valorem tax. It is estimated that this measure will increase on average the excise tax burden as a share of the retail price of a pack of cigarettes from 41% in 2016 to 46% in 2017, while consumption is expected to decrease by 10%. To get a sense of the magnitude of health gains likely to result from the adoption of these tax increases, modeling work estimated that, by 2035, Ukraine's recent tobacco tax increases will prevent 126,730 new cases of smoking-related disease; 29,172 premature deaths; and 267,098 potential years of life lost, relative to no change in tax. These reductions in disease and death are estimated to result in significant healthcare costs avoided.

As part of broad fiscal reforms approved by Colombia's Congress, new taxes on tobacco products will nearly triple prices over 2017-2018, **with annual adjustments for inflation** and a mandated specific increase in subsequent years. Likewise, in Moldova, the average excise tax burden on a pack of cigarettes will increase from 39% in 2016 to 45% in 2017.

Following the introduction of the new tax regime in 2017, Armenia's tobacco excise tax burden will double, increasing to 62% of the average retail price by 2020. In the case of Armenia and Colombia, tobacco taxation increases are part of larger tax system reforms that were included under fiscal consolidation programs.

In moving forward this agenda, we have to be clear that to be effective and sustainable, the design of tobacco tax reforms has to be grounded on a good understanding of how public policy is created and implemented in a country, including the social forces which could support or hinder the passage of strong anti-tobacco measures. We also have to be mindful that the adoption of tobacco tax reforms could be greatly facilitated if they are included as part of broad fiscal consolidation programs as shown by the recent experience in Armenia and Colombia, or as part of the formulation of annual government budgets as shown by the experience in Moldova and Ukraine.

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