

Taxes levied on Cigarettes

By

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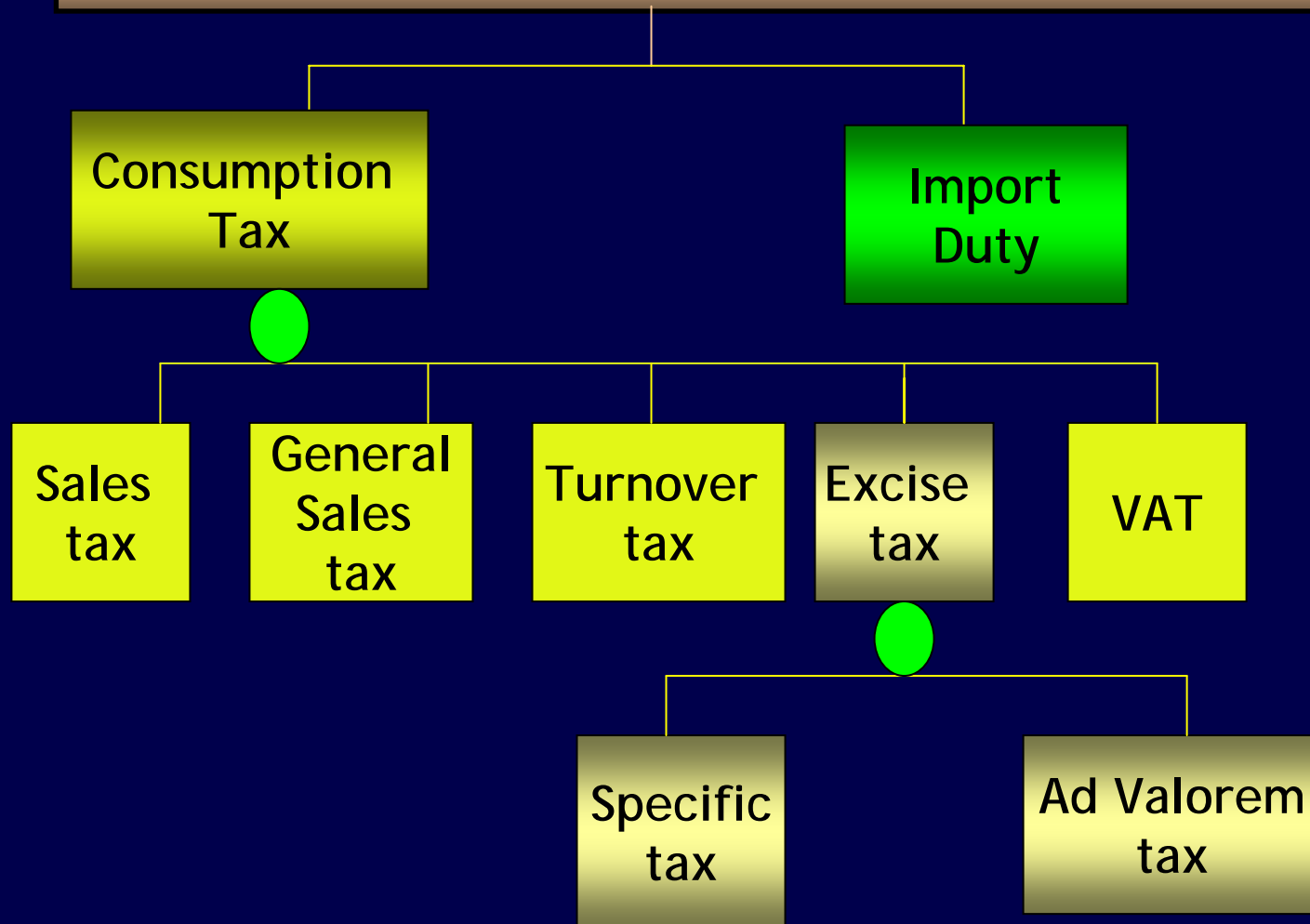
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Content

- ▶ Types of taxes levied on cigarettes
 - ▶ Tax structure
 - ▶ World wide Excise application
- ▶ Advantages and disadvantages of types of excise
- ▶ Impact of types of excises on retail price
- ▶ Over view on tax and average retail price of cigarette levels by income group countries and regions

Types of taxes levied on tobacco products






Source: Yurekli & Onder 2005

Structure of Excise Taxes

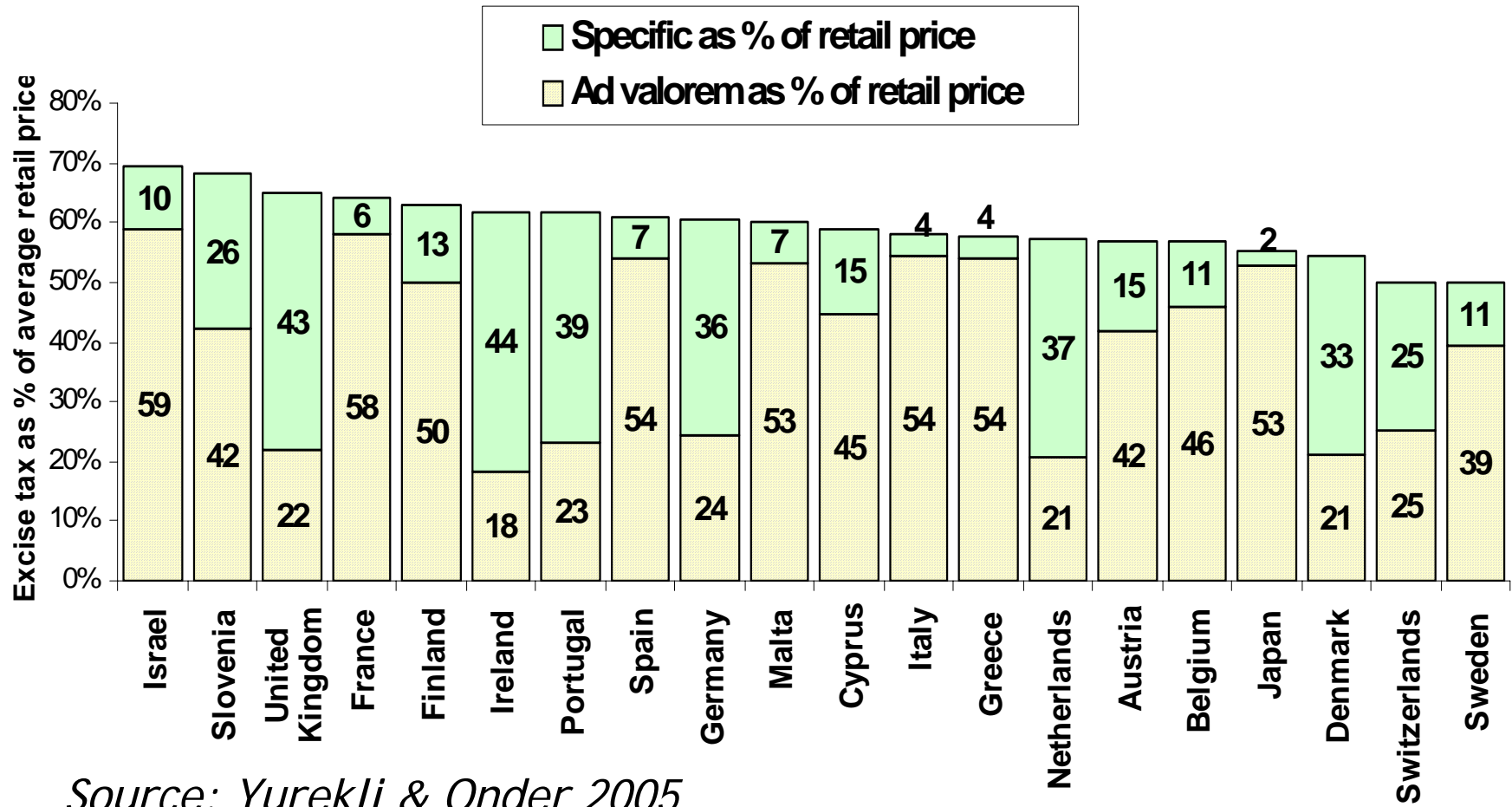
- ▶ Specific: tax base is physical unit (e.g. per kilo or per stick)
- ▶ Ad valorem: tax base is value of sales (e.g. percentage of wholesale or retail price)
- ▶ Specific & Ad valorem Taxes: Combination of both excises

Excise System by Region & Income groups

By Income	Only Specific	Only Ad-Valorem	Specific & Ad-valorem	No Excise	Total
High	9	0	22	5	36
Upper-Middle	4	12	11	43	30
Lower-Middle	15	25	14	5	34
Low	8	19	1	5	34
By Region					
Africa	6	19	1	7	33
N.America	2	0	0	0	2
EU	1	0	26	0	27
ECA	9	5	5	0	19
LAC	3	19	2	0	24
MENA	2	4	2	10	18
SA	2	3	0	0	5
EAP	12	5	6	7	30
TOTAL	37	55	42	24	158
 	(24%)	(35%) 5	(26%)	(15%)	Canada 

Most HI Countries rely more on Ad-Valorem excise

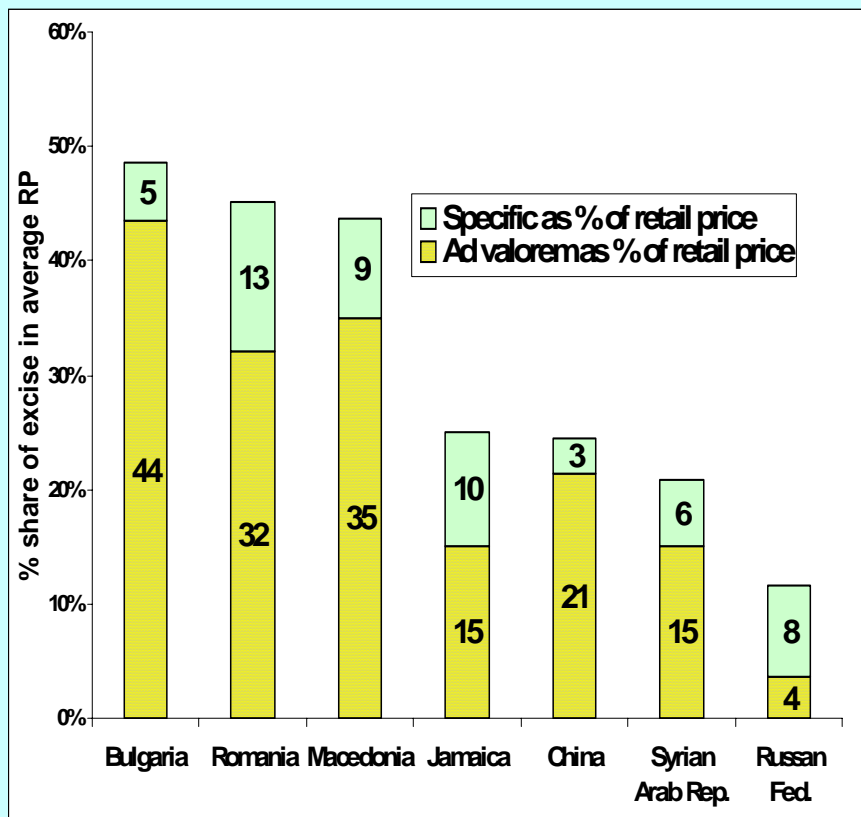
HIGH INCOME COUNTRIES WITH MIXTURE OF EXCISES



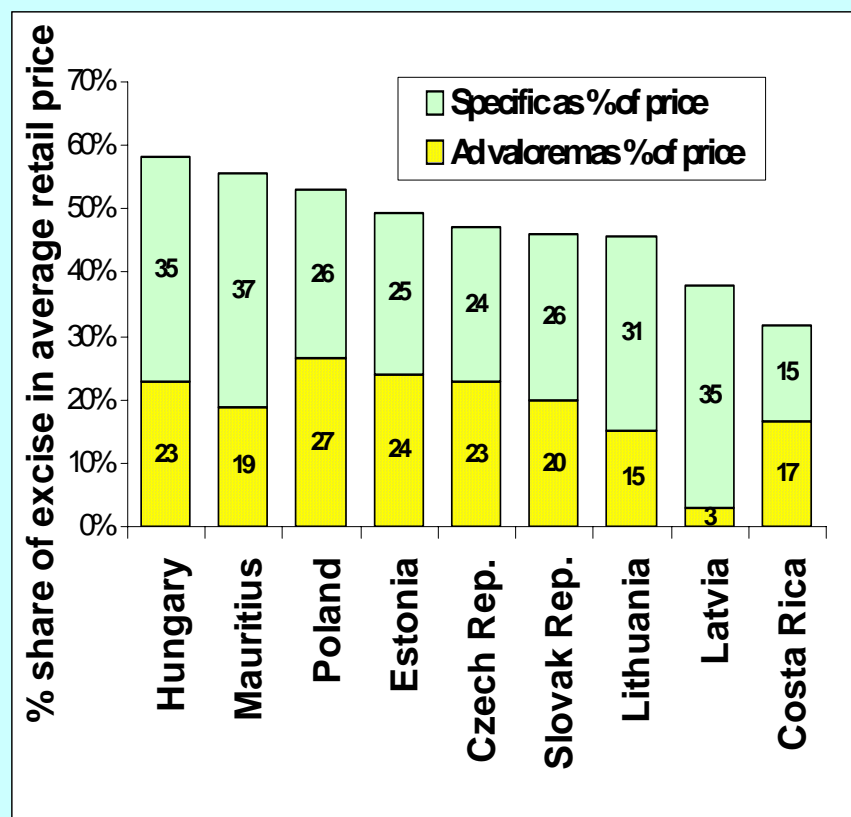
Source: Yurekli & Onder 2005

Lower-Middle Income rely more on Ad-Valorem while Upper-Middle Income balance both excises

:Lower-Middle Income Countries
2004-2005



Upper-Middle Income Countries
2004-2005



Source: Yurekli & Onder 2005

Advantages of Excises

Specific Excises

- ▶ **Simplicity**
 - ▶ Tax liability easy to measure
 - ▶ Taxes prepaid on sales
- ▶ **Health benefits**
 - ▶ External costs of smoking same for high and low price brands – tax rate should be the same

Ad Valorem Excise

- ▶ Tax liability Indexed to cigarette price inflation
- ▶ Discourages substitution from low-price to high-price brands – and so generates higher revenues
- ▶ Discourages investment in advertising to make smoking “glamorous”

Disadvantages of Types of Excises

Specific Excise

- ▶ Revenues do not increase automatically with inflation
- ▶ Encourages improving “quality” of cigarettes
- ▶ Encourages substitution to (high-price) imported brands; or smuggled-tax free low-quality alternatives
- ▶ Increases potential for tax avoidance and revenue loss if tax base set on characteristic of cigarettes (e.g. weight, content, size of cigarettes)

Ad Valorem Excise

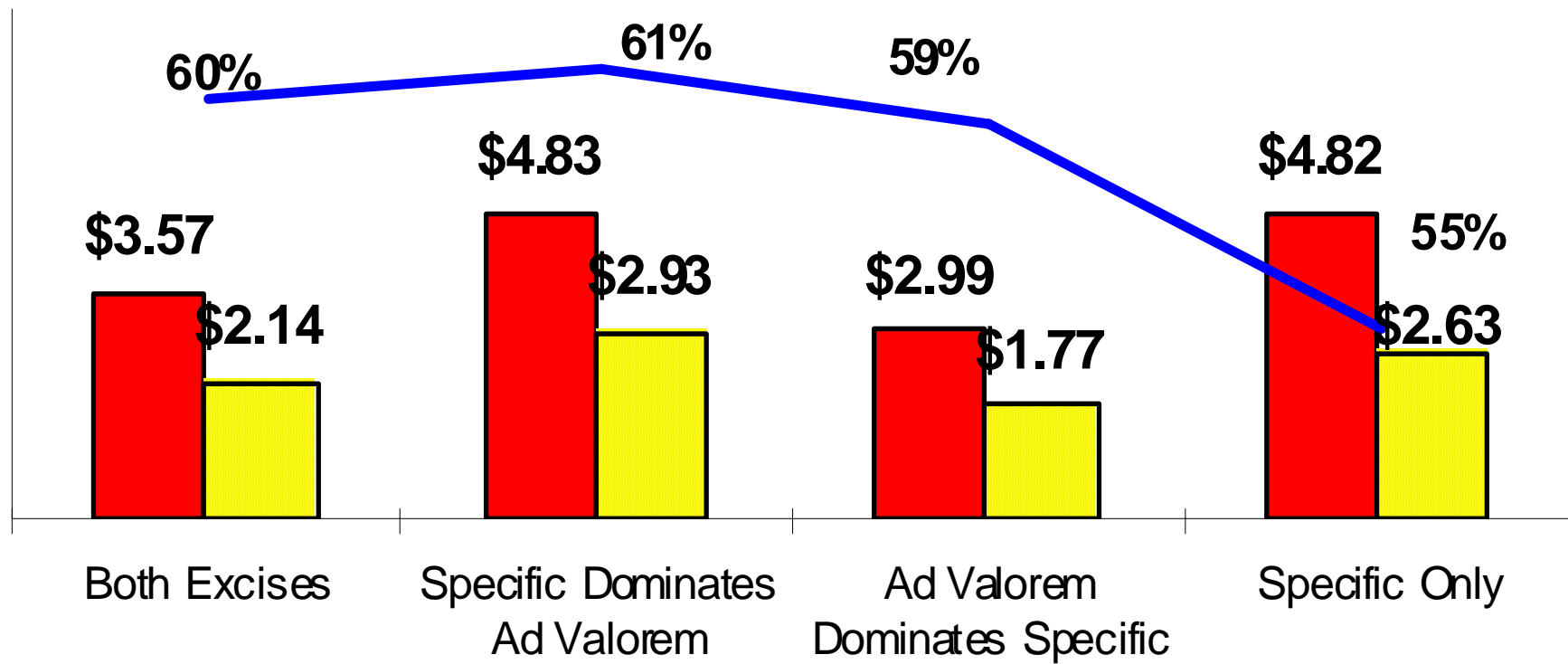
- ▶ Difficult to collect at retail points of sale
- ▶ Creates potential for tax avoidance and revenue loss
- ▶ Smaller health benefits than equivalent specific tax

Types of Excises and Their Impact on Average Retail Price

Average price by Excise Type in High Income Group Countries

HIGH INCOME COUNTRIES 2004-2005

█ Average Price
 █ Average Excise/pack
 — % of Excise

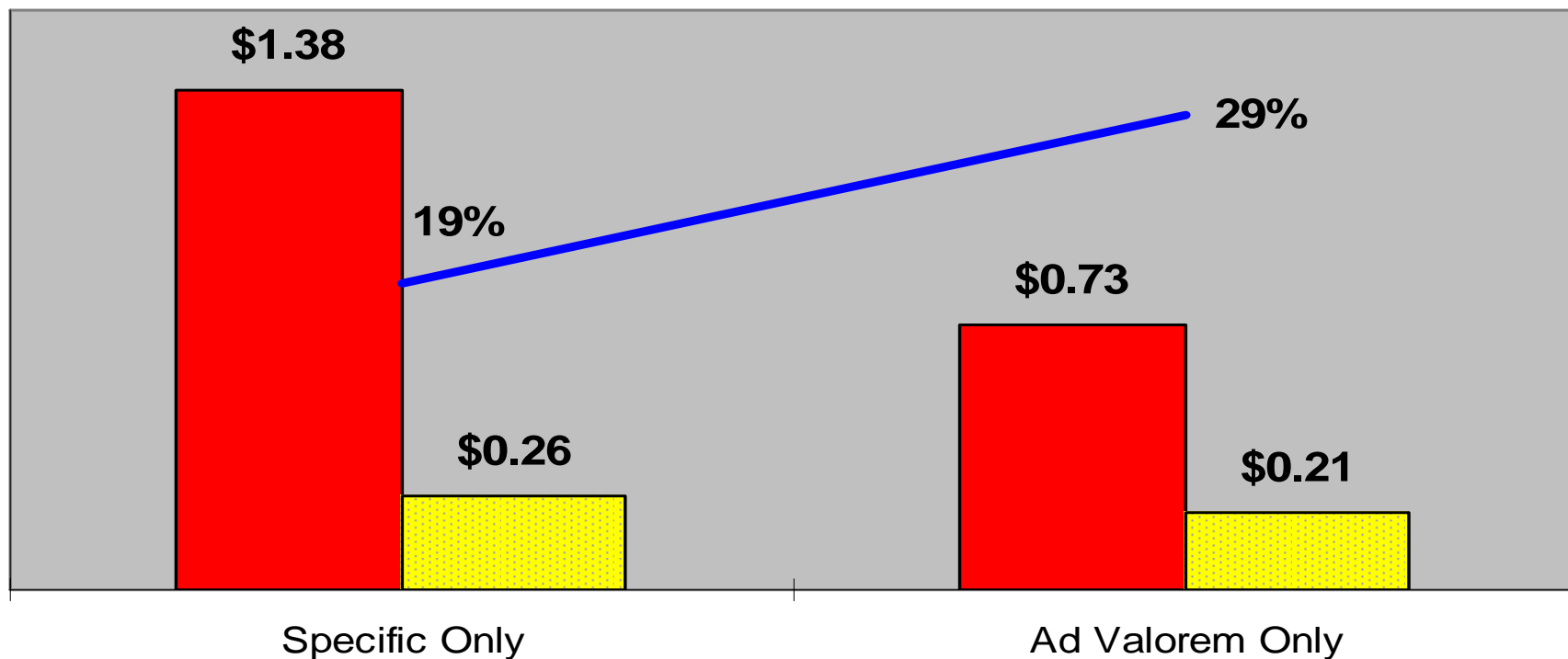


Source: Yurekli & Onder 2005

Average price by Excise Type in Low Income Group Countries

LOW INCOME COUNTRIES 2004-2005

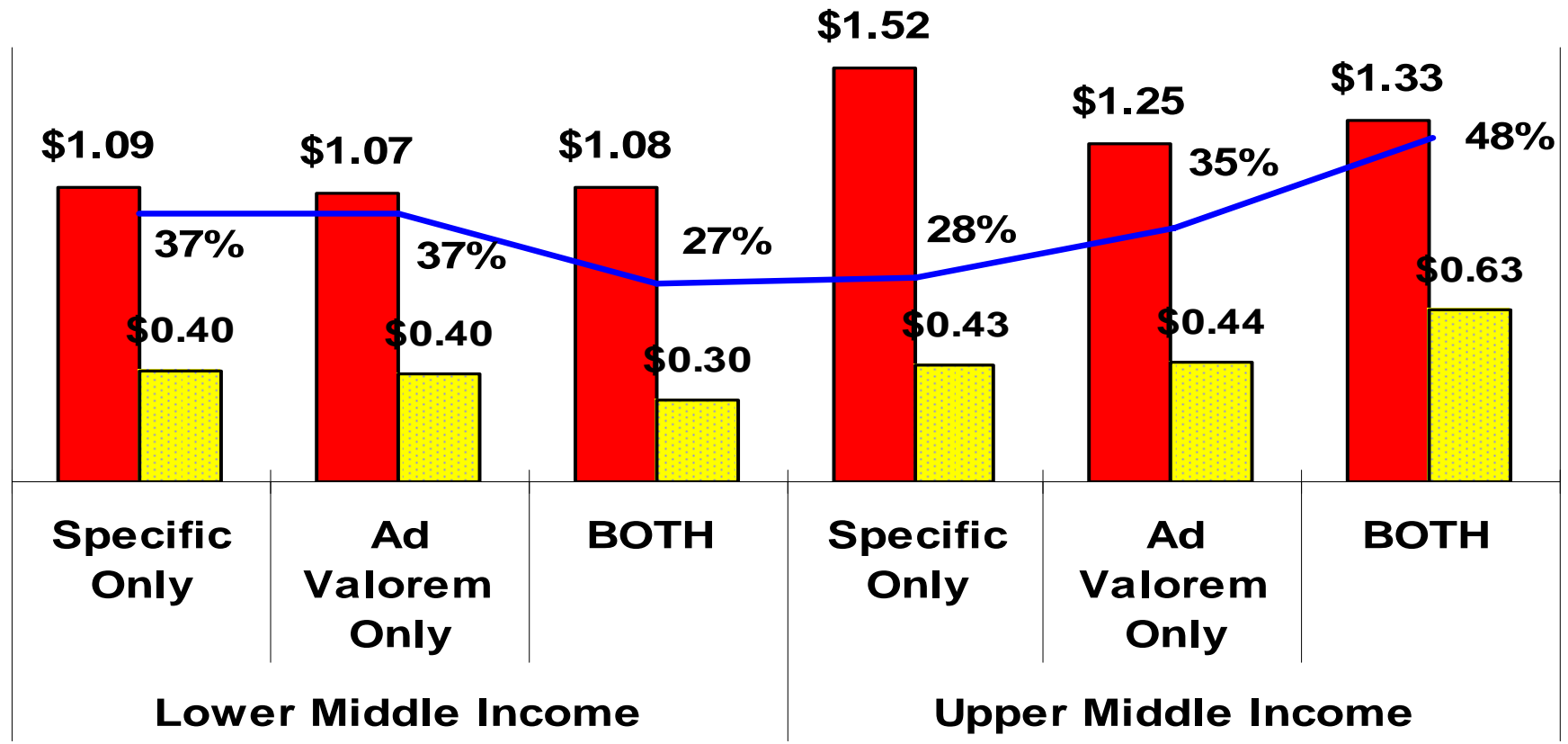
Legend: █ Average Price █ Average Excise/pack — % of Excise



Average price by Excise Type in Middle Income Group Countries

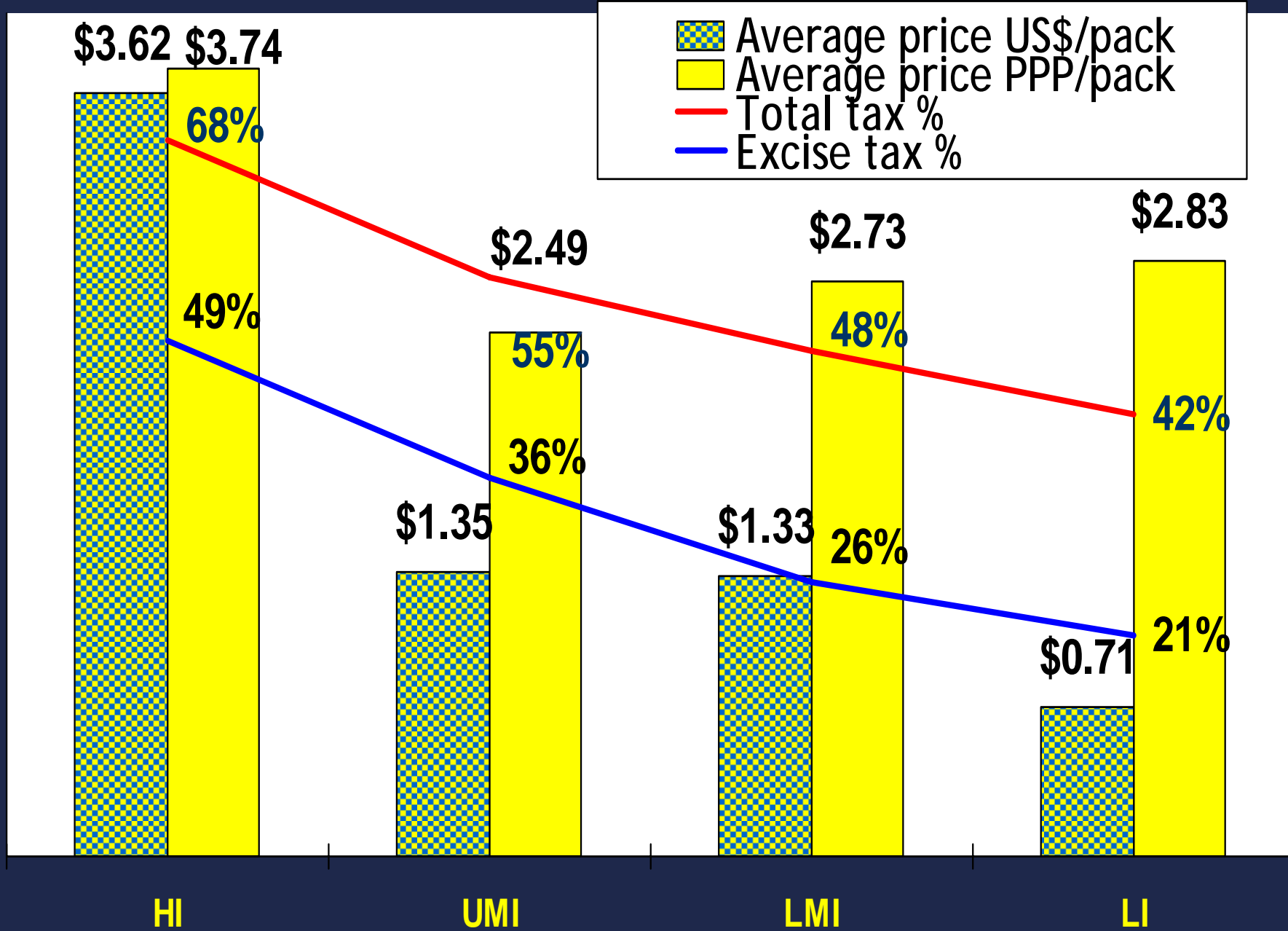
MIDDLE INCOME COUNTRIES 2004-2005

█ Average Price
 █ Average Excise/pack
 — % of Excise



Source: Yurekli & Onder 2005

Tax and Price Structure of Cigarettes by Income Group and Regions

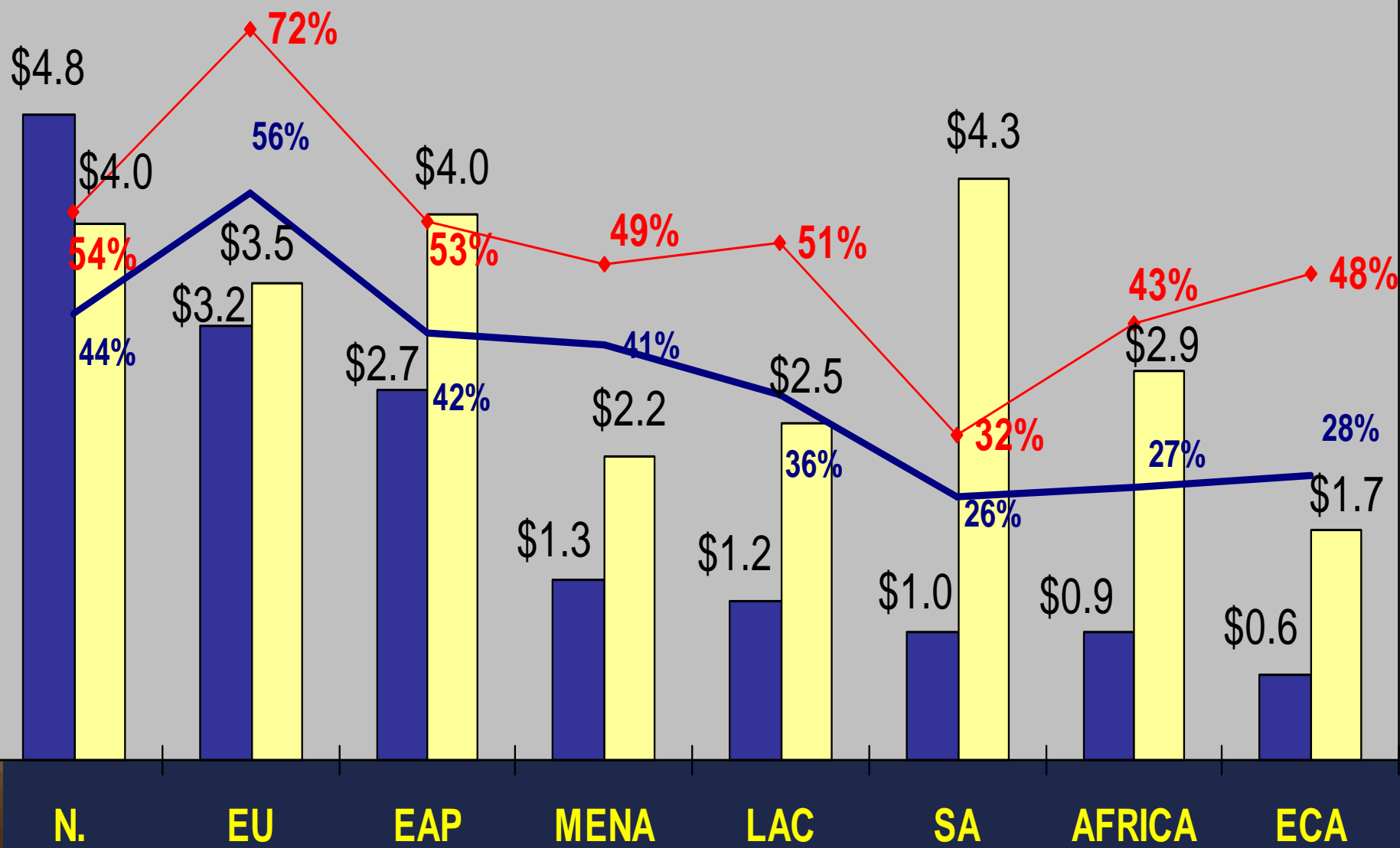


■ Average Price US\$

■ Average Price PPF/pack

— Excise % of RP

—◆ Total tax % of RP



America

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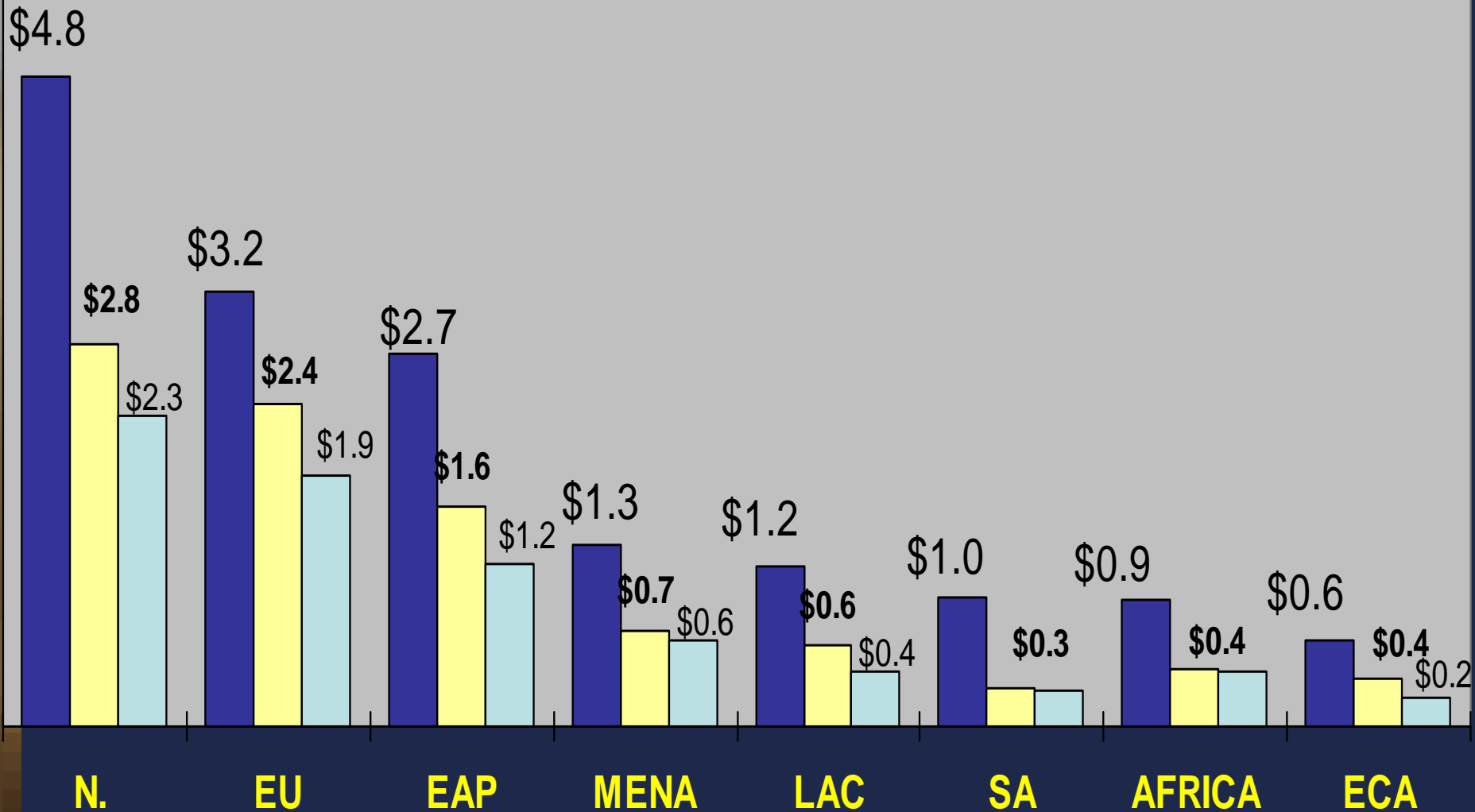


CRDI

■ Average Price US\$

■ Total tax US\$/pack

■ Excise tax US\$/pack



America

IDRC



CRDI

Conclusion

- ▶ Cigarettes are taxed by all countries though.
 - ▶ import duties by all countries -for imported cigarettes
 - ▶ Consumption taxes by most countries
 - ▶ Sales or value added taxes (VAT)
 - ▶ Excise taxes
- ▶ It is important to understand the strength and weaknesses of types of excise taxes in terms of their impact on
 - ▶ Consumption
 - ▶ Retail price
 - ▶ Revenues
 - ▶ Product improvements
 - ▶ Industry profit
- ▶ Countries should adopt & tailor excises based on their objectives and the ability of administration