

Fact:
Tax increase works for TC;
Challenge is:
How to convey this message to policy makers

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Arguments surrounding economic impacts of excise tax increase

- Tax revenue
 - Excise, VAT, import duties
 - Income taxes
 - Profit, business taxes
- Smuggling
- Employment incl. farmers' livelihood
- Tobacco industry
- Poverty-regressivity

Addressing worries: Need for country-evidence

- Support for country-level research
 - World Bank (Global, incl. China, Ukraine, Turkey, S.Africa, India, Indonesia)
 - WHO (Global)
 - Rockefeller Foundation (East Asia and Pacific)
 - Soros Foundation (East and Central Asia)
 - Others
- Capacity building & county-level research
 - RITC (Global, more focus on Africa, EAP & LAC)
 - NIH/Fogerty Foundation
 - Universities (e.g. Universities- JHBSPH, U.Waterloo)

Dissemination & Reaching Decision Makers

- Support and participate local conferences & workshops;
- Regional-country conferences/workshops
 - WHO
 - Regional (e.g. Brazil, Indonesia, Malta, Poland, Hungary, Kyrgyz Republic, Philippines & Fiji);
 - Country (e.g. Argentina, Jamaica, China, Brazil, Uruguay)
 - The WB:
 - Country- (e.g. China, India, Turkey, Ukraine, Hungary, Uzbekistan)
- Roundtable meetings with officials from key ministries
 - (e.g. China, Bulgaria, Indonesia, Turkey, Ukraine)
 - Partnership with WHO, IMF and WB

What worked: Case Study for Turkey

- **Strong & well-connected NGO community**
 - Work closely with the Parliamentarians
 - Created champions among decision makers
 - Officials owned the TC worked and moved them forward
 - Well-educated and coordinated
 - Up-to-date on policy discussions
 - Creating local as well as international outcry –when necessary
- **Political and Macroeconomic condition**
 - EU accession- harmonization of excises
 - Need for more revenues –economic crisis
- **Need local evidence on consequences of tax increase**

Country-evidence & dissemination

- Held:
 - Public Seminar held in Ankara (Capital city)
 - Dissemination to mass media in Istanbul
 - TV coverage, interviews, press conference
 - Roundtable meeting with officials from key ministries

ONE WEEK AFTER THESE ACTIVITIES

- NGOs met with the MOF to follow up roundtable discussion
- MOF invited the Turkish researcher to present her results.

Impact of Price Increase on Smoking Prevalence Rate in Turkey

	Original	10%	25%	50%	100%
Predicted Smoking Prevalence Rate	0.6845	0.6829	0.6809	0.6779	0.6732
Predicted Number of Smoker Households	17910	17870	17816	17738	17615
Number of Households Quitted Smoking		40	95	172	296
Decline in Number of Smoker Households		-0.23%	-0.53%	-0.96%	-1.65%

Original rate is predicted using the logit estimate at the average price, income and household size with age greater than 12, university graduated, male headed, living in developed segment of the city, Marmara region with ages between 30 and 45 and has white-collar job.

Simulation Analysis:

Impact of Tax Changes on Consumption and Government Revenues in Turkey

		Percentage Changes in Excise Tax Rate				
	Base Case	-25	-10	10	25	50
Price (TL)	505,089					
Consumption	134.65	139.90	136.75	132.55	129.40	124.15
Total Tax Rate (%)	72	58.25	66.5	77.5	85.75	99.5
VAT (%)	17	17	17	17	17	17
Excise Tax Rate (%)	55	41.25	49.5	60.5	68.75	82.5
Change in Price (%)		-13.75	-5.50	5.50	13.75	27.50
New Price (TL)	505,089	435,639	477,309	532,869	574,539	643,988
Change in Consumption (%)		3.90	1.50	-1.50	-3.90	-7.80
Government Revenues (in Thousand TL)						
from VAT	11,562	10,334	11,097	12,008	12,639	13,592
from Excise Tax	31,048	24,194	28,377	33,620	37,296	42,939
Total	42,610	34,555	39,474	45,628	49,935	56,531
Change in Government Revenues (%)		-18.90	-7.36	7.08	17.19	32.67

Source: Zeynep Onder 2002

Simulation Analysis:

Impact of Tax Changes on Government Revenues with Smuggling in Turkey

	Base Case	Percentage Changes in Excise Tax Rate				
		-25	-10	10	25	50
New Tax Rate (%)	72	58.25	66.50	77.50	85.75	99.50
Consumption (million packs)	124,035	128,534	125,835	122,235	119,536	115,037
Predicted Smuggling	8,500.04	4,256.42	6,802.59	10,197.50	12,743.67	16,987.30
Government Revenues After Adjusting for Smuggling (in Billion TL)						
from VAT	9,920	9,204	9,659	10,149	10,431	10,734
from Excise Tax	26,639	21,491	24,701	28,416	30,779	33,911
Total	36,560	30,695	34,360	38,565	41,210	44,646
% Change in Government Revenues		-16.04	-6.02	5.49	12.72	22.12

Source: Zeynep Onder 2002

Few examples:

Strong & well-connected NGO Work closely with the Parliamentarians and WHO	Yes
Governments' need for more revenues	Yes
Existing country-level analysis	No
Need local evidence on consequences of tax increase to economy	Yes

Niue Island in Pacific:

A tax increase has been approved

- **Request by a regional NGO:**
- **Niue seems very keen on the tax increase:**
 - what the impact would be of a **\$1.20** or perhaps even **\$1.50** increase in tax on tobacco consumption, and on **Government revenue**.
 - **Based on your calculations, advise the impact of these two possible increases in price?**

SIMULATION			
As tax increases \$1/pack			
No increase in importer's price			
Price Elasticity -0.8			
New Retail price/pack	6.5	8.5	
New tax/pack	2.90	3.4	
% price increase	18.2%	13.3%	
% of tax increase	52.7%	41.7%	
New consumption	55,569	22,302	77,872
New revenue	161,181	75,834	237,016
% change in revenue	30.4%	26.6%	29.2%
% change in consumption	-14.6%	-10.7%	-13.5%
Price Elasticity -1.0			
New Retail price/pack	6.5	8.5	
% price increase	18.2%	13.3%	
% of tax increase	52.7%	41.7%	
New consumption	53,203	21,636	74,839
New revenue	154,318	73,570	227,888
% change in revenue	25%	23%	24%
% change in consumption	-18.3%	-13.3%	-16.8%

Another example: Vanuatu Island in the Pacific:

An NGO in the region

- Prepared a paper : for the MOH & Dept of Customs- proposed a tax increase.
- Met with parliamentarians to discuss tax policy:

Vanuatu:

Evidence provided on three scenarios – a modest (e.g 10%), a moderate (e.g. 25%) & a big (40 or 50%) increase in tax:

tax increase	new tax/pack	chg tax/pack	new price	%chg in price	%chg in cons.	new consumption	new revenue
20%	504	84	7,084	1.20%	0.48%	1,941,610	978,571,597
50%	630	210	7,210	3.00%	1.20%	1,927,563	1,214,364,874
100%	840	420	7,420	6.00%	2.40%	1,904,152	1,599,487,337
price elasticity 0.8							
20%	504	84	7,084	1.20%	0.96%	1,932,246	973,851,798
50%	630	210	7,210	3.00%	2.40%	1,904,152	1,199,615,503
100%	840	420	7,420	6.00%	4.80%	1,857,328	1,560,155,681
Price elasticity 1.0							
20%	504	84	7,084	1.20%	1.20%	1,927,563	971,491,899
50%	630	210	7,210	3.00%	3.00%	1,892,446	1,192,240,817
100%	840	420	7,420	6.00%	6.00%	1,833,916	1,540,489,853

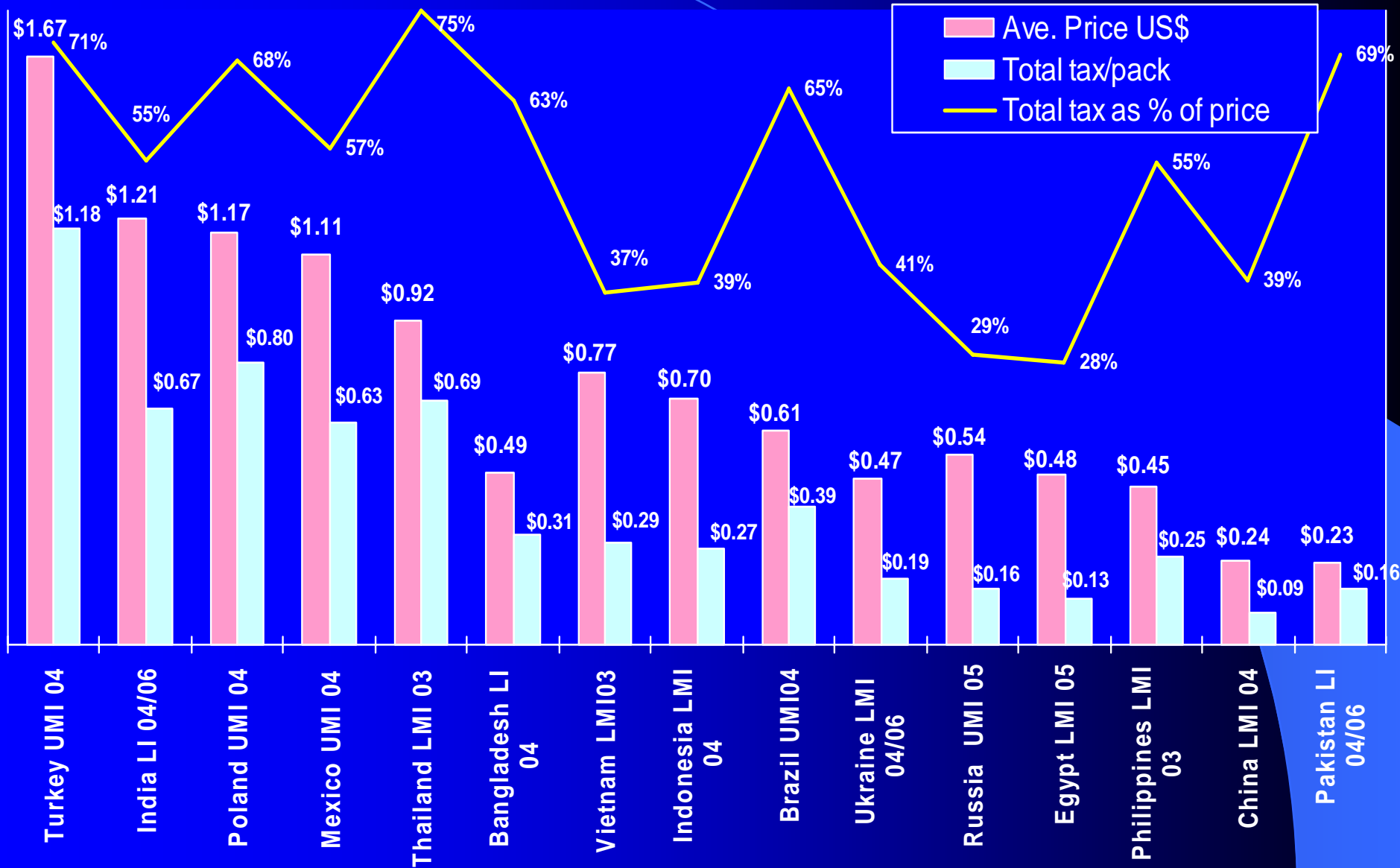
Outcome:

**A tax increase was approved by the
Ministers**

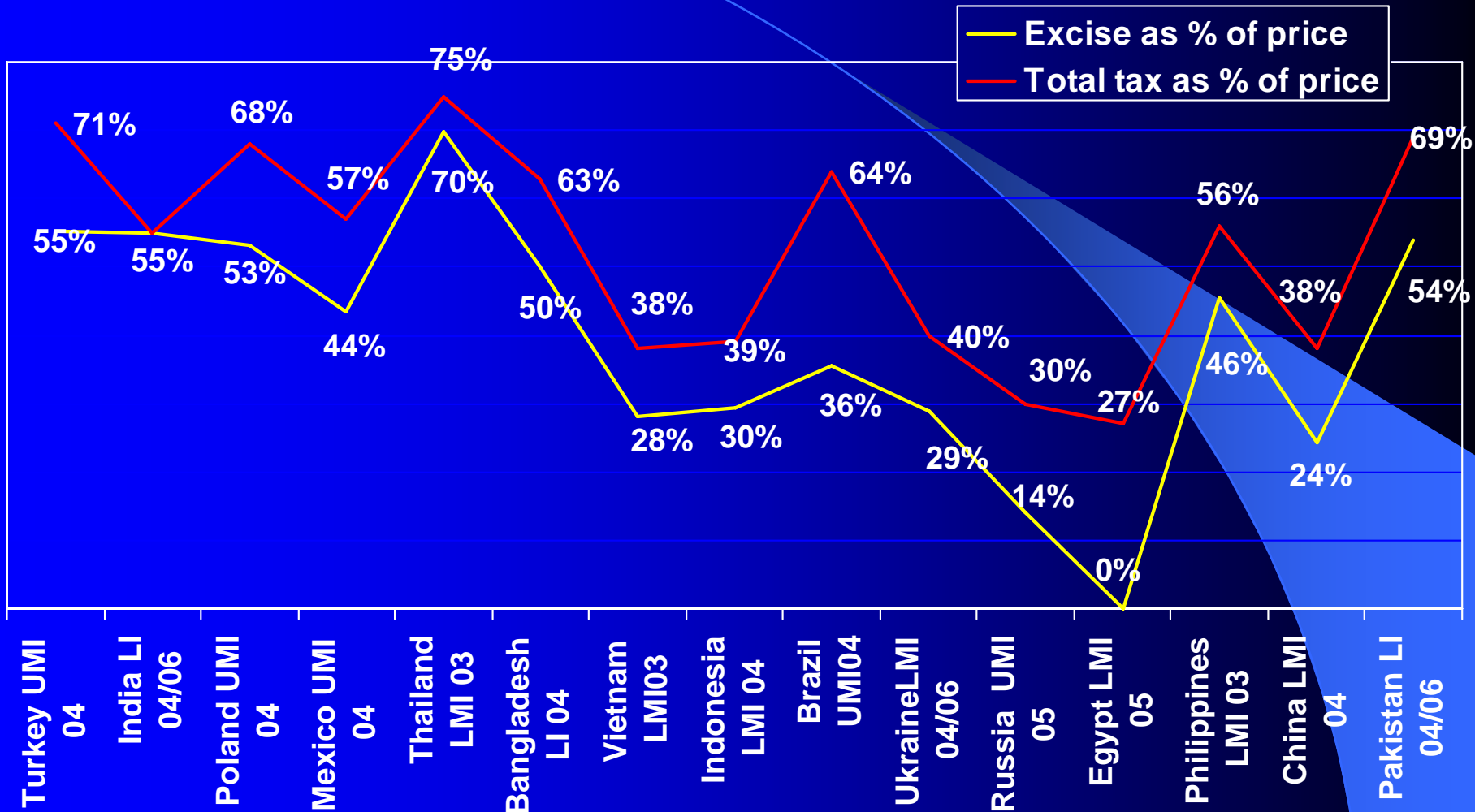
How high or low is the price of cigarettes among BI countries including Turkey?



Average price and total tax/pk US\$



Tax as % of Average Retail Price



Next Step: Road map- Political & Economic Situation: Case for Turkey

TAX-INFO	TR	ARGUMENTS AGAINST TAX INCREASE	TR	POLITICAL BARRIERS	TR	EXISTING KEY EVIDENCE-	TR	READINESS	TR
Year	2004	Tax revenues	√	TI Influence	No	elasticity-revenues	√	Government commitment	
Total tax as % of RP	71	Earmarking	No	Ownership	Gov/ fdi	HC cost		FCTC-ratification	√
Excise as % of RP	55	Poverty-tax regressivity	√	Champions w/ govt.	√	Smuggling	√	Ownership of existing work	√
Year- tax changed last	2004	Farmers/empl.		Strong NGO commun.	√	Employment/farmers		Champions within govt.	√
Likely tax increase in 2 years		Smuggling/counterfeiting	S+C	Public support	Low	Poverty-regressivity	√	Weak MOH-MOF	
Complex Excise tax structure	No	Privatization & FDI	PRI			Wide dissemi.	√	Strong NGO	√
		Trade agreements	No					Public awareness	Moder
		EU - tax harmonization	√					Comprehens evidence	No