

Tobacco Taxes in the Philippines

Based on *The Economics of Tobacco and Tobacco Taxation in the Philippines* by Stella Luz A. Quimbo, Adele A. Casorla, Marina Miguel-Baquilod, Felipe M. Medalla, Xin Xu and Frank J. Chaloupka. 2012.

Tobacco Use in the Philippines

- The Philippines is one of the largest consumers of tobacco in the Western Pacific Region with over 19 million smokers.
- Nearly 30% of Filipinos consume some type of tobacco product — 47.7% of men smoke while 9% of women smoke.
- Youth tobacco use is a significant problem in the Philippines; nearly 23% of 13–15 year olds use tobacco products.

Impact of Tobacco Use in the Philippines

High rates of tobacco use contribute to a significant number of early deaths and high healthcare costs.

- In the Philippines, tobacco use is estimated to kill approximately 87,600 people each year — about 240 every day.
- The economic costs of smoking in the Philippines were over 7% of GDP in 2003. As much as 44.6 billion pesos (US\$ 858 million) was spent to treat the four major diseases caused by tobacco use while the morbidity and mortality caused by tobacco use resulted in lost productivity of nearly 270 billion pesos (US\$ 5.2 billion).

The Current Tobacco Tax Structure in the Philippines is Complex

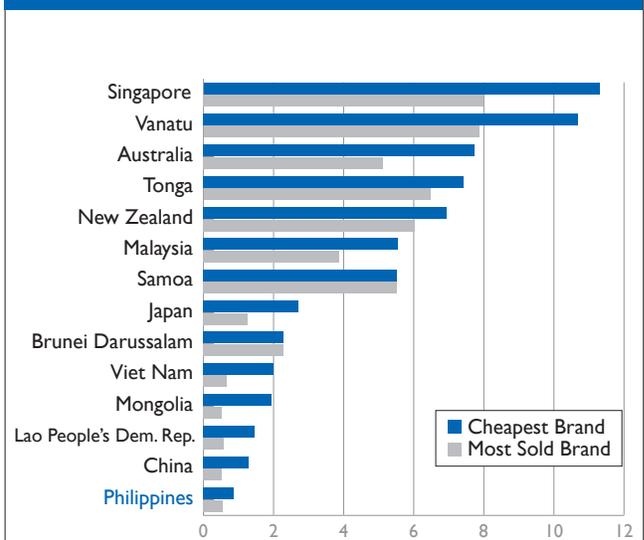
- The Philippines levies an excise tax and a value added tax on tobacco products.
- The excise tax system has multiple tiers, with some brands bearing a tax that is less than one-tenth of the tax per pack levied on other brands.
- The “price classification freeze” applied in 1996 mandates that the tax applied to most brands is based on their net retail price in 1996 rather than the current price.
- Excise taxes on cigarettes account for 24.1% of retail prices on average (6.90 pesos average excise tax, as compared to 28.70 pesos average price). Total

taxes on cigarettes account for 36.1% of retail price on average. This falls well below the level in countries with strong tobacco control policies where total taxes typically account for more than 3/4th of retail price.

Tobacco Prices in the Philippines are Very Low

- Cigarette prices in the Philippines are among the lowest in the world.
- Cigarette prices in the Philippines are 40% to 120% below what they would be in the absence of the price classification freeze.
- Real cigarette prices have been falling in recent years and increases in real incomes have made tobacco products increasingly affordable.

Prices of Pack of Most Sold and Cheapest Brands of Cigarettes in International Dollars, Western Pacific Region, 2010



Source: WHO, Report on the Global Tobacco Epidemic, 2011.

Notes: Data not reported/not available for: Fiji, Papua New Guinea and Solomon Islands. PPP not available for: Cambodia, Cook Islands, Marshall Islands, Micronesia, Nauru, Palau, Republic of Korea and Tivatu. Data for the Philippines are based on Marlboro and Fortune International brand prices rather than the prices reported by WHO.

Tobacco Taxes in the Philippines

Higher Taxes Saves Lives

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases and ensure that the tax increases are reflected in prices. Higher prices discourage youth from initiating cigarette smoking and encourage current smokers to quit.

Rising Cigarette Consumption Per Capita Accompanied Real Cigarette Price Decline in the Philippines, 2003-2010

Pesos per pack
(2011 pesos)



Source: Euromonitor International 2011, Economist Intelligence Unit (EIU) and authors' calculations.

Note: Price in this graph is the average price of an international brand (typically Marlboro) and a popular local brand of cigarettes obtained from the EIU database. Nominal prices were adjusted for inflation using the consumer price index reported by the World Bank and presenting inflation adjusted prices in 2011 pesos. Sales figures are from Euromonitor.

Raising Taxes Saves Lives and Increases Government Revenue

If the Philippines eliminated the existing price classification freeze and tiered tax structure and adopted a uniform specific cigarette excise tax of 28.3 pesos per pack, it would increase cigarette excise tax to 53.8% of average retail price of cigarettes. This tax would:

- encourage over 4 million adult smokers to quit
- keep over 4.2 million young Filipinos from starting cigarette smoking
- prevent over 3.5 million premature deaths caused by cigarette smoking, and
- provide an additional 53.8 billion pesos (US\$ 1.2 billion) in tax revenues.

Impact of Tobacco Tax Increase on Cigarettes

	EXCISE TAX AT 28.3 PESOS PER PACK (53.8% OF RETAIL PRICE)
Reduction in number of current and future smokers	8.29 million
Lives saved (current and future smokers)	3.54 million
Additional tax revenues	53.8 billion pesos (US\$ 1.2 billion)

Based on simulations of the impact of eliminating tiers and imposing a uniform specific tax of 28.3 pesos per pack of 20 cigarettes, adjusted for inflation. Refer Table 7.1 of the report.

Recommendations

1. Eliminate the price classification freeze and the use of historical net retail prices as the tax base.
2. Adopt a uniform specific cigarette excise tax that significantly raises cigarette prices and reduces tobacco use.
3. Implement annual adjustments to the specific tax rates so that they retain their real value over time and result in increases in tobacco product prices that are at least as large as increases in incomes.
4. Increase taxes on cigars, water pipe tobacco and other tobacco products to be equivalent to cigarette taxes and to reduce the use of these products.
5. Strengthen tobacco tax administration, increase enforcement, and tax duty free sales of tobacco products in order to reduce tax evasion and avoidance.
6. Earmark tobacco tax revenues for health purposes, including health promotion and tobacco control and for programs that help those employed in tobacco-dependent sectors make the transition to alternative livelihoods.

One of a series of reports on tobacco economics funded by Bloomberg Philanthropies and the Bill and Melinda Gates Foundation as part of the Bloomberg Initiative to Reduce Tobacco Use.