

TOBACCO TAX SUCCESS STORY

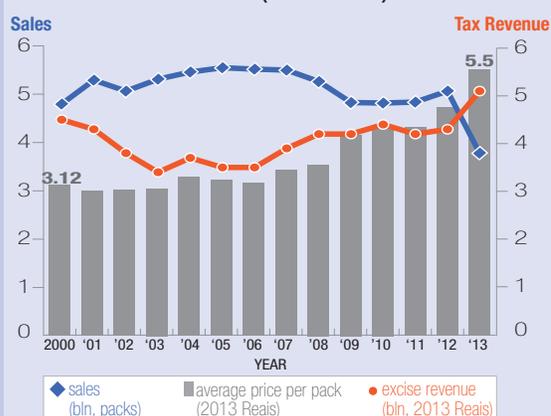
BRAZIL

FCTC ARTICLE 6

Price and tax measures are an effective and important means of reducing tobacco consumption ... Each party should ... adopt ... tax policies and ... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

Between 2006 and 2013, the average real price of cigarettes increased 74%, following a 116% increase in the real amount of excise tax per pack. During the same period, domestic cigarette sales decreased by 32%. Despite this drop in sales, real excise revenue increased 48%.

Cigarette Prices, Sales, and Excise Revenue in Brazil (2000–2013)



The most effective way to reduce tobacco consumption is to increase the price of tobacco products through tax increases. Higher tobacco prices encourage cessation among existing tobacco users, prevent initiation among potential users, and reduce the quantity of tobacco consumed among continuing users.

Sources

- Ministerio da Saúde. Vigilância de fatores de risco e proteção para doenças crônicas por inquérito telefônico [Ministry of Health: Surveillance of risk and protective factors for chronic diseases via telephone survey]
- Receita Federal do Brasil. average excise amount per pack and tobacco excise collection, domestic sales.
- National Institute of Statistics. Average price per pack, monthly price information

Tobacco Use

In 2006, 15.7% of the adult population smoked. By 2013, smoking prevalence declined to 11.3%, a decline over 4 percentage points.

Tax Structure

In 2012, Brazil adopted a mixed cigarette excise tax with two specific tax rates and one ad valorem rate. By

law, the specific taxes are annually adjusted to a rate above anticipated inflation, and in 2015 the specific tax rates will be combined into a single uniform specific rate. The ad valorem rate increases each year. Firms can opt to pay an ad valorem tax only equivalent to 45% of retail price, however, most firms opt for the mixed regime.

Tax Change

From 2000–2006, a multi-tiered specific excise tax system was in place, and the specific tax was subject to adjustment below inflation. Under this tax regime, tax revenue declined. From 2007–2011, adjustments were made more frequently and set at rates above inflation, and government revenues increased. In 2012, the tax policy changed to the current mixed system.

Industry Reaction

The tobacco industry has consistently cited high rates of illicit trade (27–30%) as a reason not to raise tobacco taxes, arguing that increasing taxes would increase the price difference

between tax paid and illicit cigarettes and promote a growth in illicit trade. However, the industry pricing strategy has not been consistent with this concern. During the early 2000s, when excises taxes were reduced in real terms, the industry did not pass all the tax adjustments on to prices, maintaining the retail price of cigarettes and the price differential with smuggled cigarettes. In 2009, when a second round of tax increases was implemented, the tobacco industry increased cigarette prices well above the tax increases, showing little concern over increasing the price difference between legal and illegal cigarettes.

Impact of Tax Increase

Tax and Price

Tobacco excise taxes represented a low and declining proportion of tobacco retail prices in the first half of the last decade, falling from 30.2% in 2000 to 19.7% in 2006. After 2006, excise tax as a percent of retail price increased, reaching 24.4% in 2013. Other indirect taxes on tobacco are important in Brazil. Total tobacco tax as a percent of retail price rose from 55.6% in 2006 to 60.4% in 2013. The average price for a pack of 20 cigarettes rose from 2.19 Reais in 2006 to 5.5 Reais in 2013.

Sales

Cigarette sales declined from 5.56

billion packs in 2006 to 3.8 billion pack in 2013.

Reduction in Number of Smokers

The number of smokers in Brazil declined from 21.35 million in 2006 to 17.10 million in 2013. This reduction is consistent with the observed reduction of legal cigarette sales per adult. Smokers quit or reduced daily consumption instead of switching to illicit cigarettes.

Government Revenue

Between 2006 and 2013, revenue from tobacco excise taxes increased from 3.5 billion Reais to 5.1 billion Reais, in constant 2013 values. Revenue increased by 48% even as sales declined.