

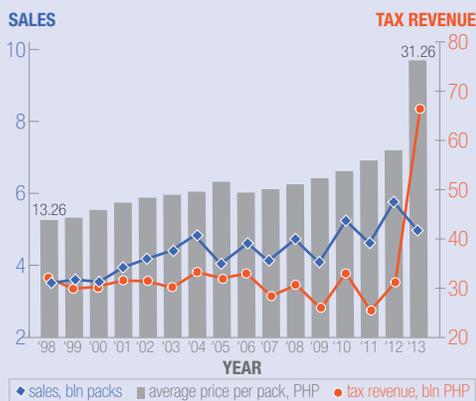
TOBACCO TAX SUCCESS STORY PHILIPPINES

FTC 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.

In 2012, the Philippines passed the Sin Tax Reform Act (RA 10351). In its first year, the Act increased the specific excise tax on cigarettes from 2.72 PHP in 2012 to 12 PHP in 2013 on low- and medium-priced brands and from 12 PHP in 2012 to 25 PHP in 2013 on high-priced brands. Average price per pack increased by approximately 10 PHP between 2012 and 2013. Domestic sales went down from 5.76 billion packs in 2012 to 4.97 billion packs in 2013 and revenues doubled.

Government Revenue, Sales and Price, Philippines, 1998 – 2013



The most effective method for reducing 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.

References

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Tobacco Use

In 2009, 28.3% of adults (age 15+) smoked; 47.7% of men and 9% of women.¹ In 2011, smoking prevalence among youth (ages 13-15) was 8.9%, with 12.9% of boys and 5.3% of girls smoking cigarettes.²

Tax Structure

The Philippines levies a specific excise tax

on tobacco products. From 2013 to 2016, two separate excise rates are applied to products based on the net retail price. In 2017, a single uniform specific excise tax will be applied. The specific tax increases each year until 2017 after which the excise rate will increase by 4% annually, as a proxy for automatic inflation adjustment.

Specific Excise Tax Per Pack For Machine-Packed Cigarettes Based On Net Retail Price (In PHP)³

Old system		RA 10351						
2012			2013	2014	2015	2016	2017	2018
NRP	Excise tax	NRP	Excise tax					
< 5.00	2.72	11.50 and below	12.00	17.00	21.00	25.00	30.00	annual 4% increase
5.00 to 6.50	7.56	more than 11.50	25.00	27.00	28.00	29.00		
6.51 to 10.00	12.00							
>10.00	28.30							

Tax Change

Before 2013, the Philippine's excise tax system had 4 tiers, with some brands bearing a tax that was less than one-tenth of the tax per pack levied on other brands. A "price classification freeze" applied from 1996 to 2012 mandated that the tax rates of brands that existed prior to 1996 remain based on their 1996 net retail price. In 2012, the Philippines passed the Sin Tax Reform Act which removed the "price classification freeze", introduced higher excise rates, started the move towards a unitary rate system (with a single excise rate being attained by 2017), and indexed the tax rate to an inflation proxy of 4% annually after 2017.

Industry Reaction. Philip Morris Interna-

tional/Fortune, which holds a majority of the tobacco market, and other local tobacco companies engaged in various activities aimed at avoiding the full impact of the 2012 Sin Tax Reform Act, including front-loading sales in both 2012 and 2013; that is, oversupplying the market prior to the tax increase and thus paying the old tax and avoiding the new tax. Tobacco companies also increased their production of very cheap cigarettes. The growth of the very cheap cigarette segment may encourage smokers to switch to cheaper cigarettes as prices rise due to the tax increase rather than quitting smoking. The advantages of these tactics for the industry will be reduced over time as the shift to a unitary high tax rate occurs.

Impact of Tax Increase

Tax and Price. After the specific excise tax increased from 2.72 PHP to 12 PHP on low- and medium-priced brands and from 12 PHP to 25 PHP on high-priced brands in 2013, the average price per pack went up from 21.12 PHP to 31.26 PHP between 2012 and 2013.

Sales. Domestic sales went down from 5.76 billion packs in 2012 to 4.97 billion packs in 2013. The sales data is measured when taxes are paid, not when the product is bought by the consumer. Thus, the high level of sales in 2012 is in part due to the tobacco industry "frontloading" tobacco products into the market before the new tax came into effect.

Reduction in Number of Smokers. Preliminary data shows a decrease in the prevalence of smoking among adult Filipinos, from 28.3% in 2009⁴ to approximately 25.4% in 2013.⁵

Government Revenue. Government revenue from tobacco taxes doubled, increasing from 31.2 billion PHP in 2012 to 66.4 billion PHP in 2013, even as sales declined. The majority of the incremental tax revenue is earmarked for health, primarily enrolling low-income families in the National Health Insurance Program. In addition, a percentage is earmarked for alternative livelihoods for tobacco farmers and workers.