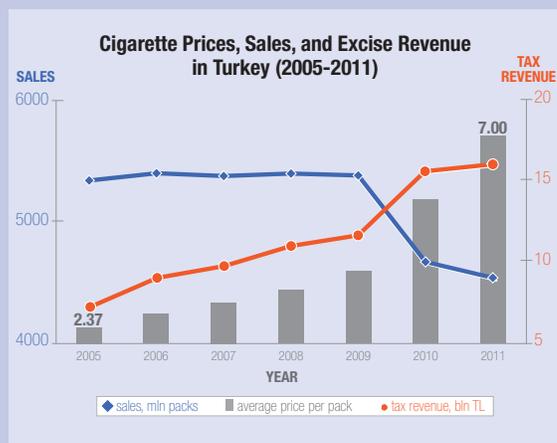


TOBACCO TAX SUCCESS STORY TURKEY

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 2005 and 2011, the price of cigarettes in Turkey increased by 195%. During the same period, cigarette sales dropped by 15.5% and government revenue increased by 124%. Estimates suggest the 2010 tax increase will reduce the number of smokers by more than half a million.



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.

Sources

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- Yürekli A, Önder Z, Elibil M, Erk N, Cabuk A, Fisunoglu M, Erk SF, Chaloupka FJ. The Economics of Tobacco and Tobacco Taxation In Turkey. Paris: International Union Against Tuberculosis and Lung Disease; 2010.

Tobacco Use

Almost one-third (31%) of adults (age 15+) in Turkey smoke (males 48%; females 15%). Among youth (age 13-15), 7% currently smoke cigarettes.

Tax Structure

Cigarette excise tax is calculated on an ad valorem basis with a specific

Tax Change

In October 2010, the ad valorem rate increased from 58% to 63% of retail price and the specific tax floor was raised to 2.65 TL, and tobacco taxes increased again in 2011. In 2011, tobacco excise taxes averaged 65% of retail price, while total tax

tax floor. For example, in 2010, the ad valorem tax rate for tobacco was 63% of retail price. If the ad valorem tax was calculated to be less than 2.65 TL, the specific tax of 2.65 TL was applied instead of the ad valorem rate. All products are subject to a VAT of 18% of retail price.

(including VAT) averaged 80.25% of retail price.

In 2012, a specific tax was added on top of the ad valorem rate. Both the specific tax and specific tax floor will be adjusted to inflation.

Tobacco Taxes in Turkey

Year	Ad valorem (%)	Specific tax floor
2005	58	1.20
2006	58	1.40
2007	58	1.50
2008	58	1.55
2009	58	2.05
2010	63	2.65
2011	65	2.90

Industry Reaction. In October 2009, the tobacco industry began overproducing cigarettes to cover the first few months of demand in 2010. The industry paid the 2009 tax on those cigarettes, which they then sold in 2010. The industry then reduced production for the first quarter of 2010. In early 2010, the industry

claimed that the tax increase was significantly harming its sales of cigarettes due to increased prices and illicit trade. Because of Turkey's production monitoring system, the government identified that overproduction occurred and was able to refute the industry's claim.

Impact of Tax Increase

Tax and Price

Retail prices of economy cigarettes increased threefold between 2005 and 2011, while high/luxury cigarettes increased 128% during the same period.

Sales

Cigarette sales declined from 106.7 billion sticks in 2005 to 90.8 billion in 2011.

Reduction in Number of Smokers

A study by Yurekli et al. estimates that the cigarette price increase in 2010 would reduce the number of smokers by 590,000 and save 340,000 lives.

Government Revenue

Between 2005 and 2011, revenue from tobacco taxes increased from 7.1 billion TL to 15.9 billion TL. Revenue increased by 124% during this time period even as sales declined.