

Impacts of restructuring tobacco excise tax in the Philippines

The Non-Communicable Disease Prevention (NCDP) program supports the generation of new knowledge to help inform policies and programs that are low cost but can have a high impact on reducing the non-communicable disease (NCD) burden and improving overall population health in low- and middle-income countries. NCDP funds research focusing on the main risk factors for NCDs: tobacco use, unhealthy diet, alcohol misuse, and physical inactivity.

The challenge

In the Philippines smoking rates are high and taxes on tobacco products are low. The most effective way of addressing this situation is to develop and implement laws that will significantly raise tobacco taxes.

A recently approved law restructuring tobacco taxes in the Philippines includes a steep increase in the excise tax (the tax paid by producers which increases the sale price). Its implementation will establish a uniform tax to avoid a high degree of price variation between tobacco products or brands. As well as generating government revenue, this increased tax is meant to reduce smoking prevalence and hence address other health objectives such as reducing non-communicable diseases and health-related economic losses. Additionally, the extra health benefit from the tax increase will come from a large portion of the tobacco tax revenue being set aside to finance universal health coverage.

While there is clear evidence that tobacco tax increases generate revenue and reduce demand, studies have not looked at the impacts of such a large tax increase, nor used a more complex model of cigarette demand. In opposition, tobacco corporations have made their own forecasts of government revenue, arguing that the steep increase will result in low tax revenues because of a fall in demand. In order to support the continued, effective implementation of the law, reliable research is needed on the true potential economic and health impacts of such a steep tax increase.

The research

The project's objective is to aid legislation by obtaining an estimate of the revenues that can be generated from the proposed steep increase in tax rates on tobacco products, as well as any accompanying changes in consumer demand and health impact.

The team aims to develop a low-cost but effective model to predict cigarette demand. The research team will use data

from a survey of consumer demand for tobacco products to analyze the factors affecting tobacco consumption. To do this, they must first develop a reliable survey methodology and instrument that will capture all the variables needed for the cigarette demand model.

The team will also use this model to determine the effects of shifting demand from higher-priced tobacco products to low-priced products if a uniform tax is not adopted.

Finally, the researchers will produce a model that will simulate how market shares would change following the tax increase, and the implications of these changes for tax revenues.

Expected results

The project aims to:

- strengthen technical arguments for passing the tobacco tax reforms by filling the gaps in the local evidence for strong tobacco tax policy reform in the Philippines;
- contribute to an advocacy and media campaign to inform policy makers of the revenue and health impact of the tax law;
- develop a survey method that can be replicated in other countries to estimate the revenues and health impact of steep increases in tobacco tax rates.

Project duration: March 2012 to November 2012

Funding: CA\$86,871

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The Non-Communicable Disease Prevention (NCDP) program is part of Canada's International Development Research Centre (IDRC), a Canadian Crown Corporation supporting research in developing countries to promote growth and development for more than 40 years.

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