

Setting the Ideal Tobacco Tax Rate

"...Tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments... to reduce the affordability of tobacco products..."

[FCTC Article 6 Guidelines](#)

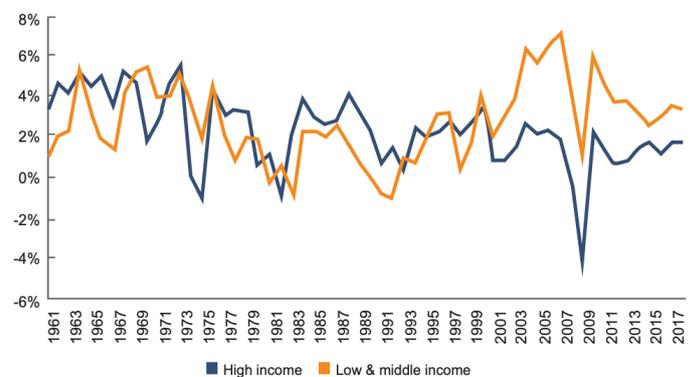
What is Affordability?



- Affordability refers to the ability of an individual to purchase a product.
- This is influenced by the price of the product and the individual's income.
- Tobacco products become more affordable if price increases do not keep pace with increases in per capita income and consumer purchasing power over time [1].

- Importantly, this means that policy makers should not only focus on achieving a particular excise tax burden, but on affordability as well.

Figure 1. Trends in Global Economic Growth (Real per capita GDP), 1961–2018



Source: Blecher, 2020.

Why is Affordability so Important in Tobacco Taxation Policy?



- The reason why affordability as a concept or nominal anchor for tobacco tax policy is so important is economic growth and income growth [2].
- During the 1960s, when the focus of tobacco tax policy and tobacco control existed primarily in developed countries, that policy could be anchored in real prices, i.e. as long as real prices were increasing, consumption would be declining.
- However, as the world's attention shifted from developed to developing countries, and as Low and Middle Income Countries (LMICs) experienced rapid economic growth in the last two decades (see Fig. 1), increases in real prices were offset by burgeoning incomes.
- In the context of rapidly growing incomes, reductions in affordability became the focus of tobacco taxation policy.
- Nominal tax increases that do not make tobacco products less affordable are unlikely to reduce tobacco consumption or encourage cessation [3].

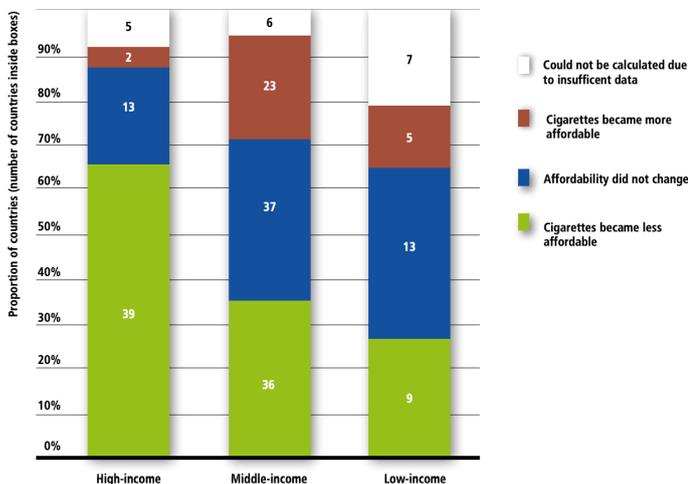
Global trends in cigarette affordability



- Despite many countries around the world raising their tobacco tax rates, it is sometimes the case that the tax increases have not been sufficient to make tobacco products less affordable over time.
- According to the WHO, of 177 Parties to the FCTC with sufficient data, cigarettes have become more affordable, between 2008 and 2018, in 30 countries, 28 of which are developing countries (Fig. 2). Cigarette affordability did not change in 63 countries, 50 of which are developing countries.
- These data show that we need to pay attention to affordability in low-income and middle-income countries.

Setting the Ideal Tobacco Tax Rate cont.

Figure 2. Changes in global cigarette affordability (2008-2018)



Source: WHO, 2019.

How to Make Tobacco Products Less Affordable Over Time?



- When cigarettes become more affordable, it is usually because of failure to raise excise taxes/prices in the face of high overall inflation or high economic growth.
- The FCTC recommends therefore that, at least annually, the price of tobacco products should increase by no less than the sum of the inflation rate and the per capita income growth rate.

- For example, Blecher & van Walbeek [4] calculate that:
 - In a country with inflation of **8%** and a per capita income growth rate of **10%**, cigarette prices would have to increase by **18.8%*** each year to prevent cigarettes from becoming more affordable.
 - In a country with a more modest per capita growth rate of about **4%**, and with an inflation rate of around **8%**, cigarette prices would have to increase by **12.3%**** each year to prevent cigarettes from becoming more affordable.
- However it should be noted that the FCTC provides a minimum standard. Evidence shows that simply maintaining affordability may not be sufficient to reduce tobacco use or even to stop tobacco use from rising [2].
- Research from Australia and South Africa shows that in order to reduce tobacco consumption, it is necessary to increase taxes regularly, and by large enough magnitudes to ensure that price increases are significantly larger than increases in income [2]. The larger the tax increase, the more rapidly cigarette affordability will decline.

Footnotes:

* $[(1.10)(1.08) - 1] \times 100$

** $[(1.04)(1.08) - 1] \times 100$

Sources

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3. IARC. 2011. Effectiveness of Tax and Price Policies for Tobacco Control. IARC Handbooks of Cancer Prevention Volume 14. ISBN-978-92-832-3014-4. <https://publications.iarc.fr/Book-And-Report-Series/Iarc-Handbooks-Of-Cancer-Prevention/Effectiveness-Of-Tax-And-Price-Policies-For-Tobacco-Control-2011>
4. Blecher E, van Walbeek C. An Analysis of Cigarette Affordability. Paris: International Union Against Tuberculosis and Lung Disease; 2008. https://www.tobaccofreekids.org/assets/global/pdfs/en/TAX_Cigarette_affordability_report_en.pdf