World Health Organization

Tobacco taxation deep dive

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"Two things in life are absolutely certain, one is death and the other is taxes; [but you can] use one to defer the other."

Christine Lagarde
Former IMF Managing Director and Chairman of the Executive Board

IMF, 19 April 2018, One-on-One with Christine Lagarde, Featuring Michael Bloomberg

Taxes themselves do not influence consumption/use of unhealthy products, prices do!

Tax is the fiscal tool that governments have to increase prices

What type of taxes can be applied?

These are preferred from a public health perspective; they raise the relative price

Type of indirect/consumption tax		Description	Example
Excise taxes (applies to a specific set of products)	Specific (also referred to as "ad quantum")	Levied as a fixed value based on quantity (e.g. one pack of cigarettes)	**Philippines**: 69.46 PHP per pack of 20 cigarettes
	Ad valorem	Levied as a percentage of a given value of the product	**Senegal:** 65% of the producer price for cigarettes
	Mixed excise	A combination of ad valorem and specific	**EU countries:** all apply a mixed system (specific + ad valorem) on cigarettes
Value-added tax (VAT)		Applies broadly to all goods and services	Usually same rate applied to tobacco and other goods
Import duties		Applies to all imported products	Marshall Islands, Nauru, and Palau

Characteristics of different types of tobacco excise taxes

	Specific excise	Ad valorem excise	Mixed (specific and ad valorem excise)
Administrative requirements	The tax should be collected at the point of manufacturing or at the time of importation		
	Low, as only the volume of the products needs to be ascertained	Requires strong tax administration with technical capacity; otherwise, the administrative burden can be high	Requires strong tax administration with technical capacity; otherwise, the administrative burden can be high, as it requires assessing and collecting both ad valorem and specific excises
Undervaluation	Not an issue	Susceptible to undervaluation	The ad valorem part of the excise collection may be susceptible to undervaluation, depending on the choice of tax base
Impact on price	Tends to lead to relatively higher prices, particularly for low-priced cigarettes	Tends to lead to relatively lower prices; price reductions will be subsidized if the multiplier effect is strong	An increase in the specific tax will lead to relatively higher prices, particularly for low-priced cigarettes; the increase in the specific excise will also increase the ad valorem payment if the base of the ad valorem includes excise
Inflation	The real value of the excise tax will be eroded unless the tax is adjusted in line with inflation	The real value of the excise tax will be preserved as prices increase, at least to the extent that tobacco product prices follow inflation	The real value of the specific excise will be eroded unless the excise is adjusted in line with inflation
Health benefits	Will discourage consumption of tobacco products irrespective of the price band	May encourage more trading down in favour of cheaper cigarettes, reducing the health benefit	May reduce trading down

Source: WHO Technical Manual on Tobacco Tax Policy and Administration (2021)

Best practices in tobacco taxation
Tax policy

Evidence from LMICs reaffirms the effectiveness of tobacco taxation

Tax structure matters and simpler is better

- ✓ Rely more on specific taxes to drive price increases
- ✓ Facilitates tax administration
- ✓ Reduces tax avoidance and evasion
- ✓ Reduces incentive to substitute
- ✓ Enhances revenues

Increase tobacco taxes significantly to reduce affordability

To maximize public health impact, tax increases need to result in real price increases that are higher than increases in:

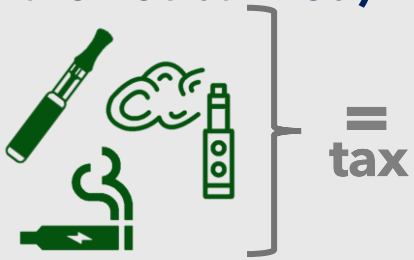
- ✓ real incomes
- ✓ inflation

Tax all tobacco products in a comparable way

Increasing excise taxes on some tobacco products but not on others:

- incentivizes substitution to relatively less-expensive products
- reduces the public health impact of tobacco tax increases

Impose excise taxes on new and emerging products (where they are not banned)



- Heated Tobacco Products (HTPs) should be taxed at the same level as cigarettes (specific structure & rate)
- All e-liquids used in ENDS and ENNDS products, with or without nicotine, should be taxed equally and in a manner that discourages uptake by youth and non-users
- The devices could also be taxed

Source: WHO Technical Manual on Tobacco Tax Policy and Administration (2021)

Tobacco products

Smoked tobacco

- Cigarettes
- Cigars
- Cigarillos
- Pipe tobacco
- Bidis
- Powder tobacco
- Water pipes/Hookah
- Fine-cut smoking tobacco

Smokeless tobacco

- Chewing tobacco
- SNUS
- Snuff, Dip, Dipping tobacco

Others

- Heated tobacco products (HTPs)
- Nicotine- and non nicotine electronic delivery systems, nicotine pouches

To make excise tax on tobacco products more effective in reducing overall tobacco use and to avoid substitution between products, all tobacco products need to be taxed in a comparable way. (Article 6 of WHO –FCTC)

Best practices in tobacco taxation
Tax Administration

Implement best practices in general tax administration to make tobacco tax administration more effective and efficient

Ensure cooperation among the various agencies involved in the implementation of tobacco taxes

- within countries, across borders

Clearly define roles and responsibilities

Closely oversee the whole tax compliance cycle (from licensing to production, import, tax declaration, audit, payment and collection of tax, refund)

Implement actions to facilitate control and enforcement

- Licensing
- Tax stamps with strong security features
- Tracking and tracing system for tobacco products
- Swift and severe sanctions for those engaging in illicit trade
- Anti-forestalling measures

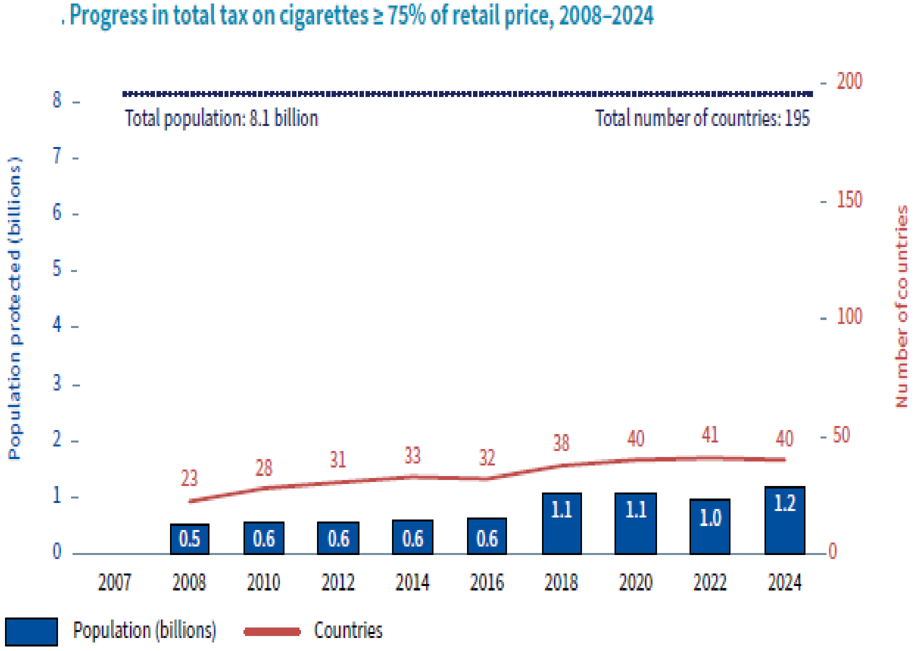
Become a Party to the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products or at least implement best practices described therein

Source: WHO Technical Manual on Tobacco Tax Policy and Administration (2021)

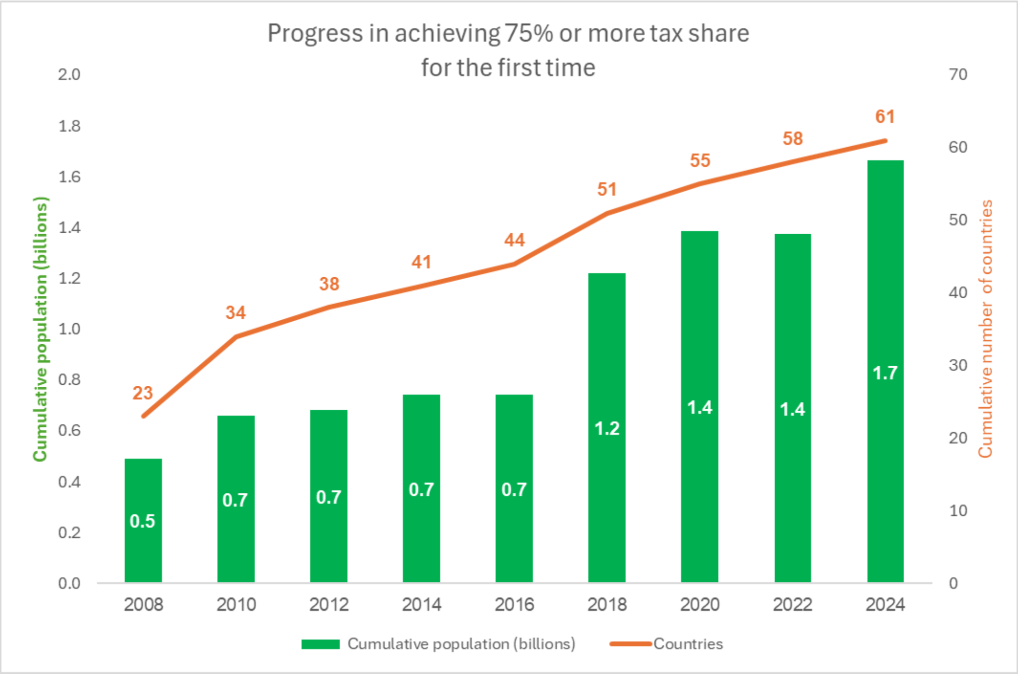
Tobacco tax progress can seem slow

But a deeper cut of the data reveals a more nuanced picture

40 countries achieved tax shares of 75% or more of retail price in 2024 – progress appears slow…



…but if we count all countries that qualified at least once for the top tax group, the number would increase to 61 countries



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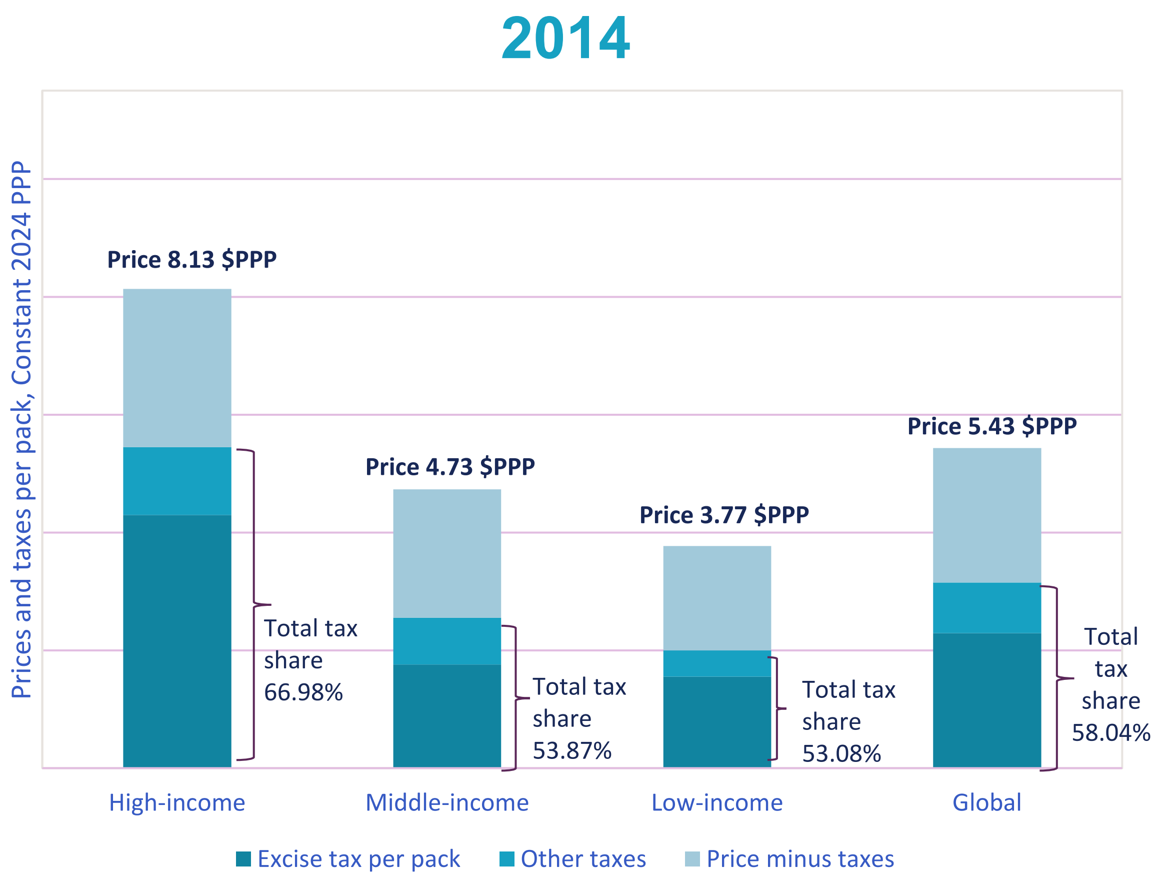
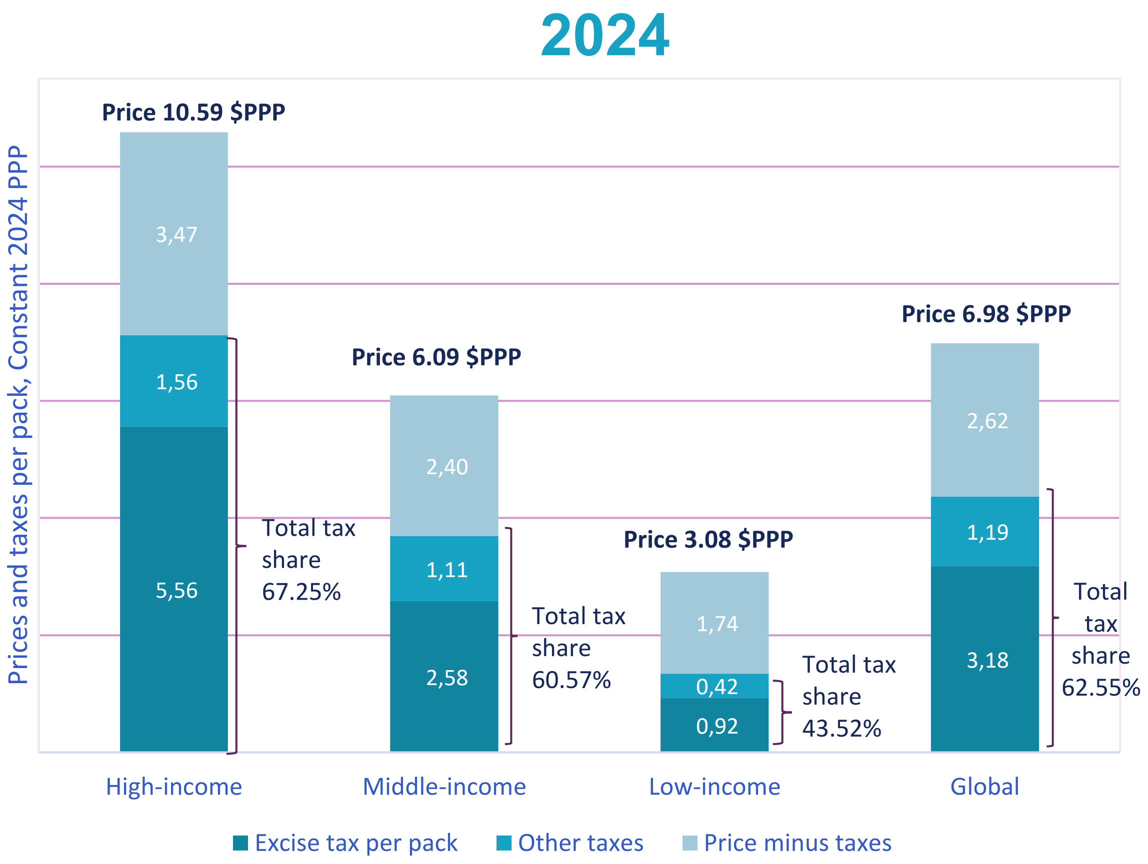
Only 14 countries were in the top group in all 9 reports
Large increases in population covered at the top level of R happened when Egypt, Brazil, Thailand (2018) and Indonesia (2024) had tax shares reaching 75% or more.
If all 61 countries that ever attained the top tax share stayed in the group, 1.7 billion people would have been in the top group – 21% rather than 15% of population

Trends in price and tax levels





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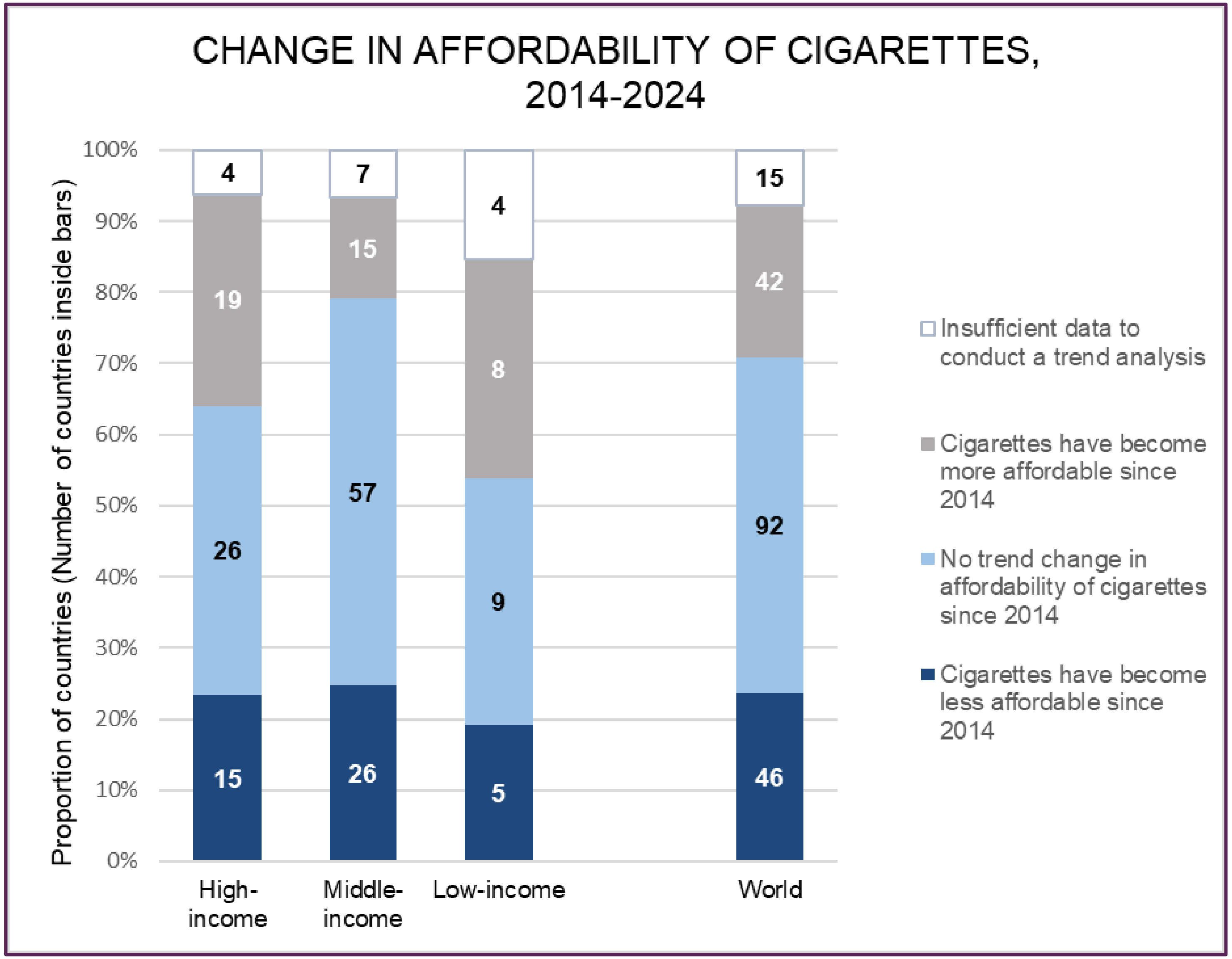
Source: data from the WHO Report on the Global Tobacco Epidemic 2025 (inflation adjusted, 2024 base year).
Notes: Income classification as of 2024 for both graphs. Weighted by country number of smokers in 2023 for both graphs.

Affordability trends: 2014 to 2024

Price that increase above income increases reduce affordability and are more effective in reducing consumption.

- Cigarettes became more affordable in 42 countries, and less affordable in 46 countries.
- Most countries saw no statistically significant trend in cigarette prices relative to income .



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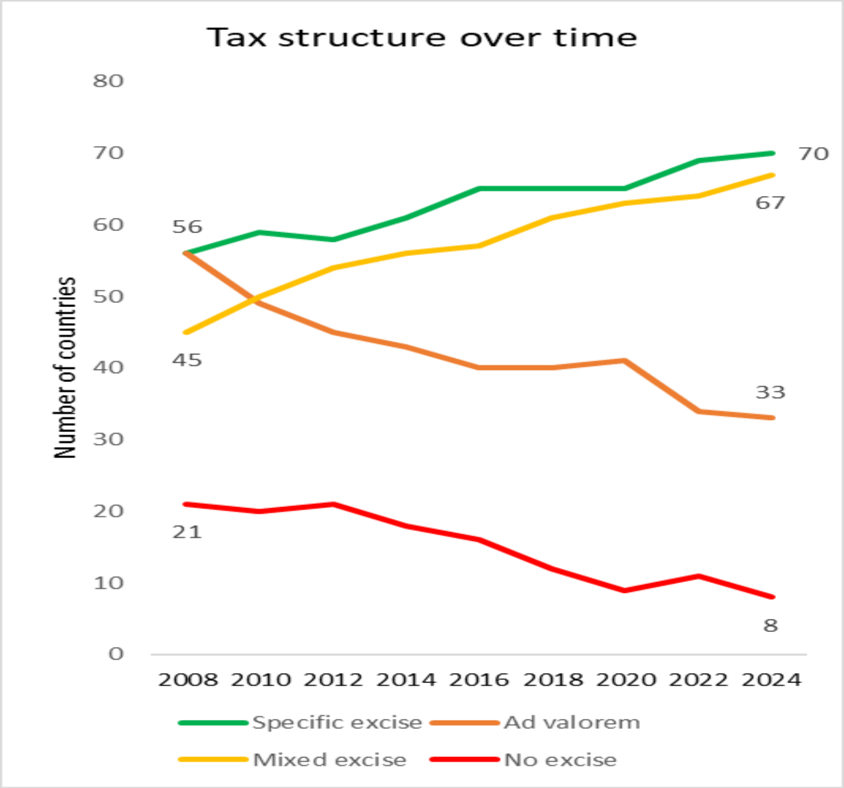
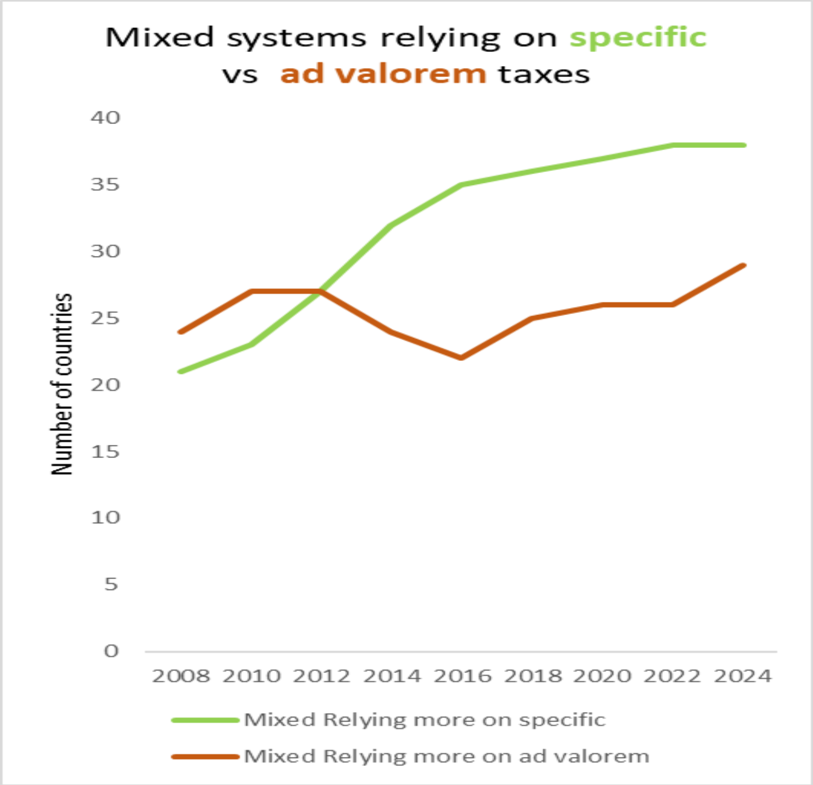
Tax structure trends

More countries have better tax structures, which set them up for success



More countries with mixed tax structures rely on specific taxes



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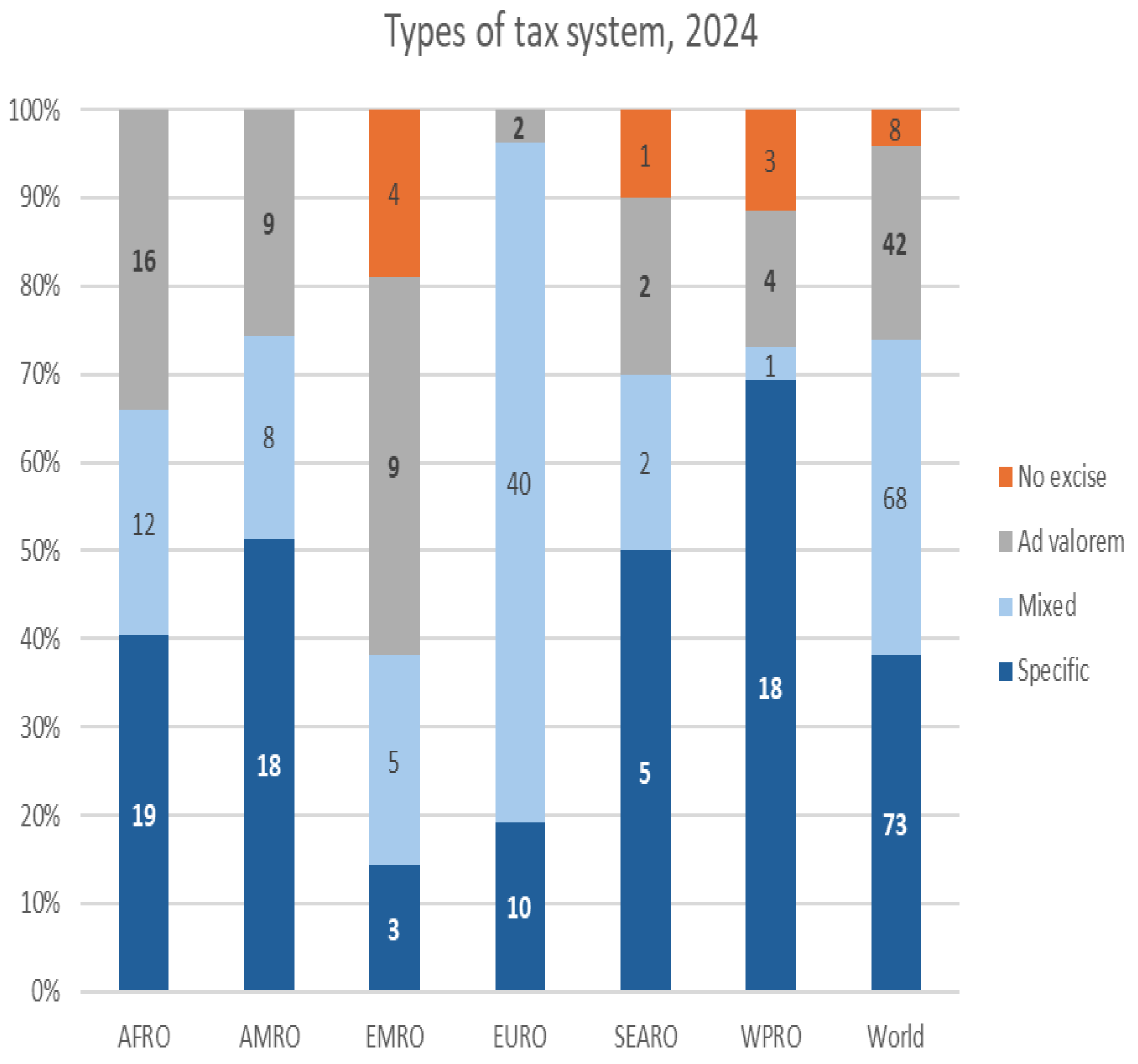
Note: 178 countries with complete and comparable data over the 2008-24 period

Tax structure trends (cont.)

… but better tax structures are not distributed uniformly

- Purely ad valorem systems cluster in AFRO and EMRO.
- Regions with weaker tax structures remain more vulnerable to price dispersion, down-trading, and industry manipulation.



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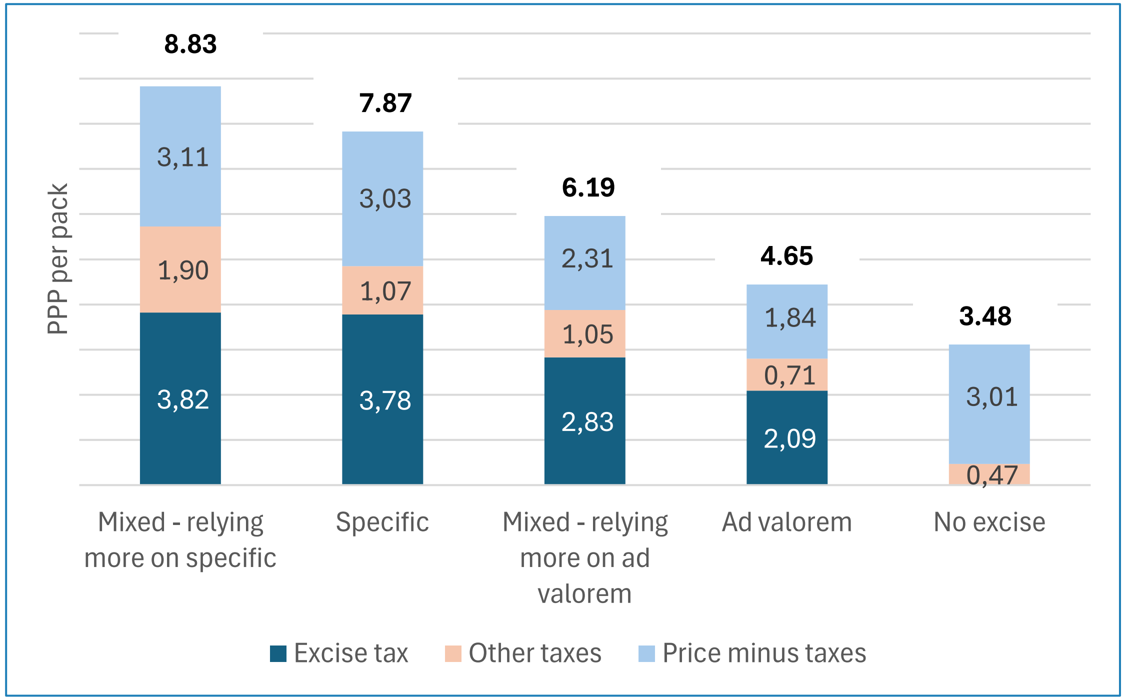
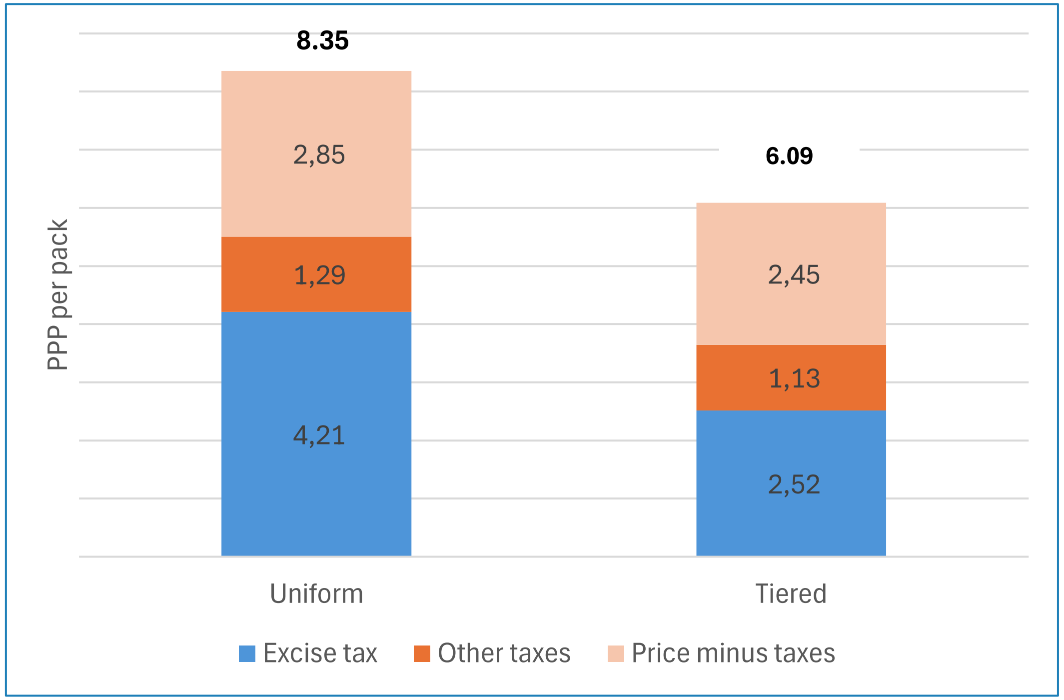
Tax structure matters

Recommended structures yield higher prices





Note: average prices (of the most sold brand of cigarettes) weighted by number of smokers in each country

Source: data using the WHO Report on the global tobacco epidemic 2025

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Conclusions

- Excise taxes are the most important fiscal tool to make tobacco products less affordable and reduce use,
- Progress in tobacco tax globally is mixed with visible increases in taxes over time, improving tax structures but slower reductions in affordability,
- Best practices in tobacco taxation are backed by evidence, and they include, implementing simple structures, implementing regular rate increases to reduce affordability, applying rates at similar levels across all tobacco products and improving tax administration to improve tax collections and reduce illicit trade.