PERSPECTIVES

Tax the smoker, save the smoker! -The health and economic benefits of increased tobacco tax in Zambia

AN Moraes

Ministry of Health, Ndeke House, Lusaka, Zambia

Correspondence: Albertina Moraes N (albertina.ngomah@gmail.com)

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Tobacco kills 6 million people globally each year; in Zambia, more than 3,300 deaths each year are due to smoking. Zambia's cigarette consumption is growing steadily fuelled by adolescent smoking. Cigarette taxes dropped from 34% in 2008 to 27% in 2012, making cigarettes effectively more affordable. Increasing taxes effectively reduces smoking and generates revenue.

The Problem

Tobacco use, the single most preventable cause of death, results in 6 million deaths globally each year due to cancers, respiratory disease, and heart disease. The failure of western countries to contain the tobacco epidemic in the beginning of the 20th century resulted in approximately 100 million premature deaths. Although the epidemic in African countries is still at an early stage, it is projected to grow. The WHO predicts that smoking rates will increase from 15.8% to 21.9% by 2030 if policy interventions are not implemented effectively [1]. In Zambia, cigarette consumption has increased steadily, from 1,159 million sticks in 1996 to 2,245 million sticks in 2012, with the number of smokers having increased from 566,400 in 2000 to 854,700 in the same period [2]. Zambia set a voluntary target to reduce the prevalence by 30% from 14.6% in 2010 to 10.2% by 2025 [3]. However, going by current trends, Zambia will be unable to meet its 2025 target if policy measures are not put in place. Of notable concern is the growing trend of tobacco use among youth, increased from 22% to 25% in the last decade [4]. If left unchecked, this will lead to higher overall smoking rates and deaths. The epidemic has been shown to be driven by readily available, low cost cigarettes [5]. With 3,300 deaths each year from tobacco-caused disease [6], tobacco control through proven interventions such as taxation must be a top priority. The FCTC as part of its tobacco control initiative introduced the MPOWER measures to assist in country level implementation of tobacco control interventions. The six components of

Table 1 The Impact of Increasing Exercise tax in Zambia to 54% and 70%

	Current Tax Situation (36%)	**Option 1: Increase Excise Tax (54%)**	**Option 2: Increase Excise Tax (70%)**
Excise Tax on Common Brand, current retail price of K13.5	K4.9	K7.3	K9.5
Demand by pieces (Percent Reduction in Demand)	1.400b (-)	0.980b (30.0)	0.616b (56.0)
Prevalence (Percent Reduction in Prevalence)	13.8% (-)	12.4% (10.0)	11.2% (18.8)
Government Revenue (Percent Increase)	K22.7m (-)	K30.6m (35.0)	K37.6m (65.8)

the measures are: monitoring tobacco use and prevention policies; protecting people from tobacco smoke, offering help to quit tobacco use, warning of the dangers of tobacco, enforcing bans on tobacco advertising promotion and sponsorship; and, raising taxes on tobacco. Of these, raising tobacco taxes is the single most effective way to not only encourage cessation but also prevent other individuals, more so adolescents, from initiating tobacco use [7].

Tobacco taxation in Zambia

Currently, cigarettes taxation in Zambia is comprised of the following:

- 25% import duty
- Excise tax (which is the greater Tax (VAT) of either an ad valorem tax or specific excise tax)
- 16% Value Added

An import duty of 25% is levied on imported cigarettes. However, the import duty is not applicable if the cigarettes originate from a country who is part of the Free Trade Area (FTA) agreement with Zambia. Given that over 90% of Zambia's imported cigarettes are sourced from Kenya, the import duty amount is effectively zero [8, 9]. In 2007, the government increased the excise tax on imported cigarettes from 115% to 145% of the Producer Price Value or of the Cost, Insurance and Freight (CIF) value, which equates to about K200 per 1,000 cigarettes [10]. A common misconception is that the 145% excise tax is what is applicable and that since the tax rate is already this high there is no room for upward adjustment. In actual fact, the specific tax worked out to be the greater of the two and therefore the excise tax burden on the retail price translated to 21% [3], one of the lowest in the region.

The recent increase in the specific excise tax to K245 per 1000 cigarettes [11] effectively raised the excise tax to 36% for the most common brand of cigarettes, (Pall Mall Green). Unfortunately, this still falls short of the WHO recommendation for FCTC countries, to which Zambia is a party, which states that excise tax should account for at least 70% of the retail price of tobacco products [12].

Policy Rationale

Evidence shows that consumption of tobacco is responsive to price changes in both developed and developing countries, more so in the latter. The government, by raised tobacco taxes, has the capacity to:

- Reduce the prevalence of tobacco use
- Increase the number of tobacco users who quit
- Reduce the initiation of tobacco use among young people
- Reduce tobacco-related morbidity and mortality
- Increase government revenues

A 10% increase in tax has been shown to reduce demand by 2-8% in adults and up to 18% in adolescents, while overall smoking prevalence reduces by 2% in middle income countries. Ending smoking has many health benefits, including the reduction many serious diseases, and some benefits occurring soon after quitting. Only one year after quitting smoking, the risk of coronary heart disease is about half that of a smoker. The stroke risk is reduced to that of a non-smoker 5 to 15 years after quitting. After 10 years of cessation, the risk of lung cancer falls to about half that of a smoker [13]. Furthermore, the tax increases revenue despite reduction in sales because the reduction in sales is less than proportionate to the price increase. An increase in tax is estimated to cost as little as K0.45 per person per year while raising government revenue by at least 7% [7].

Recent experience: Between 1993 and 2009, South Africa increased the total taxes on cigarettes (including excise and sales taxes) from 32% to 52%. During this period, cigarette sales declined 30%, while government revenue from tobacco taxes increased by 800%, and smoking prevalence among adults decreased by 25% [14].

Table 2 Trends in current tobacco smoking

FITTED TRENDS IN CURRENT TOBACCO SMOKING (%) POPULATION >15YEARS	
YEAR	POINT ESTIMATE
2000	18.6
2005	16.4
2010	14.8
2015	13.8
2020	13.3
2025	12.9
TARGET (30% reduction from 2010 to 2025)	10.2

Policy options

Option 1: Increase the excise tax from the current 36% (K245 per 1000) to 54% (K365 per 1000 cigarettes):

- In addition to the 16% VAT, this will effectively raise the tax on the commonest brand to 70%.
- The operational and political feasibility are high due to the government's pledged commitment to the ratification of the Framework Convention on Tobacco Control and the fact that the implementation costs are low.
- Demand for cigarettes is expected to reduce by up to 30%, effectively dropping the prevalence from 13.8% to 12.4%.
- Government revenue will increase by 35% from the current K22.7m to up to K30.6m

Option 2: Increase the excise tax to 70% (K473 per 1000 cigarettes):

- In addition to the 16% VAT, this will effectively raise the tax on the commonest brand to 86%.
- The operational and political feasibility are medium.
- Demand for cigarettes will reduce by up to 17%
- Government revenue will increase by 23.8%

Recommendations

Through the Ministry of Finance, a cabinet memo will be prepared recommending an increase of the excise tax to K365 per 1000 cigarettes, which is a 54% increase. In order to keep in line with increases in inflation and income, the specific tax must be adjusted regularly so that total taxes make up approximately 70% of the retail price. This is best accomplished by automatically linking tax increases to economic indices.

A portion of the revenue generated from the increased taxes should be dedicated to the health budget, social programmes and tobacco control such as cessation programmes. Furthermore, government should prevent the tobacco industry from influencing tobacco tax policy development.

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