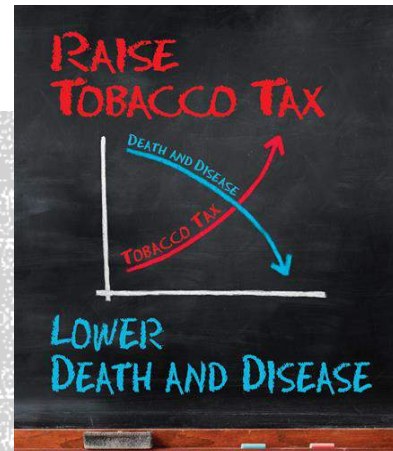




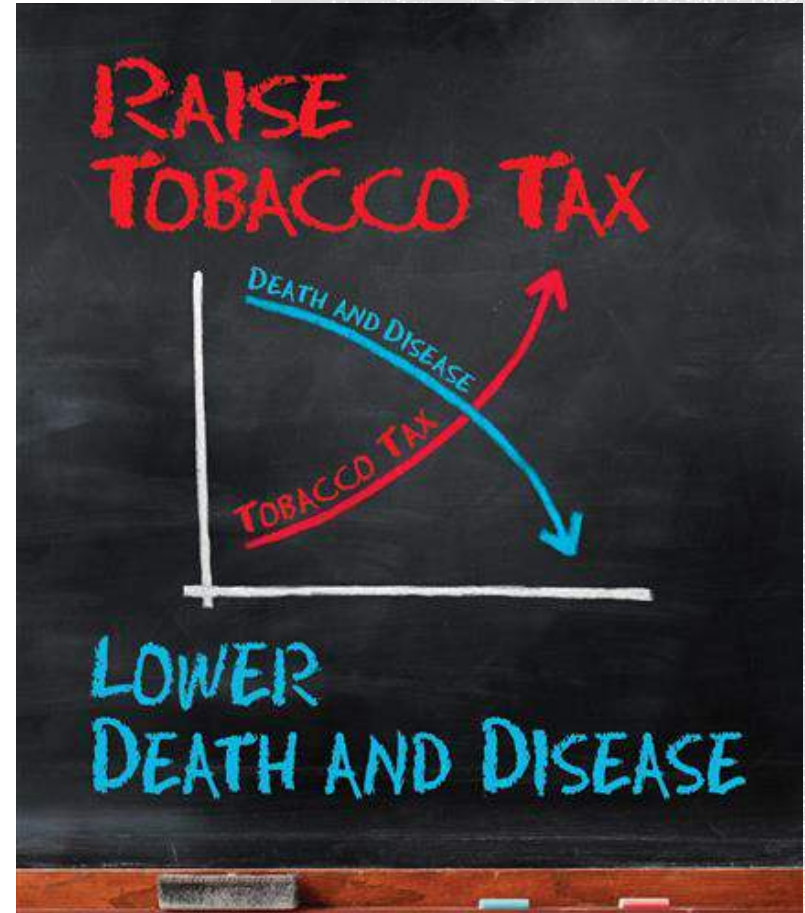
# RAISE TAXES ON TOBACCO

TRANSLATING EVIDENCE TOWARDS  
TOBACCO CONTROL POLICY IN  
MALAYSIA



# WHO-FCTC

## ARTICLE 6: PRICE AND TAX MEASURES TO REDUCE THE DEMAND FOR TOBACCO



# MPOWE “R”

- Increasing the price of tobacco through higher taxes is the single most effective way to encourage tobacco users to quit and prevent children from starting to smoke.
- Taxes need to be increased regularly to correct for inflation and consumer purchasing power.



# MPOWE “R”

- Tobacco taxes are generally well accepted by the public as one of the significant source of government revenues.
- Should allocate tax revenues for tobacco control and other important health and social programmes



# WHY TAX TOBACCO?

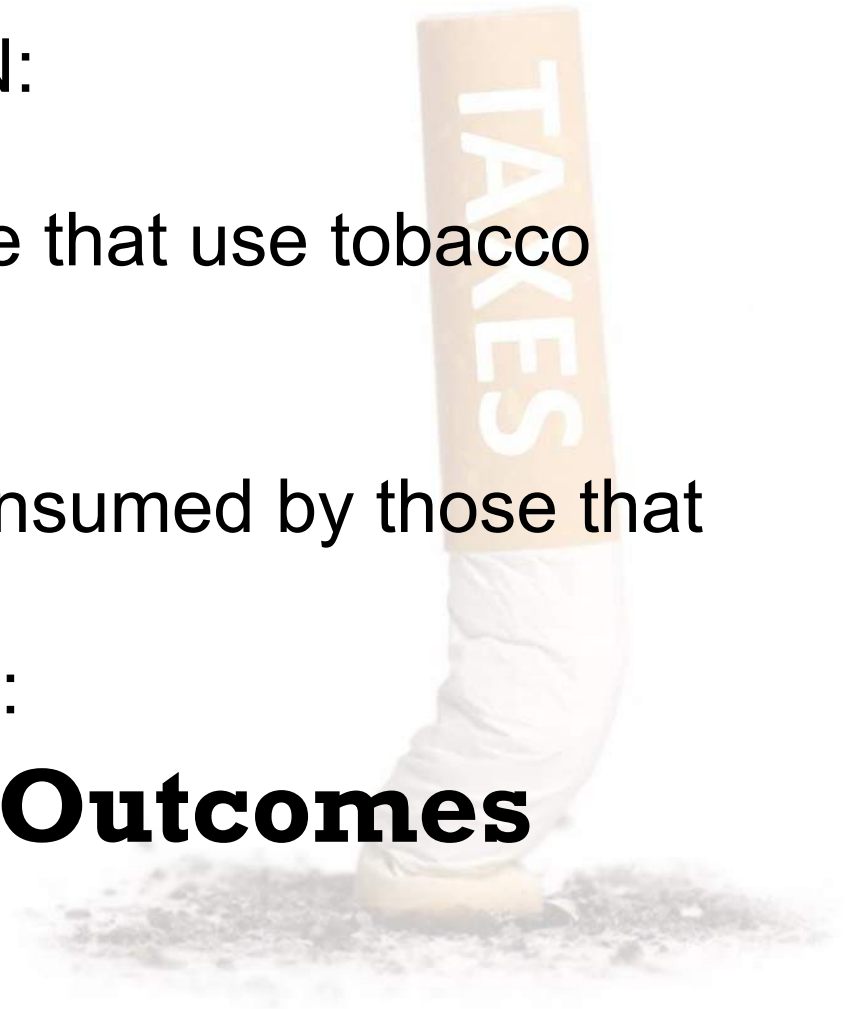
*‘Sugar, rum, and **tobacco**, are commodities which are no where necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation’*

*Adam Smith, **An Inquiry into the Nature and Causes of The Wealth of Nations**, 1776*

- High tobacco prices CAN:
  - Reduce the % of people that use tobacco products (prevalence)
  - Reduce the quantity consumed by those that continue to smoke

WILL:


**Improve Health Outcomes**






**WHO-FCTC recommends  
the tobacco excise taxes  
account at least 70% of the  
retail prices of tobacco  
product.**

**Increase 10% in tobacco  
prices due to tobacco taxes  
reduces 4% consumption of  
tobacco in high income  
countries and 5% in low and  
middle income countries.**



**RAISING TOBACCO TAXES**  
is a cost effective way to:

- **CURB DEMAND**
- **REDUCE DEATH AND SUFFERING  
FROM CARDIOVASCULAR DISEASE**

 World Health  
Organization  
[www.who.int/global\\_hearts](http://www.who.int/global_hearts)

# CURRENT TAX POLICIES

- Until 2003, taxes on tobacco was levied according to their weight
- In 2004, adopted a specific excise tax per stick
- In 2005, introduced ad valorem tax but abolished in 2015
- Introduced GST in 2015 (April).
- The latest increase of specific tax was in November 2015, increase of 42.8%
- Currently the proportion of excise tax is 49.4% of retail price of cigarette.



- ✓ Specific excise tax is levied based on quantity either per stick of cigarette or weight of tobacco.
- ✓ Ad valorem excise tax is levied based on value e.g. a percentage of the retail price.
- ✓ Sales tax or GST is a value-added tax levied on most goods and services sold for domestic consumption.



# TOBACCO TAXATION IN MALAYSIA (1990-CURRENT)

Year	Specific excise Tax (RM/kg or RM/stick)	Sales Tax (%)	Ad Valorem Excise tax (%)
1990	13	15	-
1991	14	15	-
1992-1998	28.6	15	-
1999-2000	40	15	-
2001	40	25	-
2002	48	25	-
2003	58/kg	25	-
2004	0.081/stick*	25	-
2005	0.11	5	20
2006	0.12	5	20
2007	0.15	5	20
2008	0.17	5	20
2009	0.18	5	20
2010	0.21	5	20
2011	0.21	5	20
2012	0.21	5	20
2013	0.26	5	20
2014	0.28	5	20
2015	0.40	6	0
2016	0.40	6	0
2017	0.40	6	0

**Note:** \*Specific tax per stick was introduced (1 kg = 1100 sticks)

**Source:** The Royal Malaysian Customs Department, Malaysia and The Confederation of Malaysia Tobacco (CMTM), various years.

“Evidence shows that a well-administered tobacco tax leads to the desired result of reducing consumption and its crippling health consequences, and not producing the terrible economic outcomes often portrayed by the tobacco industry.”

Source: World Health Organization. (2010).  
*WHO technical manual on tobacco tax administration*.  
Geneva: World Health Organization.



“Of all the concerns, there is one –TAXATION– that alarms us the most. While marketing restrictions and public and passive smoking (restrictions) do depress volume, in our experiences taxation depresses it much more severely. Our concerns for taxation is, therefore, central to our thinking”

**-PHILIP MORRIS- (Tobacco Industry)**

Source :

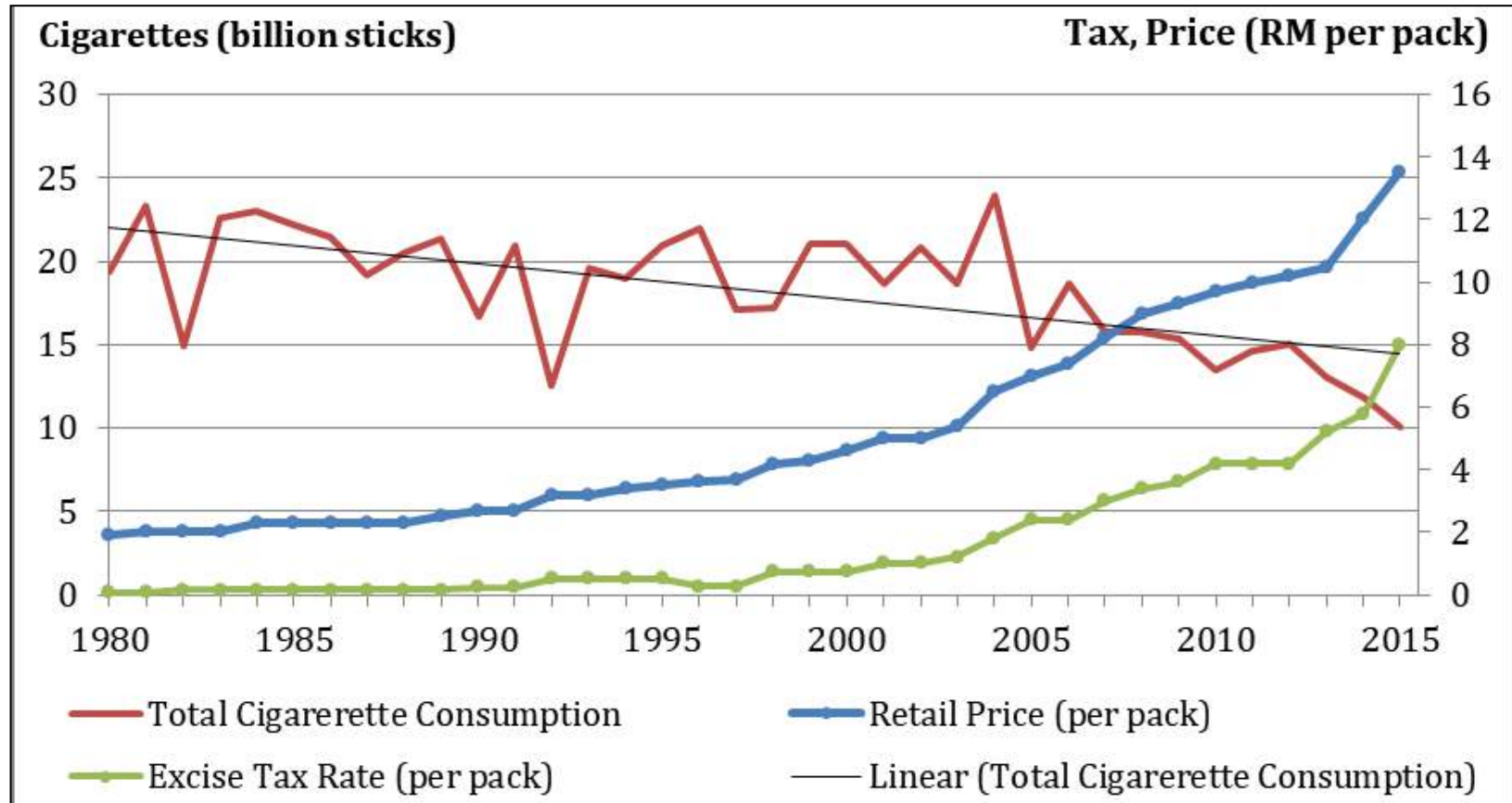
‘General Comments on smoking & Health’, Appendix 1 in the Perspective of PM International on Smoking and Health Initiatives, March 29, 1985, Bates No. 2923268329/8348



# TOBACCO CONTROL RESEARCH IN MALAYSIA

- Current studies in Malaysia focus on the impact of cigarette tax increases on :
  - i. A reduction in cigarette consumption.
  - ii. National revenue
  - iii. Illicit cigarettes

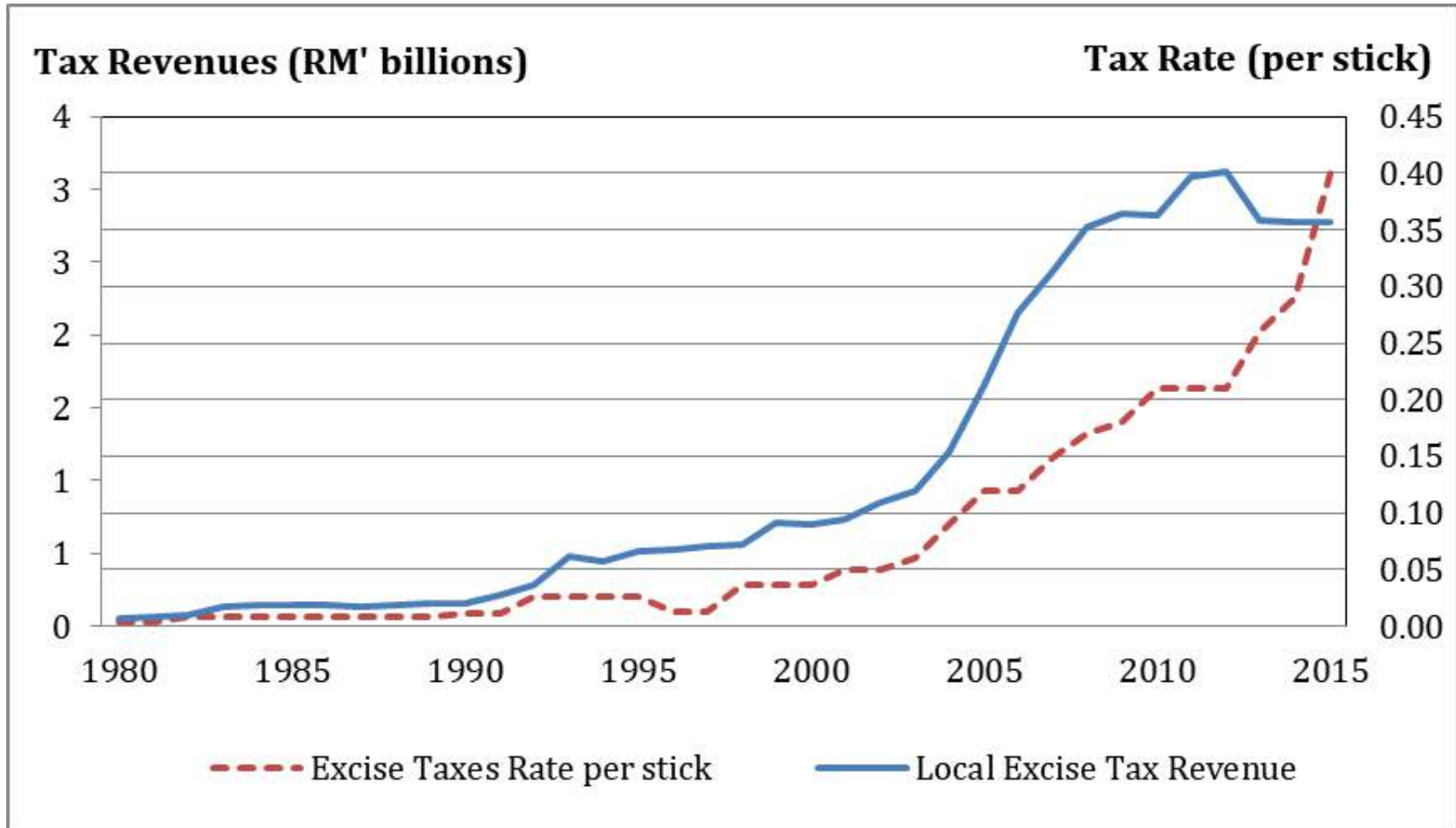
# Figure 1. Malaysia: The Relationship Between Excise Tax Rate Per Pack, Retail Price And Total Consumption Of Cigarettes



Source: The Royal Malaysian Customs Department (various years).

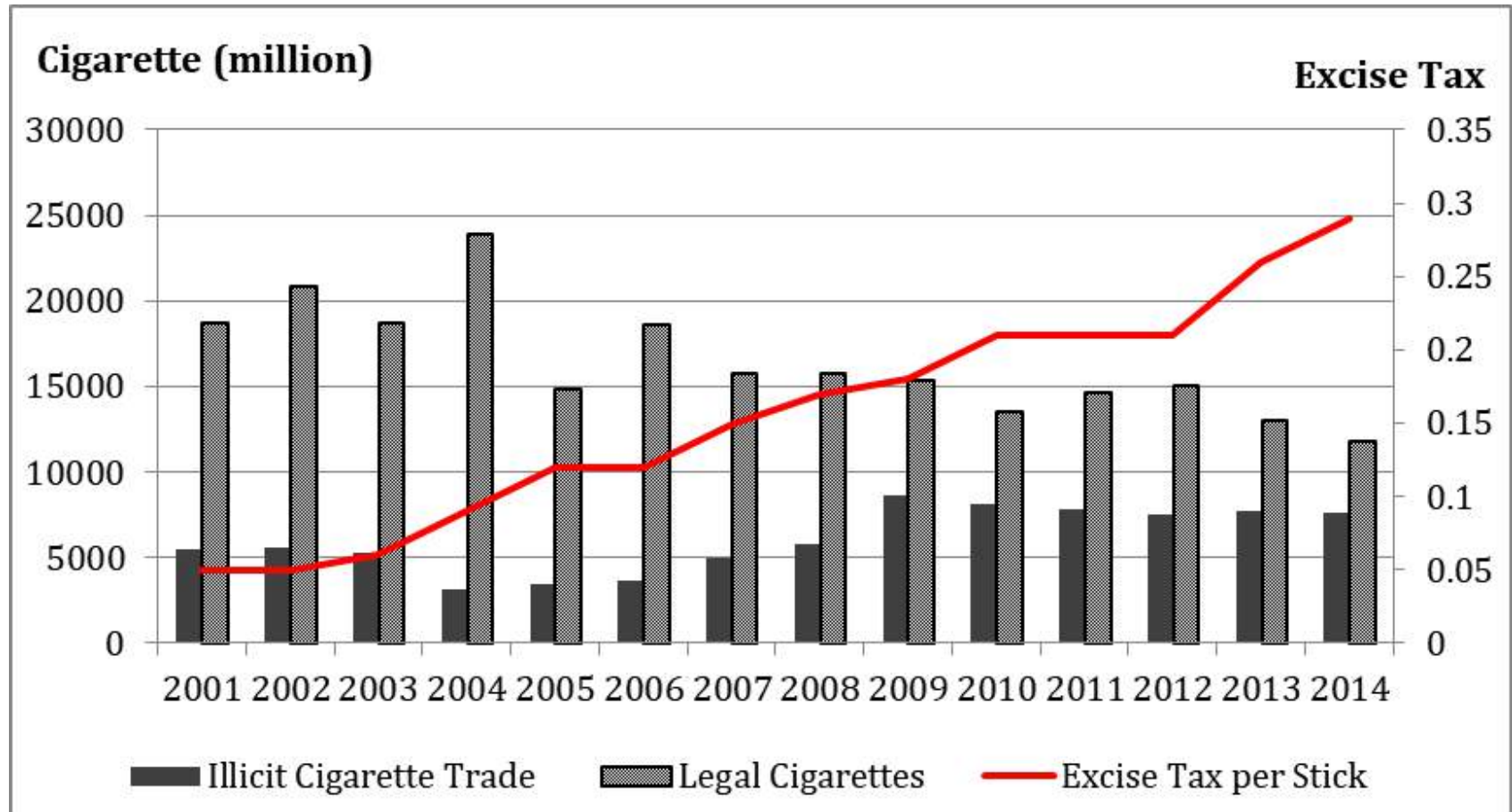


## Figure 2. Tax Revenue (RM) vs Tax Rate (per stick)



Source: The Royal Malaysian Customs Department and The Ministry of Finance (various years)

**Figure 3. The Relationship between excise tax and quantity of legal and illicit cigarettes**



**Source: The Euromonitor International and The Royal Malaysian Customs Department.**

**A policy simulation model  
to project the impact of  
increase in excise tax and  
other MPOWER policies on  
smoking prevalence rates,  
number of smokers and the  
associated smoking  
attributable deaths.**

**THE  
MALAYSIA  
ABRIDGED  
SIMSMOKE  
MODEL**

# PROJECTION

- To achieve  $< 15\%$  smoking prevalence in 2025, excise tax should be raised from the current rate of 49.4% to 78% of the retail price.
- To achieve  $< 5\%$  smoking prevalence in 2045, excise tax should be raised from the current rate of 49.4% to 87.5% of the retail price.

# OPTIMAL EXCISE TAX MODEL

**Optimal excise tax  
rate will maximize  
excise tax revenue  
and reduce smoking  
prevalence.**

# PROPOSITION

- ✓ **Increase current excise tax rate (49.4% of the retail price) to 60% of the retail price.**
- ✓ **The new proposed price for the current premium cigarette will increase from RM17.00 to RM21.80.**



# CHALLENGES TO INCREASING TOBACCO TAXES

- Tobacco Industry **SCARE** tactics:
  - S – Smuggling & Illicit Trade;
  - C – Court & Legal Challenges;
  - A – Anti-poor Rhetoric;
  - R – Revenue Reduction;
  - E – Employment Impact



# SUMMARY

- Cigarette excise tax has been a powerful tobacco control policy instrument for reducing cigarette consumption.
- An increase in the excise tax rate will contribute to increase in government tax revenues.
- Increase in cigarette excise **is not a significant factor** in determining the demand for illicit cigarettes





# POLICY RECOMMENDATION

- The government should implement a structured tobacco tax policy.
- Earmark a significant portion of tobacco tax revenue to support quit smoking program and other tobacco control policies.
- Abolishing the minimum price policy.
- The best policy should be a minimum tobacco tax law where country should reach at least 75% of tobacco tax over the value of retail price for a pack of cigarette.

# FUTURE RESEARCH



- To determine the willingness to pay (WTP) for a pack of cigarettes.

- Affordability study in purchasing cigarettes among school children, rural and urban societies.
- Cost of smoking

