

Taxation reform and tobacco excise: best practice for a sustainable future

Joint submission to the Australian Government review of Australia's tax system

Cancer Council Australia is the nation's largest non-government cancer control organisation, representing the national interests of the eight state and territory Cancer Councils in reducing the impact of cancer in Australia.



The National Heart Foundation of Australia is the peak body dedicated to reducing the suffering and death from heart, stroke and blood vessel disease in Australia.



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Recommendations

That tobacco excise in Australia be increased in two phases:

- as an interim step, a 21% price increase (up 7.5c per stick); then
- following adequate investment in the control of illicit tobacco trade and support services for people trying to quit smoking, a 50% price increase on current prices (up 17.5c per stick).

Evidence shows a 21% increase in price through excise would prompt 130,000 adults to quit and prevent 35,500 children from taking up smoking, while boosting federal revenue by \$1.03 billion per annum. A 50% price increase would prompt 306,000 adults to quit and prevent 183,000 children from taking up smoking, while raising \$1.97 billion per annum.

Overview

Other than twice yearly indexation, excise and customs duty on cigarettes in Australia have not increased since November 1999. We have by all key global indicators fallen well behind international best practice in reducing tobacco burden through price controls.

Yet the real costs of tobacco to Australia are estimated to have risen by 23.5% between 1998-99 (\$25.5 billion) and 2004-05 (\$31.5 billion).¹ The cost of tobacco use in 2004-05 included \$5.7 billion in lost workplace productivity and \$1.8 billion in gross healthcare costs.¹

Taxation reform is one of the most effective measures to reduce the unsustainable economic and social burden of smoking in Australia.^{1,2}

This submission focuses on the potential for tobacco taxation reform to provide long-term, measurable benefits to Australia's economy while improving population health and wellbeing. Tobacco tax increases through excise provide a twofold benefit to government: a substantial source of new revenue, and reductions in taxpayer-funded healthcare costs.^{2,3} The attributable improvements in overall population health would also contribute to significant increases in workplace productivity.¹

The recommendations in this submission are based on longstanding research and evidence and are aligned with international best practice.^{2,3,4} They are also aligned with the recommendations of the Government's National Preventative Health Taskforce.⁵ Their adoption would help Australia to prepare for the economic and social challenges of population ageing.

Moreover, increasing tobacco excise and adhering to international best practice are, in our view, clearly aligned with the terms of reference of this broad-ranging taxation review. Most notably (TOR in italics):

'[TOR 3] ...to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes.'

Relevance to this submission: Increased tobacco excise would reduce consumption of harmful substances while providing new revenue to invest in public health – at a time when Australia faces the economic challenges of population ageing.

'[TOR 3.4] Enhancing the taxation arrangements on consumption (including excise taxes)...'

Relevance to this submission: Our recommendations focus entirely on excise opportunities that will strengthen the economy and help prepare for generational change.

'[TOR 3.5] Simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation.'

Relevance to this submission: Consistent approaches to tobacco tax would provide benefits across the Federation and are aligned with the recommendations of the Government's National Preventative Health Taskforce, whose remit includes advising on inter-jurisdictional preventative health partnerships.

'[TOR 4] The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for: workforce participation and skill formation; and investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness.'

Relevance to this submission: The substantial health gains derived from tobacco price controls, combined with the revenue stream available, demonstrate the potential for our recommendations to contribute to Australia's overall wellbeing. A recent ABS study showed that chronic disease has a major impact on workforce participation, particularly among an ageing workforce.⁶ Effective tobacco control is an important investment in productivity, as it delays or avoids the onset of chronic disease.

[TOR 5.] The review will reflect the government's policy not to increase the rate or broaden the base of the goods and services tax (GST); preserve tax-free superannuation payments for the over 60s; and the announced aspirational personal income tax goals.

Relevance to this submission: There is broad community support for tobacco excise, particularly if revenues fund public health and medical treatment.⁷ Increased tobacco excise can therefore provide a substantial revenue stream without compromising the Government's commitments in other areas of taxation policy.

Tobacco excise increase – analyses and rationale

Recommendations

That tobacco excise in Australia be increased in two phases:

- as an interim step, a 21% price increase (up 7.5c per stick); then
- following adequate investment in the control of illicit tobacco trade and support services for people trying to quit smoking, a 50% price increase on current prices (up 17.5c per stick).

Analysis of 21% price increase

Revenue: A 21% increase in the price of tobacco products through excise would raise an additional \$1.03 billion per annum in federal revenue.⁸

Impact on smoking prevalence: A 21% increase in the price of tobacco products would, on current evidence, prompt 130,000 adults to quit and prevent 35,500 children from taking up smoking.⁹ (Excise as a tobacco control measure is particularly effective among blue collar workers, who bear a higher proportion of tobacco burden than white collar workers.²)

Impact on inflation: Projected reductions in smoking prevalence as a result of increased tobacco excise would mean that increasing tobacco prices would have a declining effect on overall inflation, as the tobacco component of CPI would be re-weighted.^{10,11} A 21% increase in price is estimated to increase inflation by 0.5%.

Offset effect: A 21% increase in tobacco excise would more than offset revenue loss from fewer smokers purchasing tobacco products. (Anticipated declines in tobacco excise revenue were factored into considerations for the GST.)¹²

Impact on household budgets: The average Australian smoker would spend an additional \$9.20 per week on tobacco products if they maintained current consumption levels.

Public opinion: More than 67% of Australians support an increase in tobacco excise if the revenue contributes to health education; 68.6% support increased excise if revenues contribute

to medical treatment.³ (A 2008 Newspoll survey showed 88% of Australians supported increased tobacco tax if the revenues supported health programs.)

Current and recommended future retail prices: The recommended retail price of a packet of 30 cigarettes in Australia was \$13.50AUD in September 2008. Increasing price through excise by 21% would see a typical packet of 30 cigarettes retail at around \$16.35.

Analysis of 50% price increase

Revenue: A 50% increase in the price of tobacco products through excise would raise an additional \$1.97 billion per annum in federal revenue, provided there was adequate policing of illicit trade and excluding the impact of reduced consumption/purchasing from other tobacco control measures.⁸

Impact on smoking prevalence: A 50% increase in the price of tobacco products would, on current evidence, prompt 306,000 adults to quit and prevent 183,000 children from taking up smoking.⁹ (Excise as a tobacco control measure is particularly effective among blue collar workers, who bear a higher proportion of tobacco burden than white collar workers.)²

Impact on inflation: Projected reductions in smoking prevalence as a result of increased tobacco excise would mean that increasing tobacco prices would have a declining effect on overall inflation, as the tobacco component of CPI would be re-weighted.^{10,11} A 50% increase in price is estimated to increase inflation by 1.2%.

Offset effect: A 50% increase in tobacco excise would more than offset revenue loss from fewer smokers purchasing tobacco products. (Anticipated declines in tobacco excise revenue were factored into considerations for the GST.)¹²

Impact on household budgets: The average Australian smoker would spend an additional \$21.55 per week on tobacco products if they maintained current consumption levels.

Public opinion: More than 67% of Australians support an increase in tobacco excise if the revenue contributes to health education; 68.6% support increased excise if revenues contribute to medical treatment.³ (A 2008 Newspoll survey showed 88% of Australians supported increased tobacco tax if the revenues supported health programs.)

Current and recommended future retail prices: The recommended retail price of a packet of 30 cigarettes in Australia was \$13.50AUD in September 2008. Increasing price through excise by 50% would see a typical packet of 30 cigarettes retail at around \$20.15.

International comparisons

There are a number of important considerations in an international context that support the case for increased tobacco excise in Australia:

- The World Health Organization and World Bank recommend the price of all tobacco products should rise by at least 5% per year in real terms.^{4,13} Increasing excise duty by 7.5 cents per stick, or a 21% increase in overall price, would restore cigarettes to the price they would have been had Australia followed this policy since 1999.

- Australia is one of the few high and middle income countries that has not increased tobacco excise and customs duty since 1999, except for twice-yearly consumer price indexation.^{14,15}
- There are 29 high and middle income nations that collect more excise as a proportion of total tobacco product prices than Australia does, including 19 OECD nations.^{14,15}
- Australia's 67.9% excise rate is more than 10% lower than the rates imposed in the three most effective tobacco excise collectors, France, Ireland and the United Kingdom.^{14,15}
- To bring prices of Australian cigarettes in line with those in high-price countries such as Ireland, the excise duty would need to increase by approximately 17.5 cents per stick to 42.95 cents per stick, or a 50% increase in overall price.
- The World Bank says tax increases on tobacco products are the single most effective means available to governments to reduce death and disease caused by smoking.⁴
- Australia has signed and ratified the WHO Framework Convention on Tobacco Control, which obliges member nations to use pricing as a lever for reducing tobacco consumption.

Rationale in summary

Tobacco excise – a twofold benefit to government

Price increases reduce both the numbers of people smoking and the amount smoked by remaining smokers,^{4,9} with greater decreases observed among young people and people on lower incomes.¹⁶

The World Bank has stated that tax increases on tobacco products are the single most effective means available to governments to reduce death and disease caused by smoking.⁴ A detailed analysis of changes in smoking prevalence in Australia in the 15 years since 1990 shows that price increases were by far the most important factor driving reductions in smoking across the whole population over that period.²

Moreover, as shown in our analysis, increased tobacco excise would also generate substantial revenue for government – more than enough to provide effective tobacco control support services and offset declines in excise from relatively fewer people purchasing tobacco products.

Other than twice yearly indexation, excise and customs duty on cigarettes in Australia has not increased since November 1999.

Global benchmarks

Cigarettes in Australia are less costly than they are in many other countries, including Ireland, the United Kingdom, Hong Kong, and most of Canada. Taxes are very low as a proportion of the retail price compared with other high and middle-income countries.^{14,15}

Table 1 Tax paid per 20 cigarettes as a percentage of final recommended retail price, 2003 – high and upper-middle income countries

Country	Income	OECD?	Tax as % of final price
France	High	OECD	80.4%
Ireland	High	OECD	78.4%
UK	High	OECD	78.0%
Portugal	High	OECD	77.6%
Turkey	High	OECD	77.0%
Chile	Upper middle		76.4%
Canada	High	OECD	76.3%
Denmark	High	OECD	76.1%
Malta	High		76.1%
Finland	High	OECD	75.6%
Austria	High	OECD	75.4%
Italy	High	OECD	75.2%
Germany	High	OECD	74.5%
Belgium	High	OECD	74.4%
Slovenia	High		74.2%
Hungary	Upper middle		74.1%
Greece	High	OECD	73.5%
Netherlands	High	OECD	73.1%
Norway	High	OECD	72.6%
Poland	Upper middle		72.3%
Cyprus	High		72.1%
Estonia	Upper middle		71.8%
Romania	Upper middle		71.7%

Spain	High	OECD	71.4%
Croatia	Upper middle		71.1%
Argentina	Upper middle		70.0%
Sweden	High	OECD	69.6%
New Zealand	High	OECD	69.5%
Luxembourg	High	OECD	69.0%
Australia	<i>High</i>	<i>OECD</i>	<i>67.9%</i>
Czech Republic	Upper middle		67.3%
Switzerland	High	OECD	63.3%
Slovak Republic	Upper middle		62.0%
Japan	High	OECD	61.1%
Lithuania	Upper middle		60.9%
Latvia	Upper middle		60.3%
Uruguay	Upper middle		59.0%
South Africa	Upper middle		46.2%

Why a two-phased approach?

Evidence of the effectiveness of pricing as a lever for reduced tobacco consumption shows Australia is performing well short of its potential to reduce tobacco burden through excise. This is borne out by international pricing comparisons and the fact that Australia has not increased excise beyond CPI adjustment since 1999.

Australia's comparatively poor global record in tobacco excise since 1999 has also denied the government a source of substantial additional revenue through a form of taxation for which there is broad public support.

Increasing cigarette prices by 21% would bring Australia into line with where it would be had it continued to increase excise incrementally since 1999 on the basis of minimum WHO recommendations. And, while we recommend a 21% interim increase in price, this would still see excise as a proportion of cost, and overall tobacco product prices, falling well short of the benchmarks set by a number of OECD nations including France and Ireland. A 21% increase would also deliver only half of the potential new revenue available to government through a 50% increase in price.

However, Cancer Council Australia and the National Heart Foundation of Australia recognise that an immediate 50% increase in price may not be feasible for two principal reasons:

- A 50% increase in tobacco prices could lead to a significant increase in illicit tobacco trade, until policing capacity is upgraded; and
- Such an increase could be difficult for addicted smokers and their families on low incomes to absorb, without adequate investment in cessation support services and other tobacco control measures.

We therefore recommend that tobacco excise in Australia be increased in two phases:

- as an interim step, a 21% price increase (up 7.5c per stick); then
- following adequate investment in the control of illicit tobacco trade and support services for people trying to quit smoking, a 50% price increase on current prices (up 17.5c per stick).

A 21% increase in price through excise would prompt 130,000 adults to quit and prevent 35,500 children from taking up smoking, while boosting federal revenue by \$1.03 billion per annum.

A 50% increase on current prices would boost government revenue by around \$1.97 billion per annum, motivate 306,000 Australian smokers to quit and prevent 83,000 children from taking up smoking. It would also bring Australia into line with international best practice.

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