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Review Article

Myths and Facts on Tobacco Taxation: A Resource for More Effective Use of Taxation to Protect Health from the Harm of Tobacco Products in Oman

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Abstract

Tobacco products cause over eight million deaths annually, accounting for 13% of global deaths. The World Health Organization Framework Convention on Tobacco Control provides a framework to reduce tobacco product burden, including the MPOWER demand reduction measure. Tobacco taxation is a population-based intervention tool in public health that discourages tobacco consumption by increasing prices and reducing smoking rates. In 2023, Oman's customs duty on tobacco taxation increased to 100%, accounting for 66% to 69% of the overall retail price. However, this is still lower than the World Health Organization Framework Convention on Tobacco Control recommendation of having total taxes at least 75% of the total retail price. Additionally, duty-free areas may undermine the impact of tobacco taxation and create opportunities for illicit trade. The tobacco industry opposes tobacco tax regulations by strategies such as smuggling, legal challenges, anti-poor rhetoric, revenue reduction, and employment impact, which are usually accepted without debate from officials. This perspective review examined various myths about tobacco taxation and how to dispel them using the best available evidence.

Keywords

Tobacco Taxes, Illicit Trade, Smuggling, Revenues, Impact

1. Introduction

Every year, tobacco products kill over eight million people annually, accounting for 13 % of total deaths worldwide [1]. There is a need for continuing action to protect the public from the harm caused by tobacco products. Globally, the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) provides a framework for action to reduce the burden of tobacco products. The MPOWER model, which stands for 1) monitor tobacco use and prevention policies, 2) protect people from tobacco smoke, 3) offer help to quit tobacco use, 4) warn about the dangers of tobacco products, 5) enforce bans on tobacco advertising, promotion, and sponsorship, and 6) raise taxes on tobacco products, is an integral part of the FCTC and outlines evidence-based approaches for addressing the harm caused by tobacco products to the public. The tobacco taxation measure is an effective component of harm-reduction MPOWER measure and a vital tool in public health and government revenue generation [3, 4].

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There is a wealth of knowledge on how well taxes work to reduce consumption and boost tax receipts; however, implementation is inadequate [5]. It discourages tobacco consumption by increasing prices, reducing smoking rates and overall tobacco consumption. It also improves public health outcomes by reducing tobacco-related health issues and healthcare costs [4]. Tobacco taxation prevents youth initiation by increasing prices, as they are more price-sensitive to tobacco products. Governments generate revenues from tobacco taxes, which can be earmarked to fund public health programs, tobacco control initiatives, healthcare services, and other government functions [4]. These taxes are progressive, putting a greater financial burden on higher-income individuals while potentially benefiting those with lower incomes. They can recover costs associated with healthcare expenses and other negative externalities caused by tobacco use, alleviating financial burdens on healthcare systems and society.

Many countries have committed to international agreements, such as the WHO FCTC, for effective tobacco taxation policies. On the other hand, the tobacco industry has been aggressively marketing its products, innovating novel products to overcome legislation, and continuing lobbying with key stakeholders to limit the implementation of the MPOWER measures and the wider FCTC measures [6]. The debate about tobacco control involves both the tobacco industry and the public health community using economic arguments. The industry advocates for a slow approach, while the public health community advocates for an aggressive strategy. Both sides have their own economic myths, but they often mislead policymakers and the public.

As of the Convention, Oman has an obligation to develop, implement, and periodically review and update a comprehensive multisectoral tobacco control program. Despite the control measures Oman has taken to tackle the tobacco epidemic, there are still opportunities to further protect and improve public health [6]. The tobacco tax system in Oman is a combination of import duty, excise taxes, and value-added tax [7]. Previously, the total taxes accounted for 63% of the total retail price [8]. In 2023, Oman's customs duty on tobacco taxation was raised to 100%, with total taxes accounting for 66-69% of the whole retail price, which is still lower than the WHO FCTC recommendation of having total taxation at least 75% of the total retail price. However, the presence of the duty-free areas may undermine the impact of tobacco taxes and create opportunities for potential illicit tobacco trade. This can further contribute to the reduction in tobacco tax revenues. However, the recent implementation of stamp systems for cigarettes can help in combating illegal tobacco trading. The revenues from the tobacco tax are not earmarked to fund initiatives aimed at preventing tobacco use or other health promotion initiatives.

Because of the effects on demands and revenues, the tobacco industry opposes the implementation of tobacco tax regulations. The tobacco industry uses SCARE tactics to dissuade governments from implementing tobacco tax increases [8]. These include smuggling and illicit trade (S), court, and legal challenges (C), anti-poor rhetoric (A), revenue reduction (R), and employment impact (E). Policymakers typically accept these assertions without challenging them or paying adequate attention to the available evidence. Therefore, it is crucial to prepare ahead of time for these arguments to be ready to refute them using the best available evidence. To support the effective implementation of tobacco taxation in Oman to protect and improve the public's health, this perspective will address some tobacco taxation myths and facts.

2. Myths and Facts

Myth 1: Higher tobacco taxes do not reduce consumption

Facts: Consumers are sensitive to price changes, and research consistently shows that taxes have a positive impact on lowering both the amount of tobacco used (consumption) and the percentage of the population that use it (prevalence) [9-14]. In developed countries, in general, a 10% rise in tobacco taxes will result in a 4% reduction in tobacco consumption [4, 11, 12]. However, countries should regularly, ideally automatically, adjust their specific excise tax to inflation to prevent tobacco products from becoming more affordable over time. Overall, increasing tobacco taxation will reduce affordability and thus reduce tobacco uptake among youth and young adults. It will also increase the quitting rate among people who currently smoke [4, 9, 10].

Myth 2: Rise in tobacco taxes lead to an increase in illegal trade.

Facts: Evidence linking tobacco product pricing and illicit trading is weak [4, 12]. In the United Kingdom, for example, and because of periodic cigarette tax increases, the inflation-adjusted price of cigarettes increased by 63% from 2001 to 2016, putting them among the most expensive in Europe, if not the world. Simultaneously, the illicit market decreased by more than 70%, and smoking prevalence decreased from 35% to 21% because of a comprehensive tobacco control strategy that included improvements in tax administration and enforcement [12]. Even industry-commissioned research, such as the 2017 Project Sun, demonstrates a 24% decrease in the consumption of illegal and counterfeit cigarettes in the European Union (EU) between 2013 and 2017 [12]. Additionally, the tobacco industry's concerns about illicit trade must be considered against evidence of its extensive and long track record of supporting and promoting smuggling of its own products. In fact, the four biggest tobacco corporations have settled lawsuits and paid billions of dollars in fines for smuggling cigarettes into the EU and Canada [12].

Several factors contributed to illicit trading, including the extent of corruption, lack of enforcement, weak tax administration, and informal distribution channel [4]. Adopting measures (e.g., tax administration, better enforcement, and stronger penalties) to address the illicit trading is the best approach rather than foregoing the tobacco tax increase [4]. Overall, implementing comprehensive tobacco control measures, including tobacco tax, to lower public demand for tobacco products is the best way to reduce the market for both licit and illicit items.

Myth 3: Tobacco tax increase is a "regressive" economic phenomenon that disproportionately impacts the poor.

Facts: The concept of tobacco regressivity that is exclusively focused on tax burden does not consider the larger health and economic burden caused by tobacco use [4]. Higher tobacco taxes and prices can result in positive population-wide behavioural changes, as demonstrated by the "price elasticity of demand" concept [4]. Since the poor are more sensitive to increased prices, increasing tobacco tax is especially impactful in reducing use among this group more, leading to improved health and reducing health inequalities [4, 10, 13]. These groups benefit the most from price increases. Tobacco tax policies can eliminate expenditure on tobacco products, which place a heavy burden on the income of poorer groups and help address poverty, especially childhood poverty. Better health, which results from stopping smoking, reduces the direct and indirect costs associated with smoking-related diseases, disabilities, and premature mortalities [4]. Overall, tobacco taxation is effectively progressive - rather than regressive - public health intervention since it results in greater public health gains for poorer groups [4].

Myth 4: Tobacco taxes are a "bully-state" tactic.

Facts: Tobacco is an addictive substance that kills half of its users if used as intended [1]. The tobacco market is an "imperfect market" because customers have incomplete knowledge about the health and financial consequences of tobacco use, especially younger people [4]. Even in high-income countries where the dangers are relatively well understood, many people are either unaware of their risks or simply underestimate and dismiss their personal relevance [3]. The impact of tobacco is not just borne by its users; it is also imposed on the rest of society through second-hand smoking, higher healthcare expenditures, increased environmental damage, and impairment to sustainable development [4, 12]. The decision to smoke and the negative externalities it has on other people differ from the decision to purchase other consumer commodities. This gives governments financial justification for implementing economic measures, like increasing tobacco taxation and other tobacco control measures, to lower tobacco use and subsequently protect and safeguard their citizens against tobacco use [3, 4, 11, 12]. The government is compelled to intervene to address the hazardous and imperfect tobacco markets since tobacco taxation benefits society, the economy, and the health system [11, 12].

Myth 5: Tobacco taxes destroy jobs and hurt farmers.

Facts: Tobacco taxes have a "win-win" for public health and the fiscal space, without measurable risks to the employee [4, 10-13]. Employment in tobacco farming and manufacturing has been declining globally due to non-tax-related factors including advances in technology, trade liberalization, market consolidation, and privatization of formerly state-owned tobacco companies [4, 12]. Decrease in tobacco expenditures due to tobacco control measures dose not mean that expenditures simply disappear; rather, they are redistributed towards consumption of other goods and services, thereby generating employment elsewhere in the economy [4, 12]. Tobacco tax rises cause gradual drops in consumption that are vulnerable to the same long-term progressive adaptation. However, this procedure will not cause a significant short-term shock to employment or the overall economy. Instead, it will help farmers migrate to other crops or sectors in certain nations, where the government will be required to assist farmers in the longer term [4].

Myth 6: Tax increase will reduce government revenues

Facts: All politically conceivable tax increases will generate increased revenues in all countries [4]. Although tobacco tax is more about safeguarding people's health than generating revenues, it is also considered a win-win policy due to the potential influence it has on both consumption and government revenues [4, 12]. The positive impacts of higher tobacco taxes and prices go beyond direct health gains to indirect benefits such as reduced health care expenditures and higher productivity. The revenues generated from a tax increase outweigh the revenues lost due to a decrease in tobacco use [4, 12]. In the short and medium term, well-designed and well-implemented tobacco tax increases lead to an increase in revenues. In the long term, tobacco control strategies, including pricing and tax measures, may be so effective at lowering consumption that revenues will level or decline. This is the long-term policy goal [4, 14].

Compared to other revenue streams like income or corporation taxes, which can drop significantly during recessions, tobacco tax collections are steadier and more predictable. As smoking rates fall, tobacco tax revenues will also drop over time, but the decrease will be gradual and predictable [4, 14].

If countries face revenue reductions, this could be attributed to other non-price-related factors. One possible cause is the substitution to cheaper products because of not taxing all tobacco products equally or employing tiered taxes. A unified approach to tobacco pricing, in which a single minimal specified excise tax is imposed, updated over time, and applied to all tobacco products, is the most effective technique of preventing substitution. Second, poor tax administration and enforcement may turn legal products into illegal supply chains [4]. Thus, the key to effective tobacco tax legislation requires effective administration and enforcement.

Myth 7: Raising the tobacco tax will lead people who smoke to buy products across the border

Facts: Most of the time, the price difference is not significant enough to entice people to cross the border to buy cigarettes [6, 15]. Some, however, may cross from time to time, but the number of people who do so is quite small. One way to discourage individual cross-border commerce and to ensure the effectiveness of its internal market is the introduction of the harmonized minimum excise tax. For example: the EU imposes a "harmonized minimum excise tax" on cigarettes, which consists of a specific component and an ad valorem component, with a minimum total excise duty per 20-cigarette pack of 1.80 EUR (2.05 USD) and 60% of the weighted average retail selling price of an EU countries [15]. Overall, taking both excise duties and VAT into account, the average percentage of taxes paid on a 20-pack of cigarettes ranges from 91.6 % in the United Kingdom to 69.3% in Luxembourg (as a percent of the weighted average retail sales price).

The Gulf Cooperation Council has implemented a harmonized tobacco taxation system in 2016, aiming to reduce tobacco consumption and improve public health [16]. The tax was implemented in stages, beginning with Saudi Arabia in June 2017, followed by the UAE and Bahrain in October and December 2017, Qatar and Oman in January and June 2019, with Kuwait deferred implementation until the fiscal year 2020–2021 [16]. Prior to this harmonization, the Gulf Cooperation Council countries relied primarily on import tariffs for tobacco products. The implementation of excise and value-added taxes in 2017 and 2018 resulted in higher tobacco prices, lower cigarette sales, and increased tax revenue [17]. However, there is an incentive for some smokers to bring tobacco products into the state from other Member States with much lower tobacco taxes. The gap in price of the cheapest brand, pack of twenty, varies from 0.98 USD in Kuwait to 4.0 USD in Saudi Arabia [18].

Myth 8: Tobacco taxes are difficult to collect and implement

Facts: Tobacco taxes are already in place; however, a simple excise tax system or a mixed tax system based mostly on excise taxes, along with a minimum tax floor at which all tobacco products are charged at the same rate, can achieve the health goal [4]. Simple tax systems increase transparency and reduce the potential for tax evasion and avoidance. However, effective tax administration and enforcement are crucial for effective taxation.[4] Furthermore, earmarking is a powerful mechanism under tax law for allocating revenues and utilizing them for various tobacco control activities; however, this is under-utilized in many countries. Overall, enforcing tobacco tax laws will lead to further cutting down on illegal trade [4].

Myth 9: Tobacco companies pay excises and contribute significantly to national budgets.

Facts: This assumption is incorrect. Tax (including excise and value-added tax/sales tax) accounts for three-quarters of the total cost of a pack of cigarettes. These are consumption taxes that are totally paid by customers [12]. Tobacco industries harm nations by selling fatal products, which are subsequently reflected directly and indirectly in healthcare expenditure through the treatment of tobacco-related illnesses in the short and long run and overall public health [3]. It is the only legal substance that kills half of its users.

Tobacco companies often attempt to persuade government authorities and the public that smoking has economic benefits by creating jobs and contributing to the overall national budget. In fact, tobacco has a major negative economic impact on every country. The estimated $500 billion in economic losses resulting from tobacco use are so significant that they exceed the sum of the yearly health expenditures of all the low- and middle-income countries combined [3].

An increase in tobacco tax, which aims to reduce tobacco consumption, will have a favorable economic impact because it will lower healthcare expenses and increase productivity by encouraging people to consume less [12].

Myth 10: High tobacco taxes are not effective as people who smoke will bear the cost of their tobacco consuming choice.

Facts: It is not always the case. The direct and indirect costs associated with tobacco use place a financial burden on individuals, the governments, and the healthcare systems. These expenditures, however, vary in terms of locations and durations, making it difficult to accurately measure their magnitude.

In Oman, no tobacco cessation service meets the minimum WHO FCTC article 14 criteria, which include a toll-free Quitline, tobacco cessation medication, and cessation services in primary health care settings [19]. However, the health system completely covers tobacco-related illnesses. In any given year, the average cost of healthcare for smokers is higher than for non-smokers. Recent studies in high-income countries have found that smokers’ lifetime healthcare expenses are higher than non-smokers’ despite living shorter lives [2]. Smokers' health care costs might be up to 40% more expensive than non-smokers’ at a given age [18].

According to the National Library of Medicine, smokers pay 30% to 40% more for health insurance than non-smokers. Smokers are subjected to higher health insurance premiums due to their increased health risks [20]. Because tobacco has negative externalities, the burden of tobacco extends to individuals who are exposed to smoke (second-hand smokers) and the environment at large.

3. Conclusion

The main arguments put up by the tobacco industry in opposition to tobacco tax increases are not supported by existing evidence. Unfortunately, these "myths" have been embraced by government officials, stakeholders, and the public. Bridging the gap between health and tax economists and policymakers is crucial to improving tobacco taxation and being able to dispute tobacco corporation claims with solid evidence. Continuous collaboration with key stakeholders at the national, regional, and international levels is essential at every step. Better data availability and further research are required to update and expand the body of evidence globally to refute these allegations.

Abbreviations

FCTC	Framework Convention on Tobacco Control
WHO	World Health Organization

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Conflicts of Interest

The authors declare no conflicts of interest.

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