



# The Philippine Sin Tax Reform Law: Is It Effective in Reducing Cigarette Consumption?

The Philippine government should continue the increase in excise tax on cigarettes and tobacco products to sustain the impact of the Sin Tax Reform Law (2012) in lowering tobacco consumption in the country. This *Policy Brief* explains why the policy measure is significant and offers recommendations where the government can further intensify the impact of the tax policy reform.<sup>1</sup>

## What is the Sin Tax Reform Act of 2012?

Starting in 2013, the price of cigarettes and other tobacco products in the Philippines substantially went up due to the implementation of the Sin Tax Reform Law (2012). The law, considered a landmark legislation during the Aquino Administration, was both a health measure as well as a governance measure (Austria & Pagaduan, 2019). It addressed the long-standing structural weaknesses of the country's alcohol and tobacco tax system.

For tobacco, the law resulted in three major reforms. First, the excise tax considerably increased (Table 1). The increase varies from a low of 108% to as high as 341%, depending on the cigarette classification. The excise tax collection from locally manufactured cigarettes went up from PhP32,163 million in 2012 to PhP67,941 million in 2013 or an increase of 111.2% (Figure 1). By 2015, locally manufactured cigarettes accounted for 61.5% of the total excise tax collection in the country. The revenues are used to finance the government's universal health care program.

Second, the tax structure became simpler. From the four-tier system implemented in 1997–2012, the structure gradually shifted to a two-tier system in 2013–2016 and then to a unitary tax system effective 2017 (Figure 2).

Finally, the price classification freeze was removed. Under the old scheme, each cigarette brand was classified based on its average net retail price in 1996. The lower the net retail price, the lower was the excise tax. Congress never revised the classification scheme; thus, the classification remained the same despite the increase in the net retail price of brands from 1997 to 2012. Because of the price classification freeze and the non-indexation of the excise tax to inflation, cigarettes and other tobacco products in the country were among the cheapest in the world (Quimbo et al., 2012).

The current tax system is considered simpler, easier to administer, and effective in reducing tax evasion. The uniform tax rate, regardless of the brand and net retail price, removes the incentive to misclassify brands or under-declare cigarette products for tax purposes. Most importantly, it prevents smokers from shifting to cheaper brands whenever there is an increase in price arising from a tax increase.

Written by

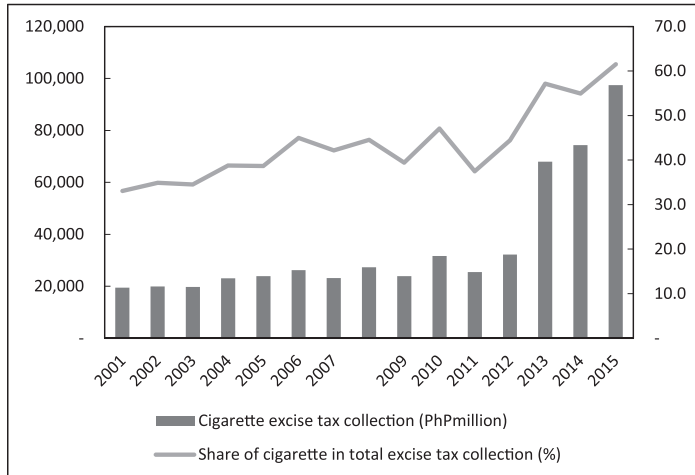
Myrna S. Austria

De La Salle University, Manila, Philippines

Jesson A. Pagaduan

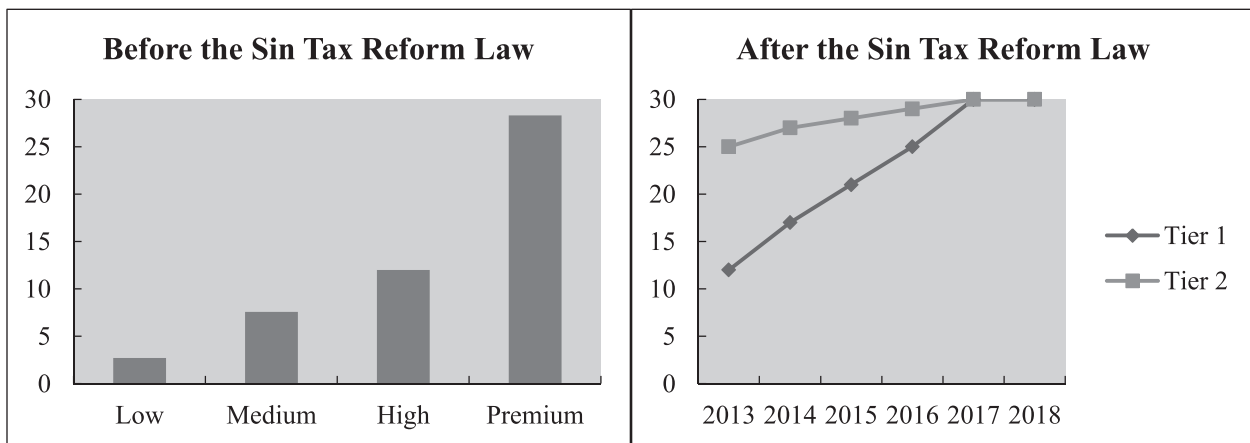
Asian Development Bank, Philippines

<sup>1</sup>The Policy Brief is based on the full journal article of Austria and Pagaduan (2019) which can be accessed from [https://www.dlsu.edu.ph/wp-content/uploads/2019/03/2\\_AUSTRIA-revised-021319.pdf](https://www.dlsu.edu.ph/wp-content/uploads/2019/03/2_AUSTRIA-revised-021319.pdf).



**Figure 1. Excise tax collections from locally manufactured cigarettes, 2001–2015.**

Source: Large Taxpayers Service, Bureau of Internal Revenue.



**Figure 2. Reformed tax structure for cigarettes.**

Notes: Prior to the Sin Tax Reform Law (2012), the cigarette tax scheme was complicated and was divided into four tiers depending on the net retail price of cigarettes: low=below P5 per pack; medium=P5 to P6.50 per pack; high=P6.50 to P10 per pack; and premium=above P10 per pack.

Source: Sin Tax Reform Law (2012); An Act Increasing the Excise Tax Rates Imposed on Alcohol and Tobacco Products, Amending for the Purpose Sections 131, 141, 142, 143, 144, 145 and 288 of the National Internal Revenue Code of 1997, as Amended, Republic Act No. 9334 (2004).

## Is the Sin Tax Reform Law Effective in Lowering Tobacco Consumption?

Because of the significant increase in excise tax, the price of cigarettes and other tobacco products in the country substantially went up. After almost seven years of implementation, what has been the impact of the tax reform on the demand for cigarettes? Employing a two-part estimation model using the Family Income Expenditure Survey before (2009) and after (2015) the tax policy reform, Austria and Pagaduan (2019) found that the Sin Tax Reform Law was effective in lowering household cigarette consumption in the country. Cigarette consumption is price inelastic (i.e., % decline in demand is less than the % increase in price), as with earlier studies (see, for instance, Warner, 1990; Blecher & van Walbeek, 2004, 2009). However, demand has become less inelastic in the Philippines over the period 2009 to 2015, indicating a more responsive cigarette demand to price increases. Specifically, the tax reform has reduced the number of cigarettes purchased by smokers (smoking intensity) more than the number of cigarette users (smoking prevalence).

Consistent with earlier studies, the findings further revealed that an increase in income increases the demand for cigarettes; college-educated individuals are more likely to consume fewer cigarettes; and poor households are relatively more responsive to increases in cigarette price than rich households (see, for instance, Barkat, Chowdhury, Nargis, Khan, & Kumar, 2012; Townsend, Roderick, & Cooper, 1994).

## What Policies Should the Government Implement?

To sustain and even further intensify the favorable impact of the Sin Tax Reform Law (2012) in reducing cigarette consumption, the government should implement the following policy measures:

1. *Continue to implement the annual increase in excise tax.* In 2015 and 2016, excise tax as a percentage of cigarette's retail prices fell short below the international threshold of 70% (Austria & Pagaduan, 2019). To determine the increase in excise tax, two important factors should be considered, namely, inflation rate and the increase in per capita income. The rising per capita income in the country will increase tobacco consumption in the coming years. To guarantee that cigarettes will continue to be less affordable, the policy goal is to ensure that the relative increase in price due to an increase in excise tax is higher than the rise in per capita income.
 

On inflation rate, at the very least, the increase in excise tax should be either 4% as mandated by the law or indexed to the current inflation rate, whichever is higher. Since the law pegged the increase at 4% per year, this particular provision of the law requires an amendment to ensure that the increase in excise tax will not be lower than the current inflation rate. On the other hand, to help counteract the effect of the rising per capita income on cigarette consumption, an effective anti-smoking drive is needed to enhance public awareness of the adverse health consequences of smoking (Austria & Pagaduan, 2019).
2. *Review the implementation of DOH's National Smoking Cessation Program.* The relatively inelastic demand for cigarettes and the dominance of the elasticity of smoking intensity over the elasticity of smoking prevalence support the evidence of the addictive nature of cigarette smoking. Smokers attempting to quit smoking struggle with nicotine addiction, thus, requiring professional support and guidance. The results of the 2015 GATS show that the percentage of smokers in the country who successfully quit smoking remained small and in fact went down between 2009 (4.5%) and 2015 (4.0%; Austria & Pagaduan, 2019). Thus, the National Smoking Cessation Program of the Department of Health (DOH) should be reviewed to make it more effective in assisting the smokers who wish to quit the habit.
3. *Make education more accessible and affordable among the low-income sectors.* The findings support the positive effect of education in lowering cigarette consumption. This could be attributed to greater awareness by more educated people on the health consequences of smoking than by those with less education. Making education more accessible and affordable among the low-income sectors will help reduce tobacco use in the country. The implementation of the Universal Access to Quality Tertiary Education Act (2016) may help address the problem. In addition, the proportion of tobacco tax revenues earmarked for displaced tobacco farmers in tobacco-growing provinces may be directed for the educational program of children of these farmers (Austria & Pagaduan, 2019).
4. *Review the implementation of non-price tobacco control measures.* A periodic review of the implementation of the non-price tobacco control measures, such as banning smoking in public places and printing graphic images and warnings on cigarette packaging, should be undertaken to increase their effectiveness in reducing tobacco consumption in the country. For example, according to the 2015 GATS, 58.6% of survey respondents noticed tobacco promotion, advertisement, and sponsorship in the past 30 days while 40.5% noticed tobacco advertisements in stores where cigarettes are sold. While the proportions are lower compared to the results of the 2009 GATS, the percentage is still high considering that existing laws require a complete ban in tobacco advertisements and promotions. Also, despite the complete ban on smoking in public places, it is common to see smokers in public utility vehicles and public transport terminals. It is also common to see youth smoking cigarette in public places despite the ban on the sale of cigarettes to minors (Austria & Pagaduan, 2019).

**Table 1**  
**Tobacco Tax Regulations**

	<b>R.A. 8424 (1997)</b>	<b>R.A. 9334 (2004)</b>	<b>R.A. 10351 (2012)</b>
<b>A. Tobacco Products</b>			
a. Tobacco twisted by hand or reduced into a condition to be consumed in any manner other than the ordinary mode of drying and curing.	P0.75 per kilogram	P1 per kilogram	P1.75 per kilogram effective January 2013
b. Tobacco prepared or partially prepared with or without the use of any machine or instruments or without being pressed or sweetened.			
c. Fine-cut shorts and refuse, scraps, clippings, stems, and sweepings of tobacco			
d. Tobacco specially prepared for chewing are unsuitable for use in any other manner	P0.60 per kilogram	P0.79 per kilogram	P1.50 per kilogram effective January 2013.
		The tax rates on tobacco products shall be increased by 6% every two years starting January 2007 until January 2011.	The tax rates on tobacco products shall be increased by 4% every year thereafter effective January 2014.
<b>B. Cigars &amp; Cigarettes</b>			
a. Cigars	P1 per cigar	10% ad valorem tax if net retail price per cigar is P500 or less.	Effective January 2013: - Ad valorem tax of 20% of the net retail price per cigar. - Specific tax of P5.00 per cigar.
		P50 + 15% of the net retail price in excess of P500 if the net retail price per cigar is more than P500	Effective January 2014: - Ad valorem tax of 20% of the net retail price per cigar. - Specific tax of P5.00 per cigar shall be increased by 4%.
b. Cigarettes packed by hand	P0.40 per pack	- P2 per pack effective January 2005 - P2.23 per pack effective January 2007 - P2.47 per pack effective January 2009 - P2.72 per pack effective January 2011	- P12 per pack effective January 2013 - P15 per pack effective January 2014 - P18 per pack effective January 2015 - P21 per pack effective January 2016 - P30 per pack effective January 2017 - The rates shall be increased by 4% every year effective Jan. 2018.

	<b>R.A. 8424 (1997)</b>	<b>R.A. 9334 (2004)</b>	<b>R.A. 10351 (2012)</b>
c. Cigarettes packed by machine	<p>If the net retail price is below P5 per pack</p> <p>P1 per pack</p>	<p>If the net retail price is below P5 per pack:</p> <ul style="list-style-type: none"> <li>- P2 per pack effective January 2005</li> <li>- P2.23 per pack effective January 2007</li> <li>- P2.47 per pack effective January 2009</li> <li>- P2.72 per pack effective January 2011</li> </ul>	<p>If the net retail price is P11.50 &amp; below per pack:</p> <ul style="list-style-type: none"> <li>- P12 per pack effective January 2013</li> <li>- P17 per pack effective January 2014</li> <li>- P21 per pack effective January 2015</li> <li>- P25 per pack effective January 2016</li> <li>- P30 per pack effective January 2017</li> </ul> <p>The rate shall be increased by 4% every year thereafter effective January 2018.</p>
	<p>If the net retail price is P5 to 6.50 per pack:</p> <p>P5 per pack</p>	<p>If the net retail price is P5 to 6.50 per pack:</p> <ul style="list-style-type: none"> <li>- P6.35 per pack effective January 2005</li> <li>- P6.74 per pack effective January 2007</li> <li>- P7.14 per pack effective January 2009</li> <li>- P7.56 per pack effective January 2011</li> </ul>	<p>If the net retail price is more than P11.50 per pack:</p> <ul style="list-style-type: none"> <li>- P25 per pack effective January 2013</li> <li>- P27 per pack effective January 2014</li> <li>- P28 per pack effective January 2015</li> <li>- P29 per pack effective January 2016</li> <li>- P30 per pack effective January 2017</li> </ul> <p>The rate shall be increased by 4% every year thereafter effective January 2018.</p>
	<p>If the net retail price is P6.50 to P10 per pack:</p> <p>P8 per pack</p>	<p>If the net retail price is P6.50 to P10 per pack:</p> <ul style="list-style-type: none"> <li>- P10.35 per pack effective January 2005</li> <li>- P10.88 per pack effective January 2007</li> <li>- P11.43 per pack effective January 2009</li> <li>- P12.00 per pack effective January 2011</li> </ul>	

	R.A. 8424 (1997)	R.A. 9334 (2004)	
	If the net retail price is above P10 per pack:  P12 per pack	If the net retail price is above P10 per pack:  - P25 per pack effective January 2005 - P25.06 per pack effective January 2007 - P27.16 per pack effective January 2009 - P28.39 per pack effective January 2011	

Notes: (a) Net retail price excludes the excise tax and value-added tax. For definition, refer to RA relevant section.  
 (b) Imported cigarettes and cigarettes for exports are subject to the same rates and basis of excise taxes applicable to locally manufactured articles.

## References

- An Act Increasing the Excise Tax Rates Imposed on Alcohol and Tobacco Products, Amending for the Purpose Sections 131, 141, 142, 143, 144, 145 and 288 of the National Internal Revenue Code of 1997, as Amended, Republic Act No. 9334 (2004).
- Austria, M., & Pagaduan, J. (2019). Are Filipino smokers more sensitive to cigarette prices due to the Sin Tax Reform Law?: A difference-in difference analysis. *DLSU Business & Economics Review*, 28(2), 10–25.
- Barkat, A., Chowdhury, A., Nargis, N., Khan, M., & Kumar, A. (2012). *The economics of tobacco and tobacco taxation in Bangladesh*. Paris: International Union against Tuberculosis and Lung Disease.
- Blecher, E., & van Walbeek, C. (2004). An international analysis of cigarette affordability. *Tobacco Control*, 13, 339–346.
- Blecher, E., & van Walbeek, C. (2009). Cigarette affordability trends: An update and some methodological comments. *Tobacco Control*, 18, 167–175.
- Quimbo, S., Casorla, A., Miguel-Baguilod, M., Medalla, F., Xu, X., & Chaloupka, F. (2012). *The economics of tobacco and tobacco taxation in the Philippines*. Paris: International Union Against Tuberculosis and Lung Disease.
- Sin Tax Reform Law, Republic Act No. 10351 (2012).
- Tax Reform Act of 1997, Republic Act No. 8424 (1997).
- Townsend, J., Roderick, P., & Cooper, J. (1994). Cigarette smoking by socioeconomic group, sex, and age: Effects of price, income, and health publicity. *BMJ*, 309, 923–927.
- Universal Access to Quality Tertiary Education Act, Republic Act No. 10931 (2016).
- Warner, K. (1990). Tobacco taxation as health policy in the Third World. *American Journal of Public Health*, 5, 529–531. doi:10.2105/AJPH.80.5.529

## CONTACT INFORMATION

**DLSU - Angelo King Institute for Economic and Business Studies (DLSU-AKI)**  
 Room 223, St. La Salle Hall  
 2401 Taft Avenue  
 1004 Manila

Angelo King International Center  
 Corner of Arellano Avenue and Estrada Street  
 1004 Manila

+63-2-524-4611 loc. 287,  
 +63-2-524-5333, +63-2-5245347 (Fax)  
<https://www.dlsu-aki.com>