

# TOBACCO TAXATION IN THE PHILIPPINES

## SUCCESSSES AND NEW CHALLENGES



### State of Tobacco Prior to the 2012 Tobacco Tax Reform

Globally, tobacco use causes over 8 million deaths annually.<sup>1</sup> In the World Health Organization Western Pacific Region (WHO WPRO), 377 million adults smoke tobacco products, and tobacco use kills more than 3 million people in the WPRO region annually, including 490,000 non-smokers who are exposed to secondhand smoke.<sup>2</sup>

Before adoption of the 2012 Sin Tax Law in the Philippines (country in the WPRO region):

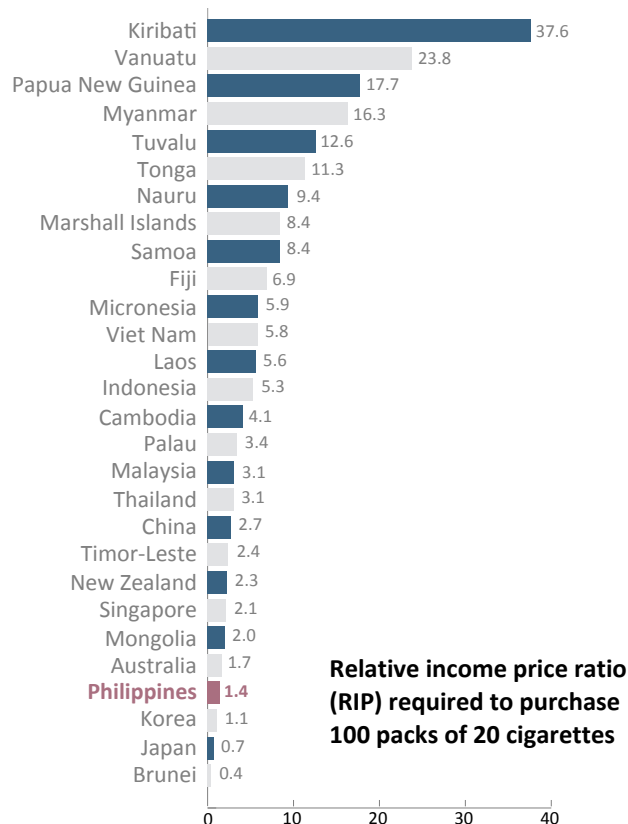
- There was an estimated 17.3 million (28.3%) adult (aged 15+) tobacco smokers (47.7% men, 9.0% women);
- Over 96,000 tobacco-related deaths in 2009; and <sup>3,4</sup>
- Among youth (aged 13-15) in 2011, 8.9% reported current cigarette use (12.9% boys, 5.3% girls).<sup>5</sup>

Though price and tax measures have long been recognized as the most cost-effective policy tool to reduce tobacco prevalence, in 2008, the Philippines had some of the most affordable cigarettes in the Asia-Pacific region (Figure 1).

Many factors contributed to tobacco's affordability in the Philippines.

- One such factor was the multi-tiered specific design of the tobacco tax system (Table 1).
  - This system consisted of 4 price tiers for tobacco products like cigarettes, with a large differential in the tax rates for the lowest and highest price tiers (premium vs. economy brands). As a result, cigarette production became concentrated in cheaper economy cigarette brands to avoid higher taxation rates associated with premium brands.
- A second factor contributing to the increased affordability of tobacco products in the Philippines was the government-enacted price classification freeze applied from 1996 to 2012.
  - The price classification freeze fixed tax rates based on the specific net retail price in 1996 and remained unchanged until 2012.
  - The freeze prevented an increase in the specific tax for tobacco products for nearly 15 years and eroded the real value of the specific tax on tobacco over time. Both factors significantly reduced the value of the cigarette excise tax relative to prices and increased their affordability over time.<sup>6</sup>

**Figure 1** Affordability\* of cigarettes in select countries in the Asia-Pacific region, 2008



Source: WHO, Global Report on the Tobacco Epidemic, 2009.

\*Affordability is measured by the relative income price ratio (RIP), calculated as the percent of GDP per capita required to purchase 100 packs of 20 cigarettes. The RIP index and affordability are inversely related. In other words, a high RIP index indicates decreased affordability of cigarettes.

## 2012 Sin Tax Reform Act

In 2012, President Aquino signed the Sin Tax Reform Act (STLaw or RA 10351) for both tobacco and alcohol products, substantially increasing the products' applicable tax.<sup>7</sup> Upon adoption, the STLaw immediately simplified the tobacco tax system by initially reducing the number of tiers from 4 to 2 in 2013 (Table 1). The law further specified that in 2017, the system would transition into a uniform specific excise tax, eliminating differential tiered taxes completely (Table 1). The newly reformed tax rates were aligned with premium-brand cigarette rates in the highest tier, and the specific tax rate substantially increased in the first year, with continued increases set for each year following to keep pace with at least the rate of inflation.

**Table 1: Tobacco tax structure in the Philippines since the 2012 STLaw\***

System prior to adoption of the STLaw reform		System after adoption of the STLaw reform											
			2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NRP	Excise tax	NRP	Excise tax										
< 5.00	2.72	11.50 and below	12	17	21	25	30	35	40	45	50	55	60
5.00 to 6.50	7.56												
6.51 to 10.00	12	more than 11.5	25	27	28	29							
>10.00	28.3												

\* Specific excise tax per 20-pack of machine rolled cigarettes based on the net retail price (in PHP).

NRP: Net retail price (exclusive of excise and value-added tax [VAT]).

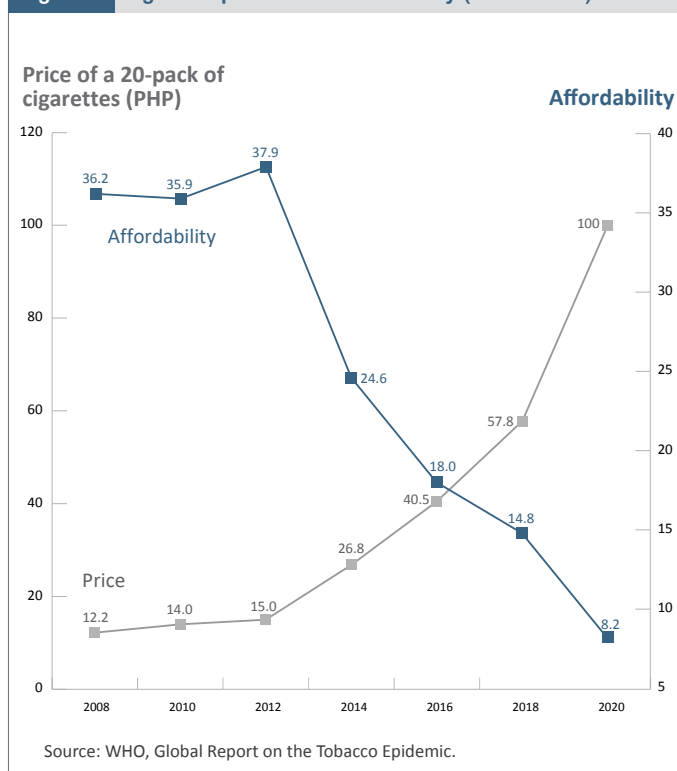
As part of the tax reform, 85% of the tax revenue generated from the newly adopted excise tax was earmarked to finance health promotion programs. These programs included the Universal Health Insurance Program (PhilHealth), the attainment of the WHO's Sustainable Development Goals (SDGs), and other health enhancement programs. The remaining 15% of tobacco excise revenue was to be allocated to tobacco producing provinces to promote economically viable alternatives for tobacco farmers and workers.

## Impact of the 2012 Sin Tax Reform Act

### Impact on Price

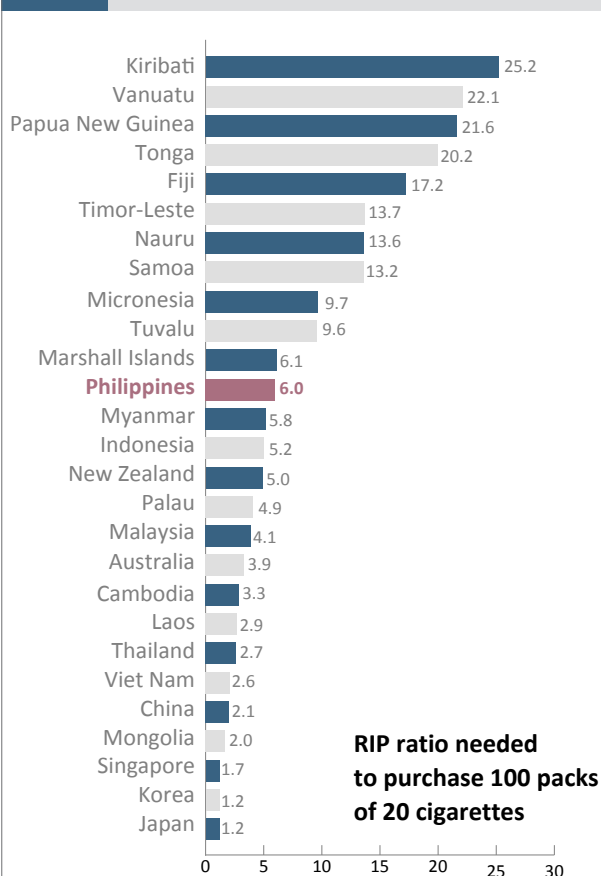
The STLaw proved effective at increasing the price and reducing affordability of cigarettes (Figures 2 and 3). The STLaw increased the average total price of the most sold brands, from PHP 12.2 per 20-pack of cigarettes in 2008, to PHP 100.0 per 20-pack of cigarettes in 2020 (Figure 2). During this 12-year period (2008-2020), the Philippines' reduction in the affordability of cigarettes was one of the largest in the Asia-Pacific region (Figure 3).

**Figure 2 Cigarette prices and affordability (2008–2020)**



The tax on the most sold pack of cigarettes for low- and medium-price tiers grew more than 20x in 10 years, from PHP 2.72 for a 20-pack of cigarettes in 2012, to PHP 55 for a 20-pack of cigarettes in 2022. Rates have continued to increase annually so that the real value of the tax maintains pace with inflation (Table 1). As the price of cigarettes increased following adoption of the STLAW, total sales dropped by 34.5% in the first two years, from 5.8 billion packs in 2012 to 3.8 billion packs in 2014.<sup>8</sup> After 2015, taxable sales volumes leveled around 3.5 billion packs in 2021.

**Figure 3** Affordability\* of cigarettes in select countries in the Asia-Pacific region, 2020

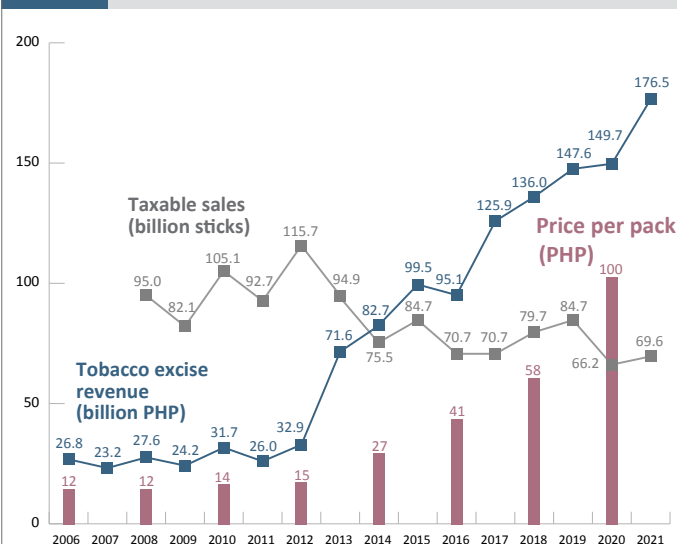


Source: WHO, Global Report on the Tobacco Epidemic, 2021.

\*Affordability is measured by the relative income price ratio (RIP), calculated as the percent of GDP per capita required to purchase 100 packs of 20 cigarettes. The RIP index and affordability are inversely related. In other words, a high RIP index indicates decreased affordability of cigarettes.

The combination of a large increase in tobacco tax and a moderate reduction in sales volume since 2015, has led to a large and near continuous increase in tax revenue every year since 2012. Tobacco excise revenue increased from PHP 26.0 billion in 2011 to PHP 176.5 billion in 2021, more than 6x the revenue generated just 10 years prior (Figure 4).<sup>8</sup>

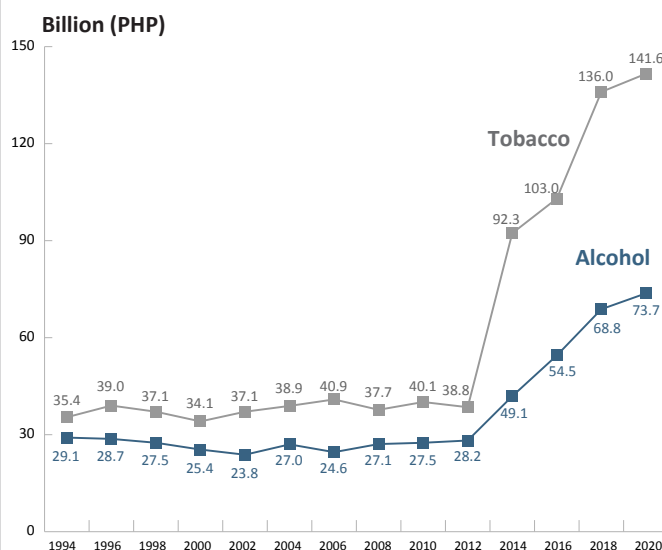
**Figure 4** Tobacco excise revenue (nominal), taxable sales, and average price, 2006-2021



Source: Philippines Bureau of Revenue, Annual Reports. World Bank's World Development Indicators (WDI), and OECD consumption tax revenue data.  
Note: Tax revenue is nominal, in billion current PHP.

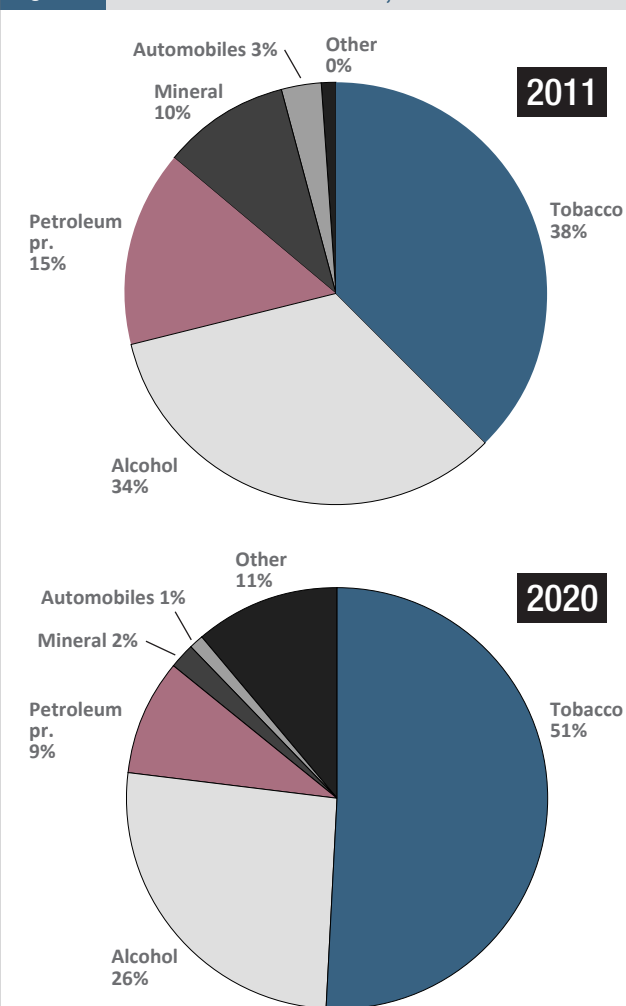
In 2011, tobacco and alcohol excise taxes were the two main sources of excise tax revenue, and their contributions were roughly equivalent (~PHP 23 billion for alcohol, ~PHP 26 billion for tobacco). By 2020, tobacco excise revenue became the single largest source of excise revenue, generating roughly twice as much as any other excise tax in the Philippines (Figures 5 and 6).

**Figure 5 Tobacco excise revenue (real), 1994-2020**



Source: Philippines Bureau of Revenue, Annual Reports. World Bank's World Development Indicators (WDI), and OECD consumption tax revenue data.  
Note: Tax revenue is transformed in real terms using the Consumer Price Index (CPI), 2018.

**Figure 6 Sources of excise revenue, 2011 and 2020**



Source: Philippines Bureau of Revenue, Annual Reports. World Bank's WDI, and OECD consumption tax revenue data.

### Impact on Tobacco Consumption

- Following the tax-induced price increase, a 34.4% relative reduction in tobacco use prevalence among adults in the Philippines was observed in a little over a decade, from 29.7% in 2009, to 23.8% in 2015, and 19.5% in 2021 (Figure 7).<sup>9</sup>
- Data from the Institute for Health Metrics and Evaluation (IHME) show that in 2009, more than 18% of deaths were attributable to tobacco use.<sup>3</sup> Between 2009 and 2019, deaths attributable to tobacco dropped by over 3%.<sup>3</sup>
- Based on results from the 2007 and 2019 Global Youth Tobacco Survey (GYTS), initiation of cigarette smoking also fell, resulting in a large decrease in youth tobacco use prevalence over time.
- Cigarette smoking among students dropped from 17.5% in 2007 to 10.0% in 2019 (Figure 8).<sup>10,11</sup>

### Impact on Funding for Health Promotion Programs

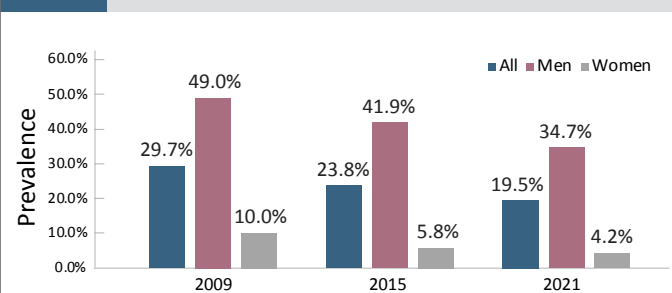
The new earmarking scheme adopted in the 2012 STLaw immediately increased the Department of Health's (DOH's) budget, particularly the budget allocated to PhilHealth, the implementing entity for universal health care in the Philippines. The DOH-wide budget increased from PHP 44 billion in 2012 to PHP 242 billion by 2022, more than 5x the amount a decade prior (Figure 9).<sup>12</sup>

Following the DOH's increased budget generated from tobacco tax revenue, President Duterte signed the Universal Health Care Bill into law (RA 11223) in 2019.<sup>13</sup> This led to a significant expansion of the population covered under PhilHealth, the types of health services covered, and the financial coverage provided. From 2011 to 2014, the number of direct contributing members (employed in formal economy) grew from 24 million to 34 million.<sup>12</sup> PhilHealth also extended its free coverage to senior and indigent citizens who were not covered prior to 2012. By 2022, sponsored senior and indigent citizens represented roughly one third of total members (11.4 million and 23 million, respectively).

Starting in 2014, PhilHealth also extended its coverage to persons employed in the informal economic sector.\* Expansion of the covered population, particularly among indigent and informal sector employees, was due in large part to the DOH's significantly increased budget generated from tobacco tax revenue.

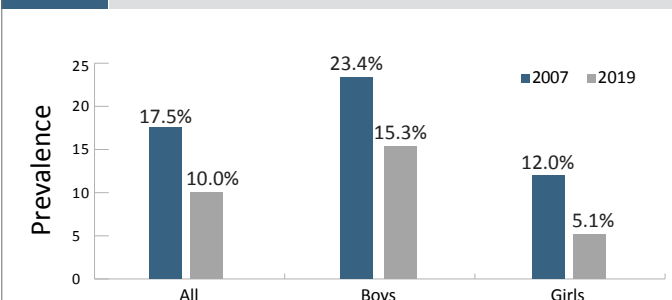
\* The initial earmarking schedule was effective from 2014 onwards but was later amended by RA No. 11346, (otherwise known as the "Tobacco Tax Law of 2019") and by RA No. 11467 (the "New Sin Tax Reform Law of 2020"). Amendments became effective in Fiscal Year (FY) 2022 and mandated that the allocation for universal health insurance be based on the STLaw tax collections projected in the second FY preceding the current FY. For example, the excise tax collections in 2020 would be reserved and applied in the 2022 budget of the DOH and PhilHealth in the General Appropriations Act (GAA). While the pre-2021 earmarking law allocated only incremental STLaw revenue to health, the new law allocated the total excise tax collections from alcohol, tobacco (including emerging tobacco products), and sugar-sweetened beverages (SSBs) for health and PhilHealth.

**Figure 7** Tobacco use prevalence among adults in the Philippines, 2009, 2015, and 2021



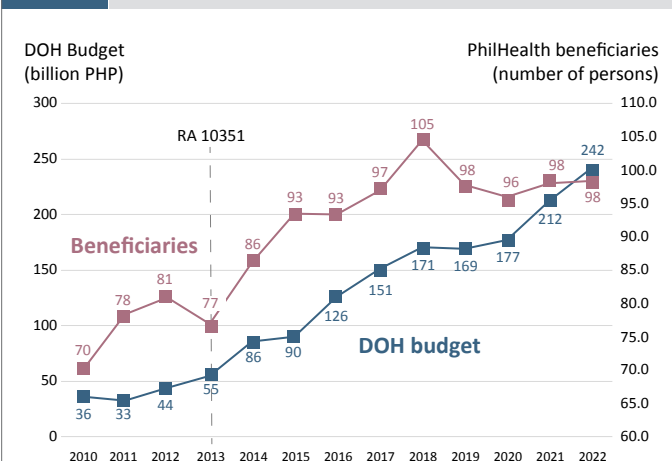
Source: GATS Philippines, 2009, 2015, and 2021.

**Figure 8** Current cigarette smoking prevalence among youth in the Philippines, 2007 and 2019



Source: GYTS Philippines, 2007 and 2019.

**Figure 9** Department of Health budget, and PhilHealth beneficiaries, 2010-2022



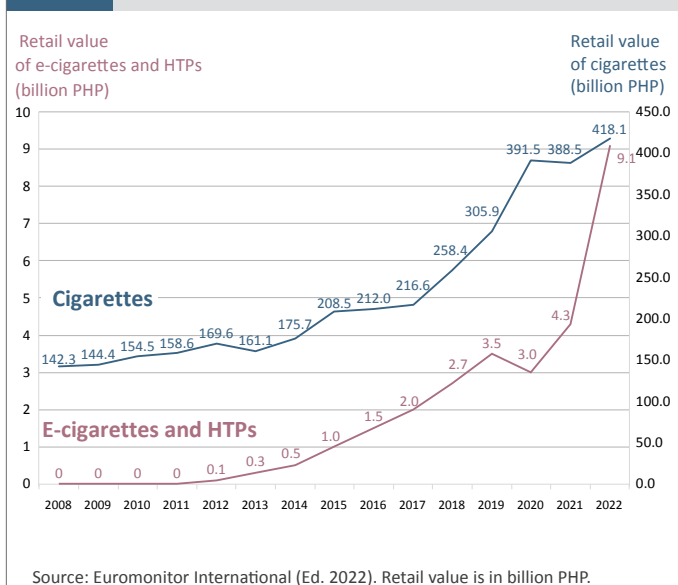
Source: Budget Reports, Department of Health, Republic of the Philippines, and PhilHealth Annual Reports (PhilHealth.gov).

## Looking Ahead

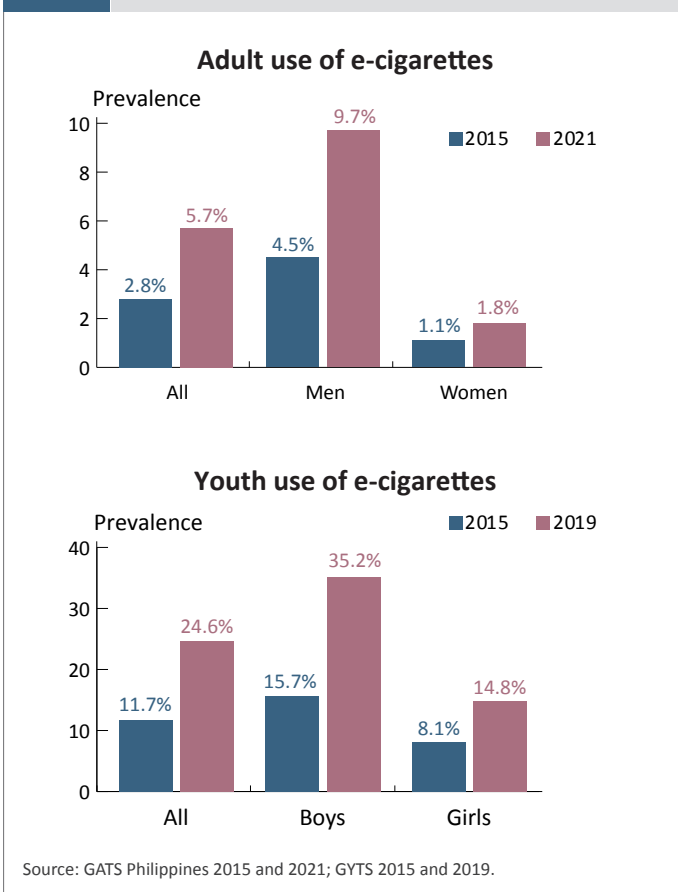
Though the Philippines has observed a significant decline in cigarette smoking and tobacco use prevalence, the use of emerging tobacco products has increased in recent years. In 2017, the government enacted further tax increases under the Tax Reform and Inclusion Act (TRAIN) (RA 10963),<sup>14</sup> broadening the tax system to include emerging tobacco products (e.g., heated tobacco products [HTPs] and electronic cigarettes [e-cigarettes]) and further earmarking tobacco tax revenue for health promotion programs (RA 11346 in 2019). However, emerging tobacco products are currently taxed at comparatively lower rates than the tax rates for conventional tobacco products.

Though cigarettes still represent the majority of the tobacco market in the Philippines, the market value of e-cigarettes and HTPs has rapidly increased (Figure 10). According to the 2021 GATS report, the prevalence of adults reporting ever use of e-cigarettes was 5.7%, up more than 2x the rate in 2015 (2.8%) (Figure 11). Youth use of e-cigarettes has similarly increased; almost 1 in 4 young Filipinos reported ever use of e-cigarettes in 2019, roughly double the number just 6 years prior (Figure 11).

**Figure 10** Trends in retail value of cigarettes and emerging tobacco products



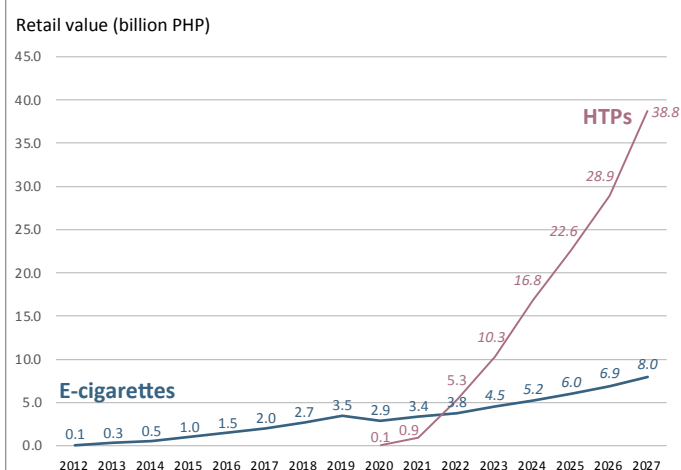
**Figure 11** Ever use of e-cigarettes among adults and youth in the Philippines



The market for HTPs in the Philippines began to grow in 2020, following the launch of PMI's IQOS. Since the launch of IQOS, other HTP brands have been launched, including British American Tobacco's (BAT) *glo*, and KT&G's *lil*. In 2022, the market value for HTPs exceeded that of e-cigarettes, and is predicted to grow at a faster rate than the e-cigarette market (Figure 12).

Currently, taxes on HTPs and e-cigarettes are much lower than taxes for cigarettes. This means that the Philippines is forgoing an important tool to discourage youth use and initiation, and forgoing a valuable source of tax revenue. As shown in Table 2, the excise tax on HTPs represents little more than half of the tax imposed on cigarettes; the tax burden on e-liquids represents a small percentage of the tax imposed on cigarettes.<sup>15, 16</sup> For more information on excise rates for HTPs and e-cigarettes (ENDS) around the world, visit the Campaign For Tobacco-Free Kids' [HTP Tax Maps](#) and [Policy Brief on the Global Taxation of E-Cigarettes](#).

**Figure 12** Trends in retail value of emerging tobacco products



Source: Euromonitor International (Ed. 2022). Retail value is in billion PHP. HTP data includes heated tobacco inserts and heating devices. Retail value is projected for 2023-2027.

**Table 2: Excise taxes on tobacco and e-cigarettes**

	Tax base	2022	2023	2024
<b>Cigarettes</b>	20-pack	55	60	63
<b>Heated tobacco</b>	20-pack	30	33	34.65
<b>E-liquids</b>				
<b>Salt-base e-liquid</b>	1 mL	4.7	5.2	5.5
<b>Free-base e-liquid</b>	1 mL	5.5	6.0	6.3

Note: Philippine Republic Act 11467 sets tax increments for tobacco products. From 2024 onward, all taxes will increase by 5%. For 2024: estimations based on RA 11467.

## Recommendations

- As youth and adult use of emerging tobacco products like e-cigarettes and HTPs continues to increase, it is critical to acknowledge that these emerging tobacco products remain taxed at comparatively lower rates than taxes on cigarettes and other conventional tobacco products. The Philippines should increase the excise tax for all conventional and emerging tobacco products to reduce affordability and discourage initiation among particularly vulnerable populations like youth.
- The 5% annual tax increase for all tobacco products from 2024 onwards—meant to keep pace with inflation—is not enough to continue to reduce the affordability of cigarettes and discourage new smokers. The annual tax increase must be larger to decrease affordability of all tobacco products and generate revenue for promotional health programs like PhilHealth.

## Key Points

- The most cost-effective policy tool to reduce tobacco consumption is to reduce the affordability of tobacco products through tax increases, in coordination with other tobacco control policies.
- The 2012 STLaw significantly increased the price of tobacco products, eliminated a complex tobacco tax structure that created large differential tax rates between the lowest and highest price tiers for tobacco products, and significantly increased the DOH budget, population, and services offered under PhilHealth.
- Following the tax-induced price increase, the Philippines observed a large reduction in tobacco prevalence among adults in the Philippines; from 29.7% in 2009, to 23.8% in 2015, and 19.5% in 2021.<sup>9</sup> The implementation of the 2012 STLaw, was also followed by a decreased rate of tobacco use among youth in the Philippines, from 22.7% in 2007 to 12.5% in 2019.<sup>10,11</sup>
- As evidenced in the Philippines, increased tobacco prices encourage cessation among existing tobacco users and prevents initiation among potential users, particularly among youth. These benefits are achieved all while producing significant new revenue for universal health care and other critical health programs. These dual impacts are saving lives and health care costs in the Philippines.



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