



SIN TAX REFORM IN THE PHILIPPINES

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Outline

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a. Background Information –
tobacco use in the country

b. Weaknesses of the old structure

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BACKGROUND INFORMATION

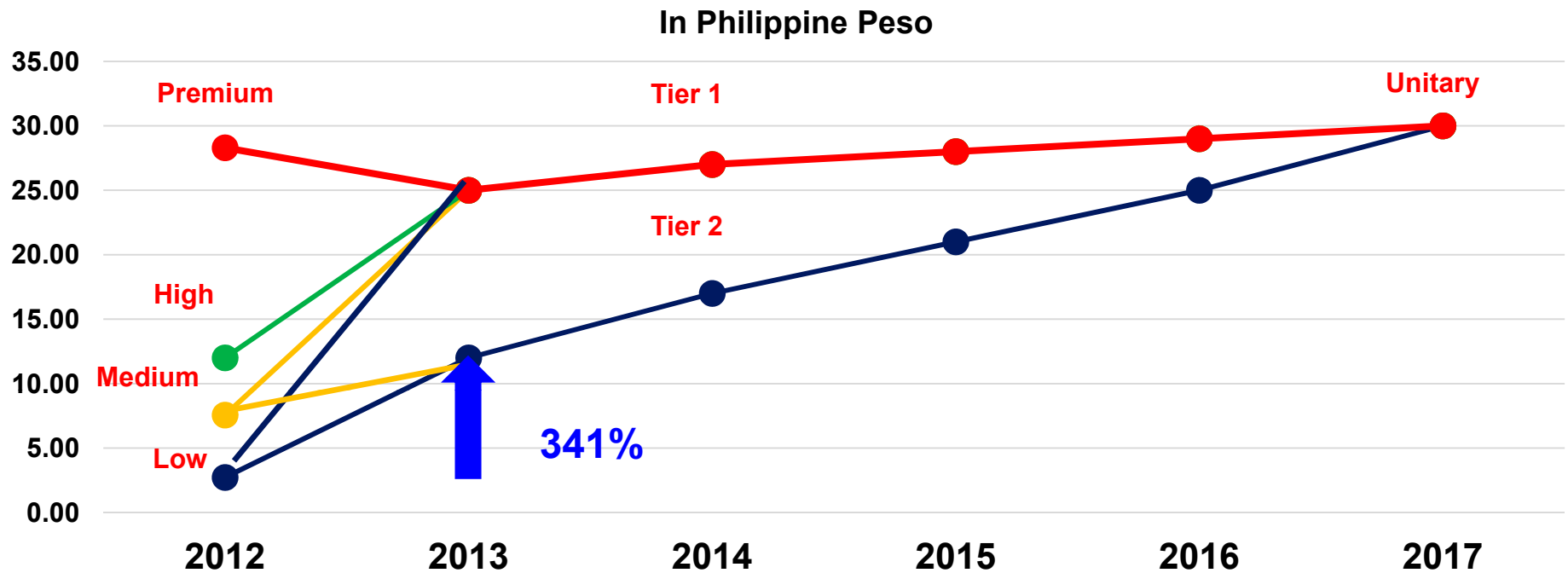
1. Cigarette prices in the Philippines are among the lowest in the ASEAN region, while tax rates are among the lowest in the world
2. The Philippines is among the top smoking countries in Southeast Asia, with the poorest being the largest consumer.
3. “Strongest tobacco lobby in Asia”;
4. Economic cost of the top four non-communicable disease related to smoking is estimated at U\$3 to U\$6 billion (Sta. Ana and Latuja, 2011)

Weaknesses of the old structure

Characteristics	RA No. 9334	RA No. 10351
Price/brand classification freeze	For purposes of ascertaining the tax rate, the law pegged the classification of brands based on their net retail price. This kept the price classification of old cigarette brands fixed based on the brands' net retail price as of October 1996.	Removal of tax advantages of legacy brands. The tax classification of sin products will be determined every two years.
Multi-tiered tax system	Specific tax rates with cheaper brands being taxed less than the more expensive brands.	Shifted to a two-tiered tax structure based on the brands' prices until year 2017 when the law provides for a uniform tax.
Lack of price indexation	Inadequate adjustment of specific tax rates to inflation even with the yearly increases which ended in 2011.	Prescribed annual increases in cigarette prices from 2013 to 2018 and an annual increase of excise tax rates by 4% effective January 1, 2018.
Non-compliant with WTO rules (distilled spirits)	Differential tax treatment between old brands and new/imported brands resulted to WTO findings of discrimination against imported spirits in violation of the GATT.	Removal of the classification.

Source: *Health Justice Philippines (Sta. Ana and Latuja, 2011; Philippine legislations*

Philippine Tobacco Tax Reform Path at a Glance



Key Features

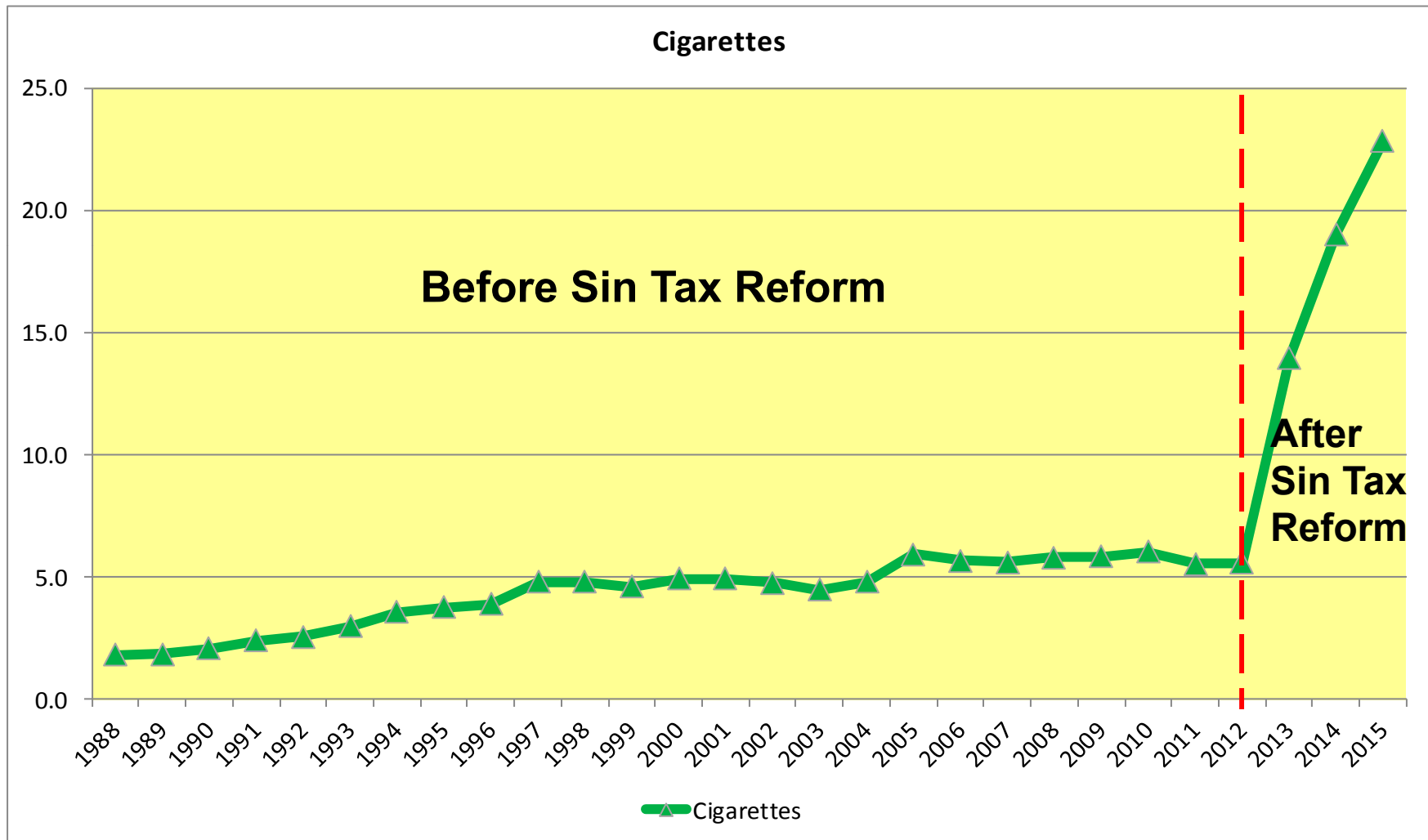
- Removal of price classification freeze/tax advantages of legacy brands.
- Unitary tax structure by 2017.
- Tax rates indexed to inflation starting 2017.
- Bulk of incremental revenues earmarked for UHC.
- Safety nets for tobacco farmers/others.

	2013	2014	2015	2016	2017
Projected Incremental Revenue (Tobacco)	23.4	29.6	33.5	37.1	40.9
Projected Incremental Revenue (Alcohol)	10.6	13.3	17.1	19.8	23.3
Projected Incremental Revenue (Total)	34.0	42.9	50.6	56.9	64.2
Estimated Earmark for Health	30.5	38.4	45.6	51.3	58.0

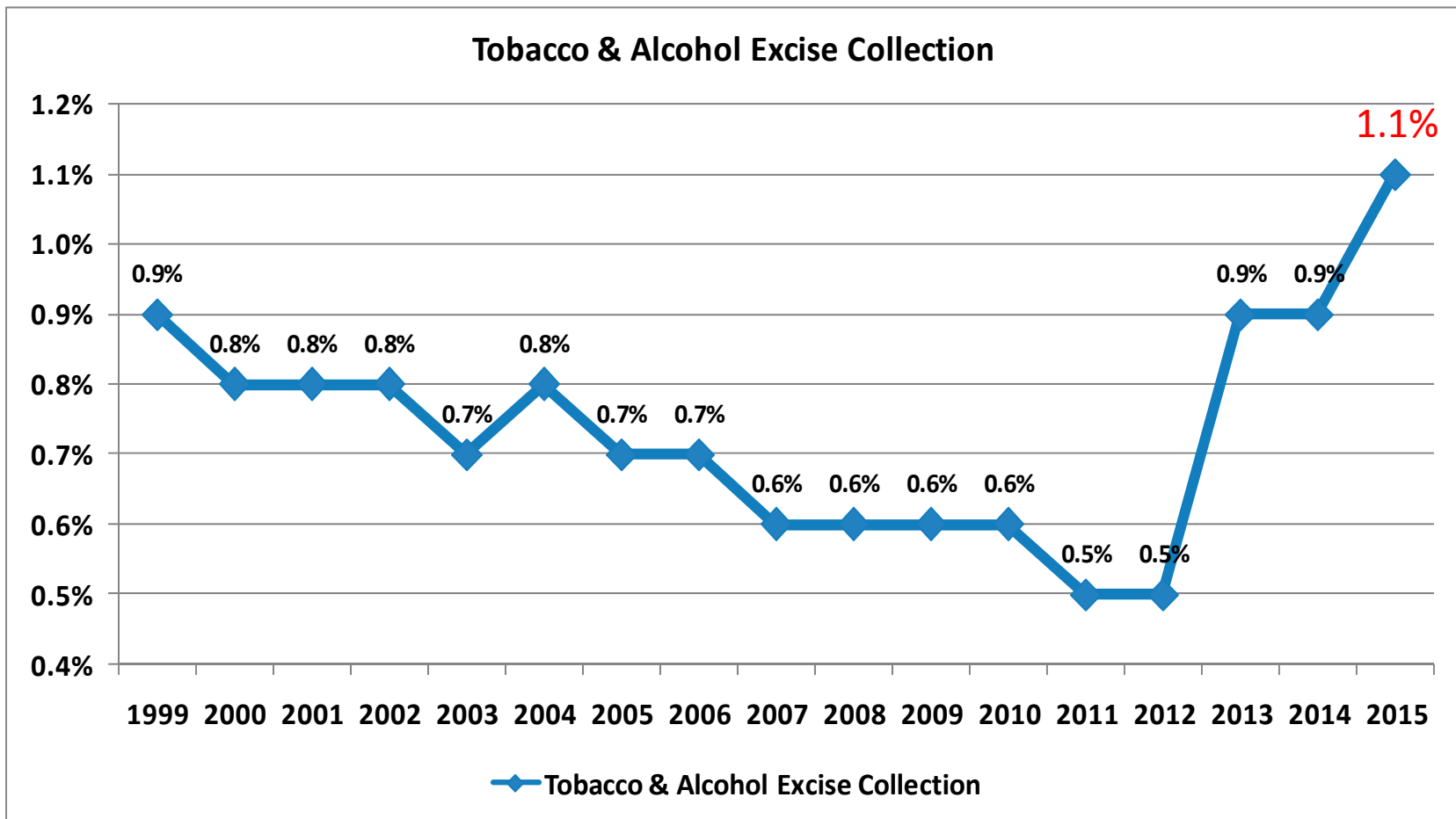
FISCAL IMPACT OF THE REFORM

Prior to reform, excise tax collection were almost stagnant

Weighted Effective Tax Rates for Cigarettes

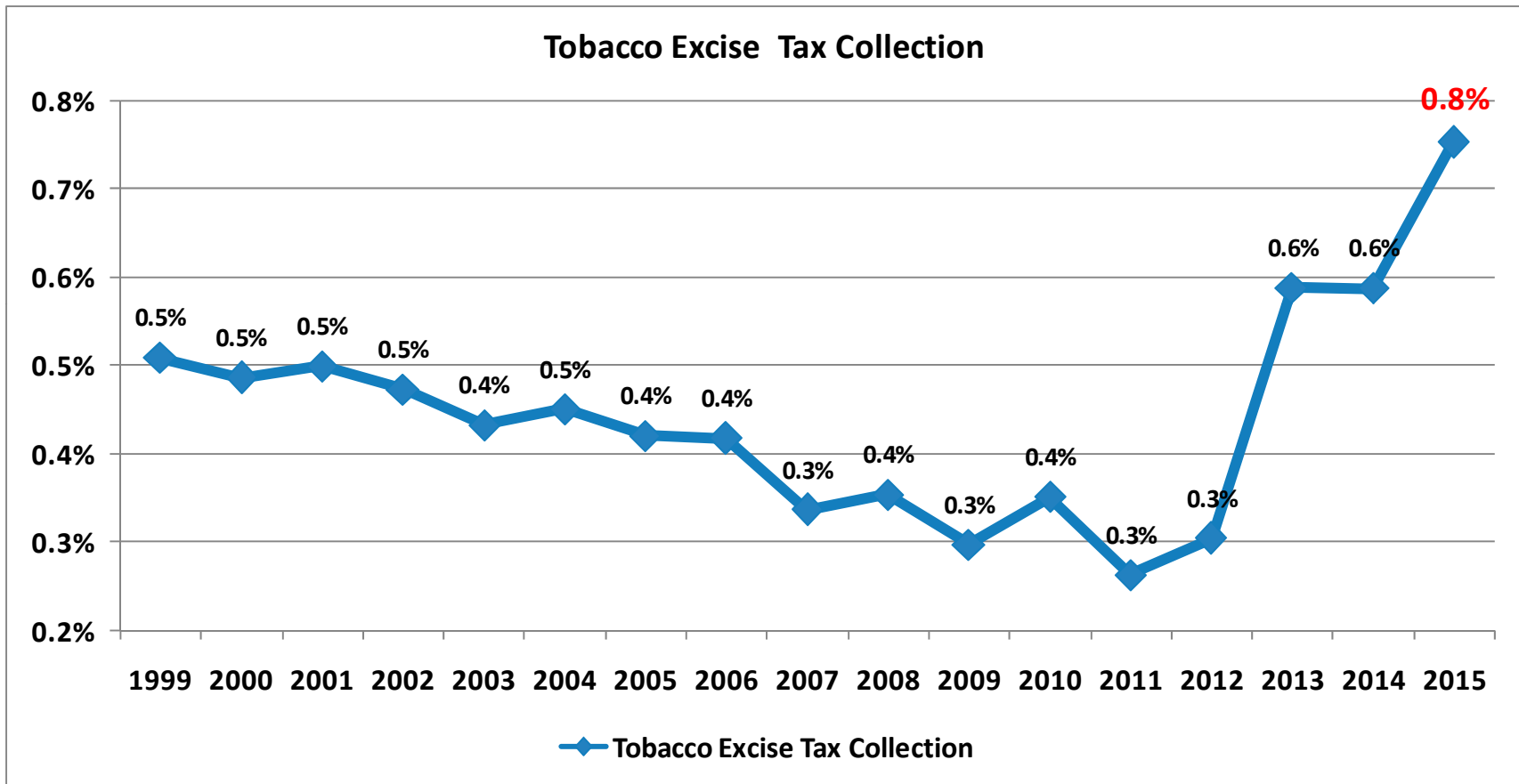


There is a significant spike in the share of tobacco and alcohol excise collections to GDP since the reform.



Source: BIR and NSCB

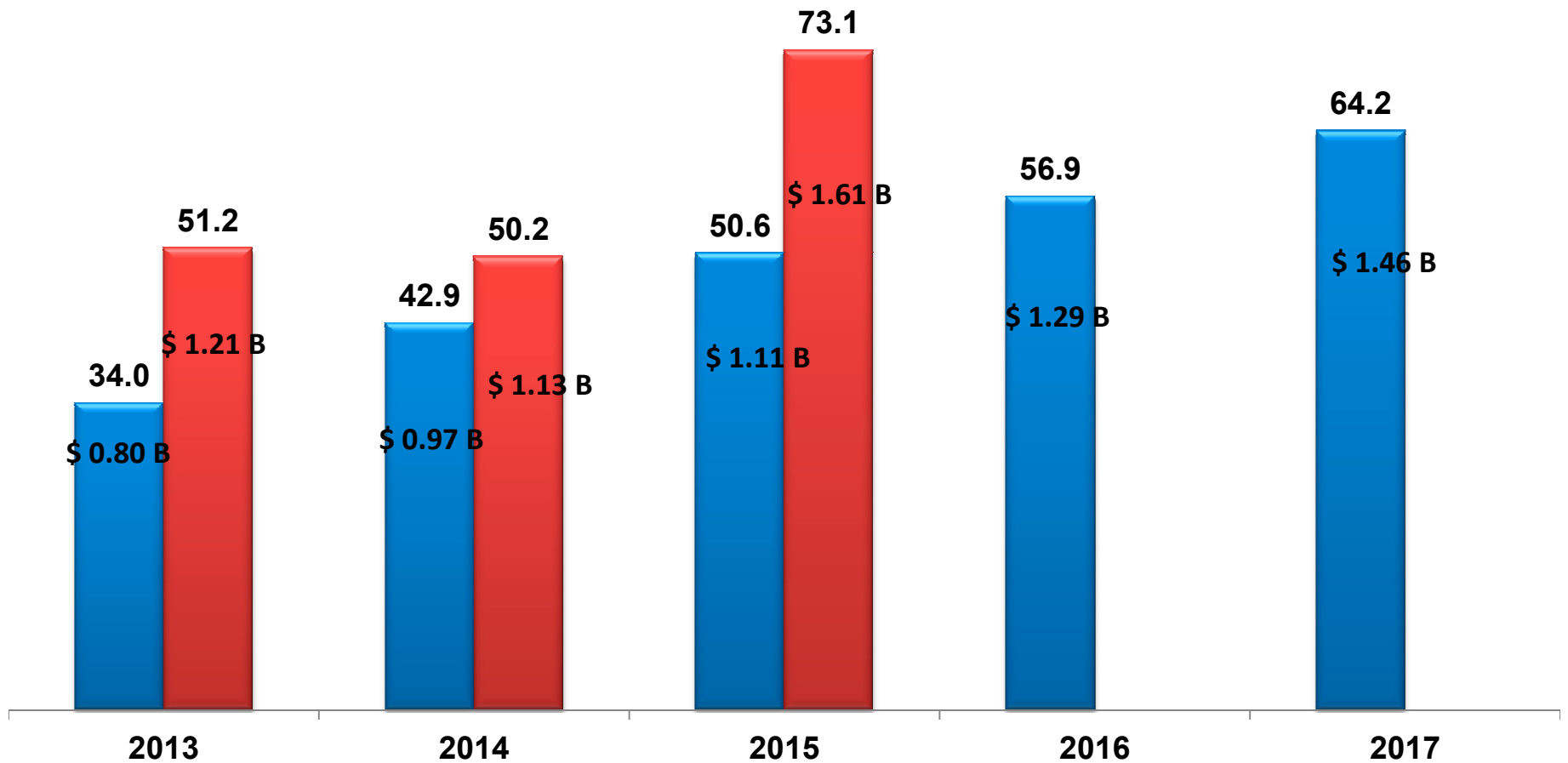
Share of tobacco excise tax collections to GDP



Actual revenues continue to exceed target

Projected vs. Actual Incremental Revenue from RA 10351
(In Billion Pesos)

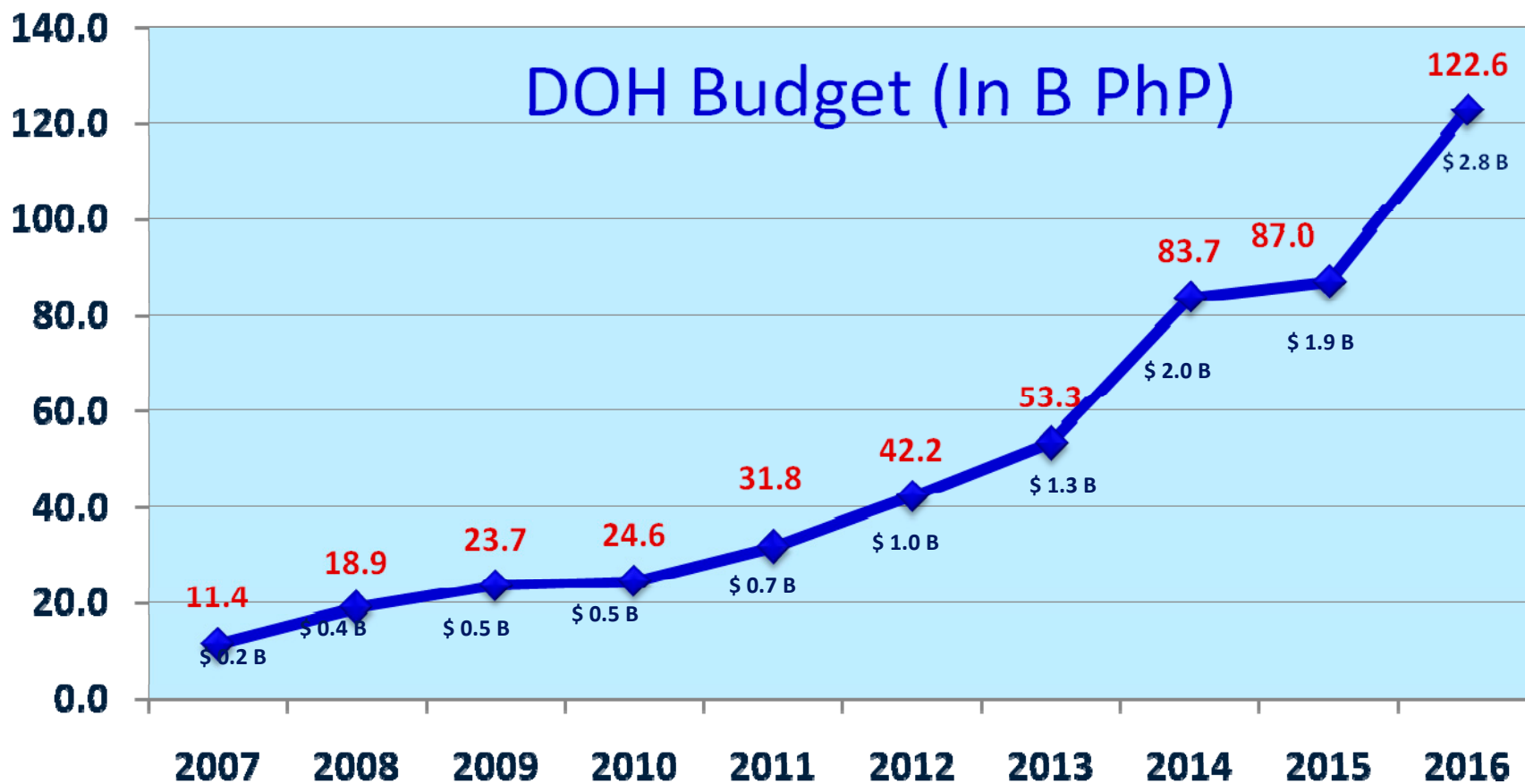
■ Projected ■ Annual



From 2013 to 2015, the average actual excess in collection is P15.66 billion pesos or an average of **0.46% of GDP**.

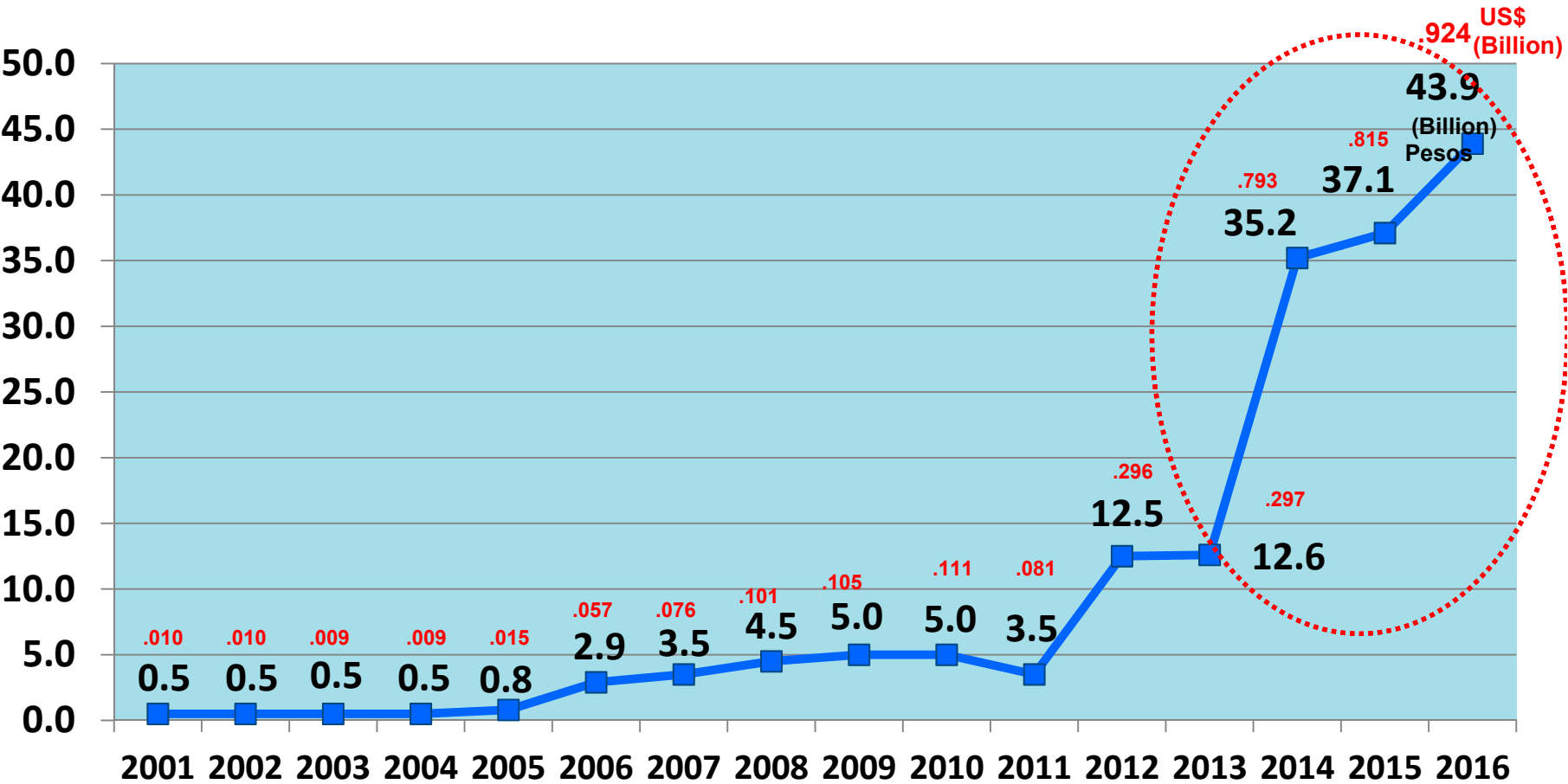
PERIOD	INCREMENTAL REVENUE (In Billion Pesos)			PERCENT OF GDP
	Projected Incremental Revenue	Actual Incremental Revenue	Excess (Deficit)	Actual Incremental Revenue
1st Year – CY 2013				
Tobacco	23.40	41.84	18.44	0.36%
Alcohol	10.56	9.33	(1.23)	0.08%
TOTAL	33.96	51.17	17.21	0.44%
2nd Year – CY 2014				
Tobacco	29.56	39.39	9.83	0.31%
Alcohol	13.30	10.79	(2.51)	0.09%
TOTAL	42.86	50.18	7.32	0.40%
3rd Year – CY 2015				
Tobacco	33.52	55.74	22.22	0.42%
Alcohol	17.11	17.34	0.23	0.13%
TOTAL	50.63	73.09	22.46	0.55%

IMPACT ON PUBLIC HEALTH



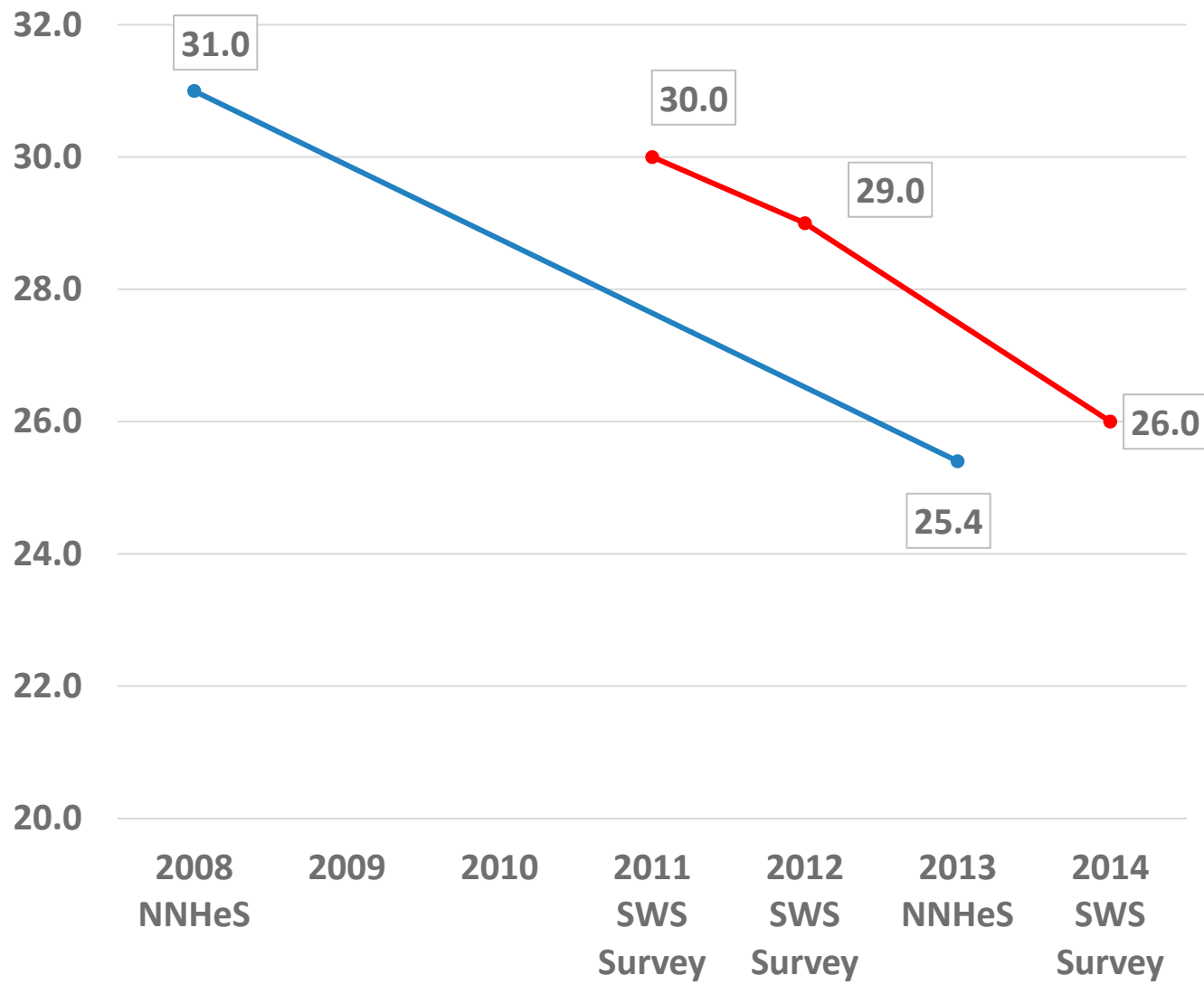
Source: GAA, DBM

National Government Allocation for Health Insurance Premiums for the Poor



Source: PhilHealth, DOH, GAA

Smoking numbers (% of adults smoking)



Key elements for a successful legislative reform

- ✓ Framing the advocacy – focus on health
- ✓ Political support at the highest levels
- ✓ Constructive engagement with stakeholders
- ✓ Analytical support
- ✓ Strategic communications

CONCLUSION

- Philippine Sin Tax Reform generated US\$2.3 billion additional revenues in its first two years of implementation. About 80% of this increase is accounted for by tobacco taxes.
- While the country reaps significant benefits from the reform, several facts remain to be addressed, such as cigarette prices in the country that remain to be the cheapest in ASEAN, next to Cambodia, that may counter the health objective of the law.
- This situation coupled with increases in the consumer's income can be a trigger towards another round of reform that can ultimately bring in not just additional fiscal space but greater health benefits.

THANK YOU