

EXCISES

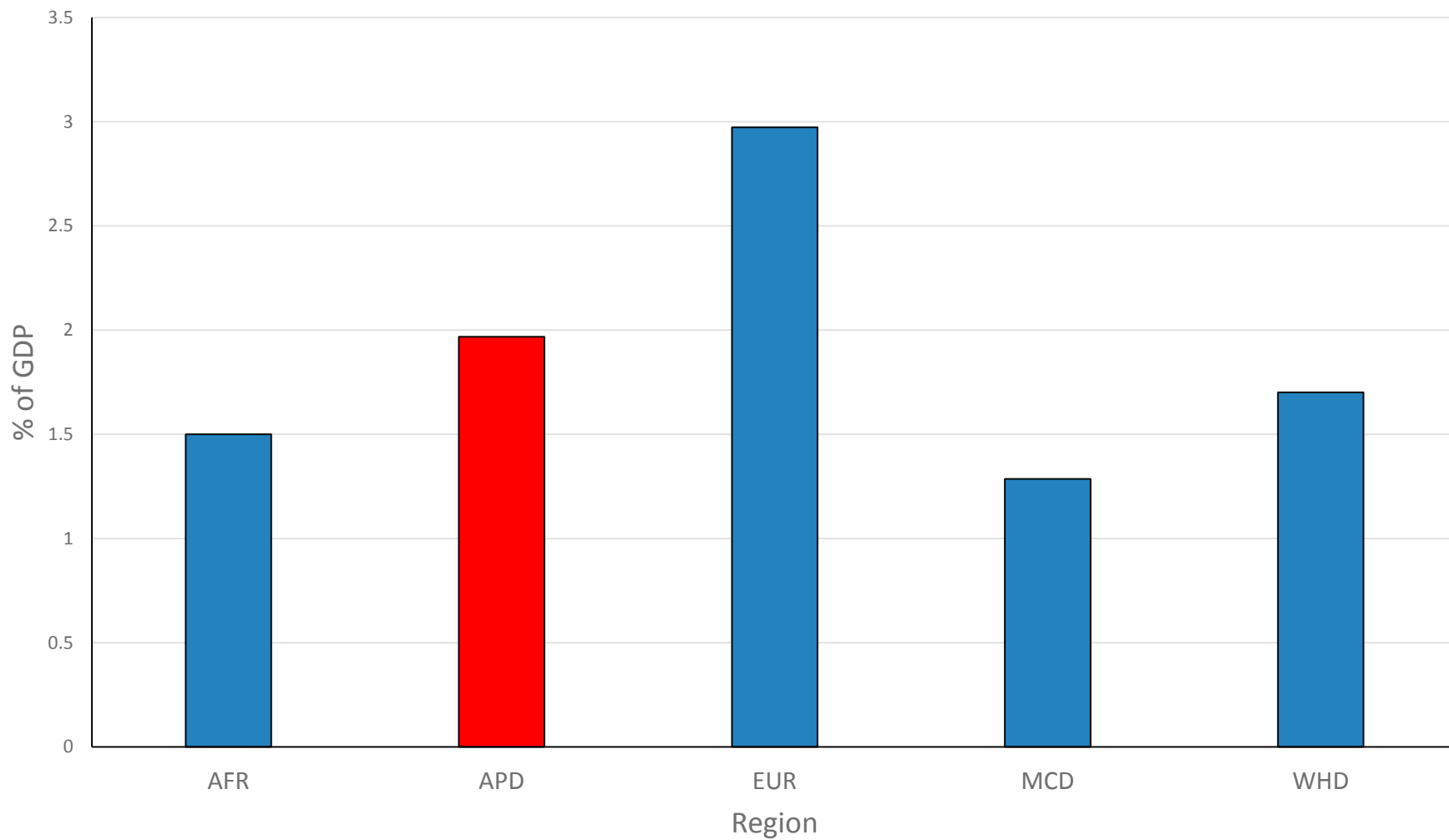
Michael Keen

7th IMF-Japan High-Level Tax Conference For Asian Countries

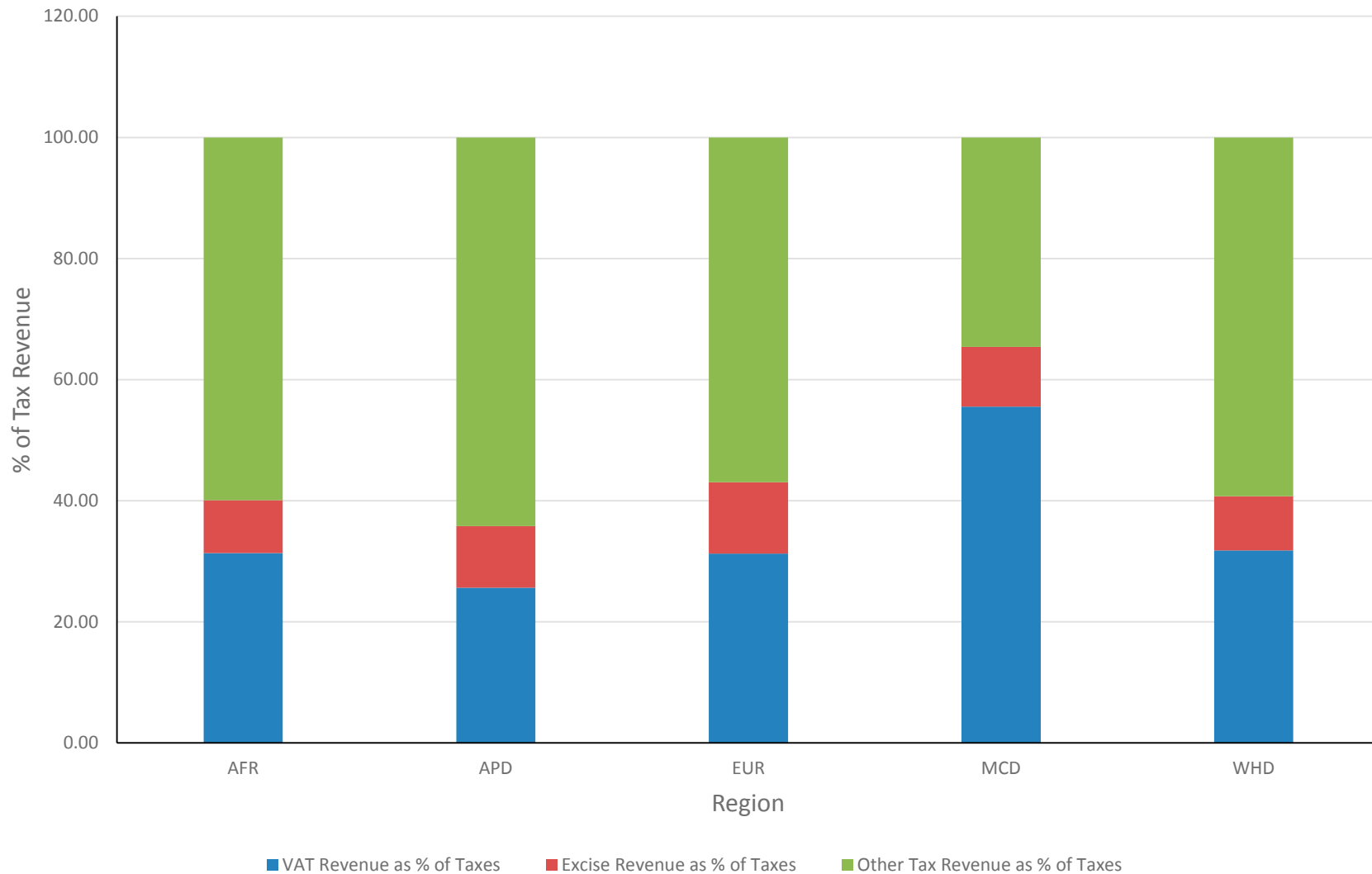
Tokyo; April 5, 2016

BACKGROUND

Excise Revenue in percent of GDP, by region... (2012-14)

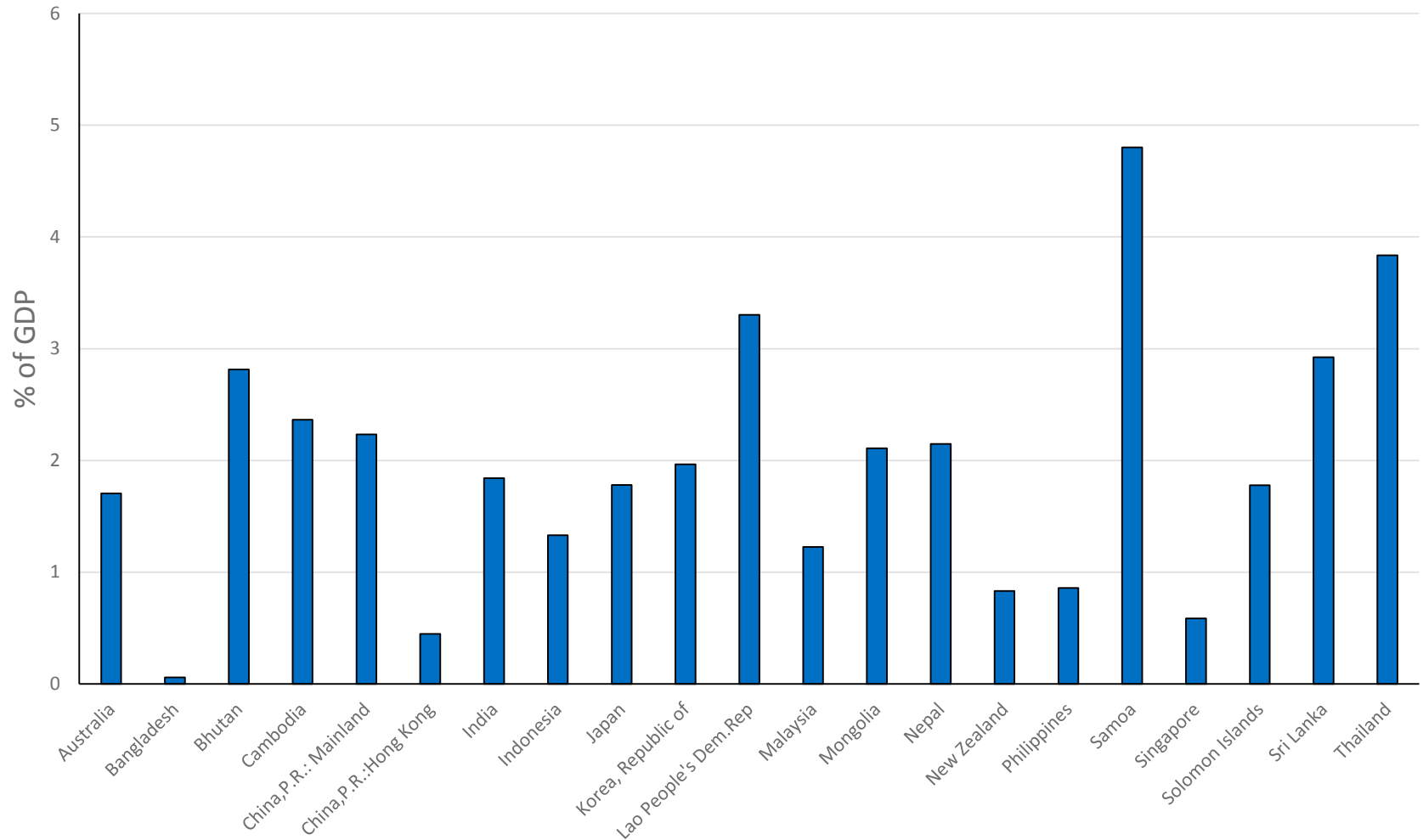


...and as a share of all tax revenue, by region (2012-14)



Again wide variation within region

(2012-14)



RATIONALE

To change behavior

- Externalities—costs borne by others
 - Passive smoking...
 - But may also be fiscal: health care—or reduced pensions
- ‘Internalities’—self-control problems
 - Some see as implying much higher tax rates
- ‘Sin taxes’—same as above?
- But may be other, better ways to affect behavior

Revenue

Goods in relatively inelastic demand or supply a natural target for revenue raising

- Why not differentiated VAT rates?
 - Administrative and compliance costs
 - And externalities may be from production

But an ultimate tension with corrective objective: changed behavior reduces the base

And revenue possibilities constrained by possibilities of:

- Smuggling
- Illegal diversion to domestic market
- Shifting to illicit products

Equity?

- Excises sometime imposed on ‘luxuries’ in pursuit of additional progressivity, but
 - Impact often very limited and poorly targeted (except cars?)
- And many ‘traditional’ excises will be regressive
 - Though some argue e.g. that poor benefit more from essentially paternalistic interventions

TWO DESIGN ISSUES

Specific or ad valorem: Defined....

- **Specific** = Fixed monetary amount per unit of product
- **Ad valorem** = Proportionate charge on price

...compared (1)...

- Addressing externalities etc.
 - Since these likely relate to physical consumption, specific may be preferred
- Administration?
 - Specific simpler; under ad valorem, may need to control/monitor selling price
- Indexation
 - Ad valorem a clear winner

...and compared (2)

- Product 'quality'
 - Likely lower under ad valorem, since costs subject to 'multiplier effect'
 - E.g. At ad valorem rate of 50%, to cover increased cost of \$1 need to raise price by 2\$
 - Consumer price
 - Likely lower under ad valorem, for same reason
 - Combine the two?
 - EU does so
 - Several countries have 'tiered' schemes
- But complex: What exactly is gained?

International tax competition

- Pressure to cut excise rate to attract/protect tax base
 - Classic case is Canada tobacco taxes in early 1990s
- Significant in the region?
- Can address in principle by agreeing minimum tax rates
 - As EU does (in some cases at zero)

Even a low tax country can gain, because high tax country will be induced to increase its excise rate too

SOME ISSUES

Tobacco Excises: Comparing

Diversity/complexity of structures make comparison difficult

Table 7: Excise payable on representative product in each ASEAN member country

Country	Krong Thip excise in THB per pack
Indonesia	30.5 (if factory >2bn) 19.7 (if factory <2bn)
Brunei	29.34
Cambodia	3.04
Laos PDR	9.62 (69.58 imports)
Malaysia	48.63
Myanmar	15.03
Philippines	18.23
Singapore	172.38
Thailand	34.79
Viet Nam	19.76

Tobacco Excises: Two issues

- Earmark receipts for health care?

But earmarking:

- Risks either budget inflexibility or non-transparency
- Can reduce taxpayer resistance; but unlikely in this case (?)

- How to treat e-cigarettes?

Tension between

- Revenue objectives: suggest may want to tax like cigarettes
- Health objectives: if no comparable damage, tax less heavily

Alcohol excises: Comparing

Comparison even harder

Table 4: Excise payable on representative products in each ASEAN member country

Country	Chang Beer 330ml THB per can	White Wine 750ml THB per bottle	Rum 700ml THB per bottle
Indonesia	12.21	98.1 (local) 130.63 (import)	228.1 (local) 396.5 (import)
Brunei	23.39	97.51	413.17
Cambodia	4.86	167	18.23
Laos PDR	9.72	99	106.33
Malaysia	27.95	117.57	113.62
Myanmar	9.72	83.54	91.1 (rural) 109.3 (local) 334.1 (import)
Philippines	2.49	12.46	132.76
Singapore	19.15	158.58	473.32
Thailand	11.47	99	112
Viet Nam	8.51	41.92	82

Source: Preece 2012.

Alcohol excises: Some issues

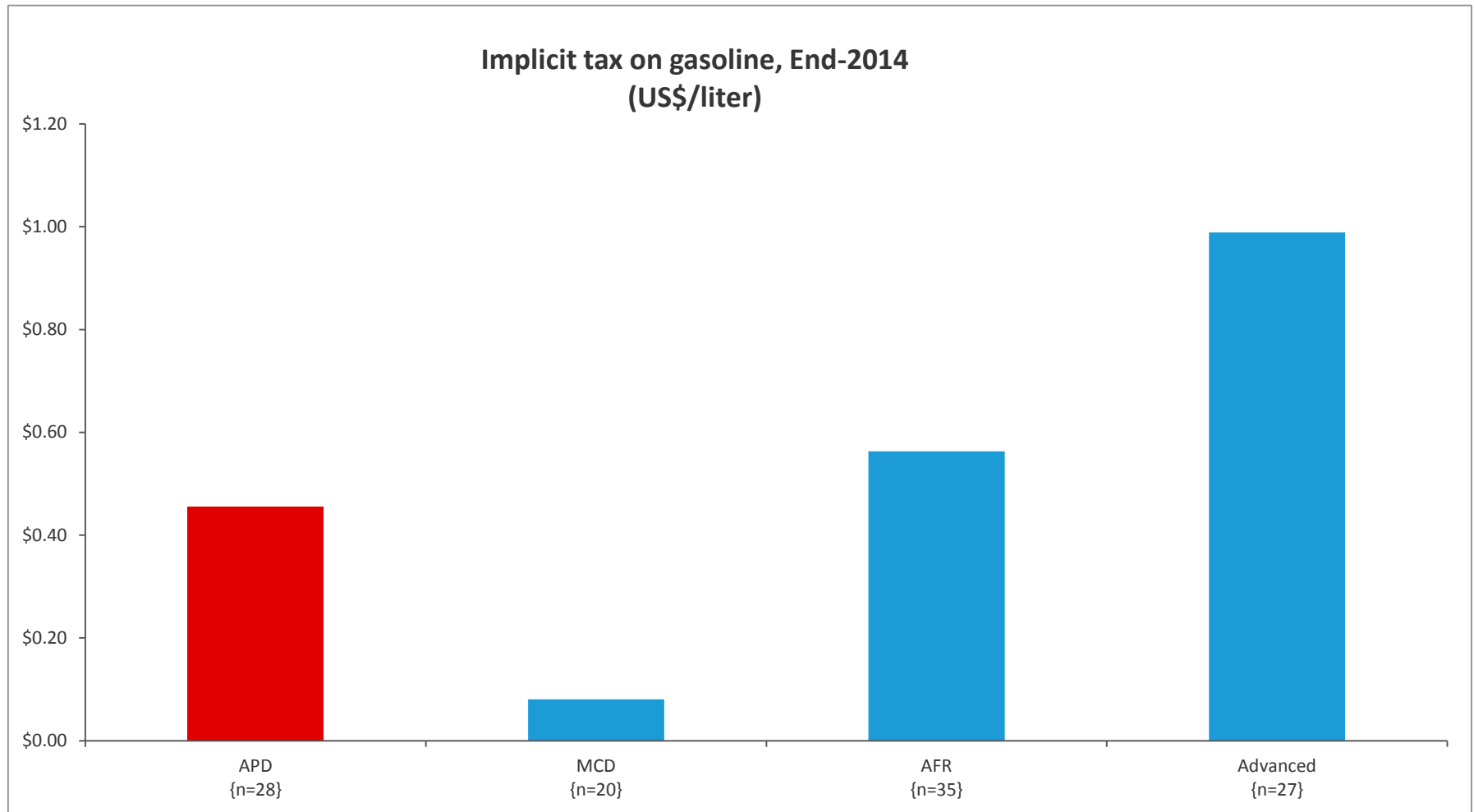
- Externality argument not especially strong (?)
 - Marginal damage varies with amount drunk
 - Other instruments may be better-suited, e.g. driving laws, cars that check breath before starting...
- Illicit production can be seriously damaging
- So is revenue the only rationale for alcohol excises?
- Domestic excises can be used for protection, e.g.
 - High tax on foreign spirits
 - UK required to raise tax on beer relative to that on wine

Petroleum excises: Corrective functions

- Many externalities associated with vehicle use;
 - Road damage
 - Congestion
 - Local pollution: noise, NO_x
 - Accidents
 - Climate change
 - In principle, a corrective tax for each—eventually
 - E.g. with effective congestion pricing, petroleum excises could actually fall
- But, for now, one charge to cover all

Petroleum excises: Room to do more...

...especially now oil prices are low?



Other

- Telephone excises
 - Significant revenue potential, but inferior to auctioning spectrum rights
- Fat/sugar/unhealthy foods/drinks
 - Experience mixed: Denmark withdrew, some impact in US
 - Admsintratoisn may be challenging....
 - ...but taxes on sodas quite widely used
- Gambling excises
 - Challenges from online gambling