



## **ATAF Tobacco Tax project demystified**

### **New ATAF Project**

As part of ATAF's mission which aims at improving tax systems in Africa through exchanges, knowledge dissemination, capacity development and active contribution to the regional and global tax agenda, ATAF, with the support of Bill and Melinda Gates Foundation (BMFG), has introduced a new project on tobacco tax.

ATAF recognises that domestic revenue mobilisation (DRM) is vital for financing the SDGs and AU Agenda 2063 and enhancing it in African Countries can significantly impact social economic development. With African Tax Outlook revealing a lower tax-to-GDP ratio in Africa compared to other regions, improving tobacco tax policy and administration can boost DRM without causing economic distortions or burdening taxpayers.

Moreover, effective tobacco tax policy is linked to SDG 3 and Agenda 2063 Goal 3, promoting healthier lives and well-being for African citizens by potentially driving positive behavioural changes through increased tobacco costs.

BMGF and ATAF share the value of promoting the well-being and welfare of citizens. This is underlined by the intersecting goals of reducing the negative impact of tobacco on public health, while simultaneously increasing domestic revenue mobilization in Africa

### **Tobacco Tax Explained**

Tobacco taxation has been a global agenda for a long time. This is partly driven by three main considerations.

Firstly, the fact that tobacco is the leading preventable cause of death in the world. The World Health Organisation (WHO) estimates that tobacco use is responsible for causing 8 million deaths every year and causes more disability and ill health than any behavioural risk factor. In response to the globalization of the tobacco epidemic, the WHO Framework Convention on Tobacco Control (WHO FCTC) was negotiated and adopted on 21 May 2003 and has since become one of the most rapidly and widely embraced treaties in United Nations history. The

treaty requires countries to use price and tax measures to reduce tobacco consumption. Currently, 43 member states in Africa have ratified the FCTC.

Secondly, evidence has shown that of all the measures that have been taken to reduce tobacco use, raising prices through taxation is the most effective way. According to the WHO (2023) A report published in 2019 estimated that 27.2 million premature deaths could be averted globally within a 50-year period if countries raised the price of tobacco by 50% using tax increases. This is equivalent to eliminating all global cancer deaths for a span of 3 years (around 9 million deaths per year).

Thirdly, tobacco taxation is critical for domestic revenue mobilisation. The African Tax Outlook (ATO) reveals that the Tax-to-GDP ratio in ATO countries was averaging at 14.55% in 2021 which is considerably lower than the OECD average of 34.1 % recorded in 2021. There are several factors that contribute to the lower Tax-to-GDP ratio in ATO countries as explained in the ATO. Nonetheless, this shows that there are significant opportunities for domestic revenue mobilisation in African Countries.

This project will in future be extended to cover other harmful products such as alcoholic beverages, sugar- sweetened beverages and other products under the excise tax regime. These taxes are critical for domestic revenue mobilisation as well as achieving the SDGs and AU Agenda 2063 which includes promoting healthier lives and well-being for African citizens by potentially driving positive behavioural changes.

The tobacco tax project aims to deliver expert guidance and foster skill development in African nations, enabling them to devise and execute effective tobacco tax strategies. By engaging key stakeholders such as policymakers, tax administrators, and civil society organizations dedicated to tobacco control, we will collaboratively work towards creating a more prosperous and healthier Africa.

### **Tobacco Tax. What is it?**

Tobacco tax covers all the taxes applicable to tobacco products and the tobacco industry including indirect taxes such as excise taxes, value added taxes, customs taxes, other levies, and direct taxes such as income taxes. Of the different types of taxes levied on tobacco products, excise taxes have the most significant impact on the prices of these products and hence have the potential to have more impact in domestic

revenue mobilisation as well as health. As such, significant attention has been given to excise taxes.

### **The why - Key policy and tax administration Issues covered in the project:**

Some of the key issues that the project will address include,

- 1. Tax policy related issues** – These include development of effective tax structures, tax rates and other tax policy related issues. The structure of taxes (especially excise tax) adopted by a country has huge impact on the effectiveness of the tax itself and whether the tax will achieve the intended purposes. Through this project, ATAF will assist tax administrations in designing effective tax structures through toolkits that enable countries model optimal tax structures and tax rates.
- 2. New and emerging tobacco and nicotine products-** in the last couple of years, the tobacco industry has grown beyond the traditional cigarettes and cigars to new products such as; electronic cigarettes (also called, electronic nicotine delivery systems (ENDS) and electronic non-nicotine delivery systems (ENNDS)), heated tobacco products (HTP), nicotine pouches, nicotine gums, smokeless tobacco ad water pipes or shisha, among others. The 2023 African Tax Outlook data shows that more than half of the ATO countries do not have any form of excise duty on electronic cigarettes. This therefore means a lot of these emerging product are not effectively taxed or regulated in many African countries.
- 3. Tax Evasion Illicit Trade** – Illicit trade is a global challenge. Tobacco products are some of the most affected products by illicit trade. The impact of illicit trade in tobacco products is massive both in terms of revenue loss and public health. In response to the growing illicit trade in tobacco products, another international treaty (The WHO Protocol to Eliminate Illicit Trade in Tobacco Products) was negotiated with the objective of eliminating all forms of illicit trade in tobacco products. ATAF recognises the role played by tax administrations in the implementation of this Treaty and the fight against illicit trade. This project will focus in assisting African countries develop effective measures to mitigate illicit

trade in tobacco products. It is important to note that these measures can be used to fight illicit trade in other products as well therefore protecting African citizens from illicit goods and protecting the much-needed revenue.

4. **Tax Administration issues** – There are many challenges being faced by tax administrations in the implementation of tobacco taxation and excise taxation in general. These includes, effectively monitoring tax compliance by the tobacco industry and conducting tax audits and tax investigations on non-compliant persons. Through this project, ATAF will build capacity for tax administrations to enable them deal with these challenges.
  
5. **Technology** – There has been significant developments in tax technologies. These include technologies such as production monitoring systems and track and trace systems that are used for monitoring tobacco products throughout the entire supply chain of tobacco products. In most countries these technologies are also used to monitor other products that are considered high risk. This project will also assist African tax administrations in the implementation of effective tax technologies.

### **The How- Key Activities of this project**

Some of the key activities that will be undertaken by ATAF under this project include.

1. **Research & Analysis- Examine** existing tobacco taxation policies, practices, legal and regulatory frameworks, and tax administration systems in African countries.
2. **Capacity Building** - Develop programs, workshops, and seminars to train government officials and stakeholders in tobacco taxation policy development and implementation.
3. **Technical Assistance Materials** -Create policy briefs and a toolkit to support the implementation of effective tobacco taxation policies.
4. **Hands-On Support** - Provide technical assistance to African countries in tobacco tax policy design and implementation.
5. **Monitoring & Evaluation**-Assess the effectiveness of implemented tobacco taxation policies, including revenue generation.

- 6. Knowledge Sharing** -Disseminate project findings, best practices, and lessons learned through policy briefs, workshops, and conferences.