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Tobacco Taxes Promote Equity: Evidence from Around the Globe

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Research from [Tobacconomics](#), an economic research program at the University of Illinois Chicago in the United States, shows that tobacco taxes are an effective tool to promote equity because they reduce tobacco use, particularly among people with lower income.

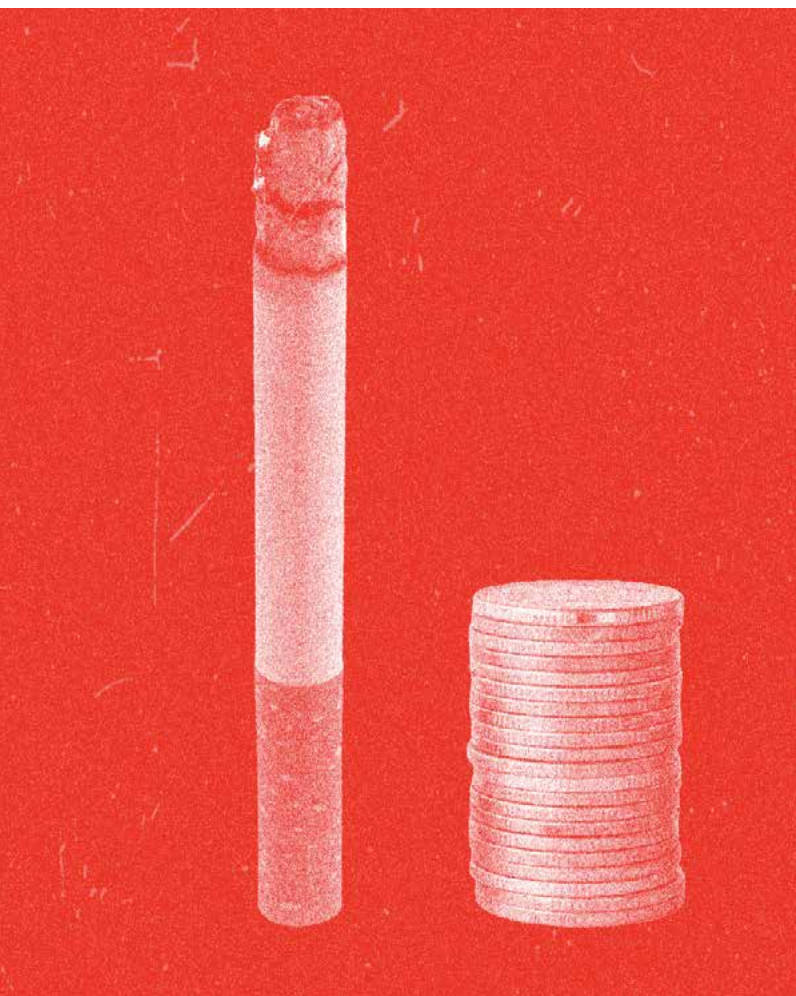
The evidence is global: Research and projections across Asia, Latin America and Southeastern Europe from the last five years show that tobacco taxes can help reduce the inequity caused by tobacco use and promote equity without a substantial increase in illicit trade.

1. Tobacco use worsens existing inequities.

People with lower income typically face more barriers to good health and financial security than their higher-income counterparts. Tobacco use, which causes disease and financial strain, makes these existing inequities worse. The tobacco industry plays a large role in perpetuating this inequity. It targets its lethal products at people with lower income by facilitating the sale of [single sticks](#), which keeps cigarettes cheap and accessible. It also fights tobacco tax increases, which are proven to reduce tobacco use among price-conscious consumers, including youth and those with low income.

- **Tobacco spending pushes households into poverty or deeper into existing poverty.** The “impoverishing effect,” where tobacco spending reduces already-limited budgets, was observed in [Albania](#), [Mexico](#) and [Vietnam](#), where spending on tobacco and tobacco-related medical care pushed people into poverty or reduced their disposable income to below the poverty line.

- **Tobacco use leads to the “crowding out” effect, especially among those with low incomes and limited budgets.** Researchers found examples from [Indonesia](#), [Pakistan \(2020, 2021\)](#), [Mexico](#), [Montenegro](#), [Serbia](#) and [Vietnam](#), of household spending being diverted away from basic needs such as healthy food, housing and health care and toward tobacco.
- **Children living in households with smokers are more likely to experience malnutrition or stunting.** In [Indonesia](#), researchers estimated that increased spending on cigarettes would be associated with decreased height and weight among children, particularly among low-income and rural households.



2. Tobacco taxes are progressive and pro-equity.

Tobacco taxes are one of the best ways to reduce tobacco use and promote health and financial equity. When the medium- and long-term indirect effects of tobacco taxes are taken into consideration, people with lower income—those whom the industry has targeted with its addictive and harmful products—see the greatest economic benefits. When tobacco taxes cause the price of tobacco to rise substantially, people with lower income are more likely than other economic groups to reduce tobacco use or quit entirely, as observed or projected in [Bangladesh](#), [Pakistan](#), [Peru](#) and [Vietnam](#). As a result:

- **People with lower income would reduce their tax burden more relative to their higher-income counterparts.** Data from [Albania](#), [Bosnia and Herzegovina](#), [Kosovo](#), [Mexico](#), [Montenegro](#) and [Serbia](#) suggests that because lower-income smokers reduce their tobacco use more in response to higher tobacco taxes, they would pay a smaller portion of the overall tobacco tax burden. Interestingly, in North Macedonia, researchers predict that lower-income smokers would reduce their tobacco use in response to increased tobacco taxes, yet the tax burden would be reduced most for middle-income households. In all simulations, the higher tax burden shifts to higher-income smokers.
- **People with lower income would experience less tobacco-related disease and reduced medical costs, and increase their earning years and net income.** Data from [Albania](#) show that premature deaths that have been averted due to increased tobacco taxes would occur more among lower-income smokers. Cost-savings from reduced tobacco use, reduced tobacco-related medical care and increased working years were projected to increase overall net income in [Argentina](#), [Brazil](#), [Mexico](#), [Montenegro](#) and [Peru](#). Reduced tobacco spending would also allow people to allocate more money to essentials like housing, food and education, as projected in [Indonesia](#), [Pakistan \(2020, 2021\)](#) and [Serbia](#). This typically contributes indirectly to higher incomes in both the short- and long-term, including for their children.

- **Higher tax revenues would have society-wide positive effects and reduce poverty.** Researchers suggest in reports from Mexico ([2019](#), [2020](#)) that tobacco taxes could be used to fund anti-poverty measures. In the [Philippines](#), for example, a substantial portion of tax revenues brought in by the country's "sin tax" on tobacco and alcohol go toward health care coverage for low-income Filipinos. Higher tobacco taxes are also projected to delay smoking initiation among youth in [Albania](#), [Argentina](#), [Brazil](#) and [Mexico](#), protecting a younger generation from the impoverishing effect, tobacco-related medical costs and decreased income-generating years due to illness.
- **The tobacco industry uses the threat of increased illicit trade as an argument against several tobacco control measures that would reduce tobacco use.** To preserve its profits, the industry fights tobacco control measures that would reduce tobacco use. The industry cites potential increases in illicit trade as an [argument against standardized \(plain\) tobacco packaging](#) and tobacco sales bans, such as those instituted in [South Africa](#) in early 2020. In the event that illicit trade does increase, the gains from new tax revenues and improved public health far outweigh its negative effects.

3. Tobacco taxes do not substantially increase illicit trade.

Tobacco companies argue that increased taxes that make tobacco more expensive would result in more tobacco smuggling. This fear may seem valid superficially: An increase in illicit trade would be particularly harmful to low-income groups, including youth, as it makes tobacco more accessible and affordable. Research, however, does not support the claim that higher taxes lead to an increase in illicit trade.

- **Higher tobacco prices would not lead low-income smokers to switch to illicit tobacco.** In [Brazil](#), projected increases in prices of legal cigarettes did not suggest smokers would switch to illicit cigarettes. In an analysis of a proposed tax structure in [Vietnam](#), researchers found that even the largest tax rate studied would not substantially increase illicit trade.

Additional Resources

Learn more about tobacco taxes, their effects on tobacco use and the industry's responses to them with the following resources.

- [Research on Tax and Price](#) (Tobacconomics)
- [The Price We Pay: Six Industry Pricing Strategies That Undermine Life-Saving Tobacco Taxes](#) (STOP)
- [Price & Tax](#) (TobaccoTactics)
- [Guidelines for Implementation of Article 6](#), the WHO Framework Convention on Tobacco Control article relating to tobacco taxes (World Health Organization)



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About STOP (Stopping Tobacco Organizations and Products)

STOP is a global tobacco industry watchdog whose mission is to expose the tobacco industry tactics that undermine public health. Comprised of a network of academic and public health organizations, STOP researches and monitors the tobacco industry, shares intelligence to counter its tactics, and exposes its misdeeds to a global audience. STOP is funded by Bloomberg Philanthropies as part of the [Bloomberg Initiative to Reduce Tobacco Use](#). For more information, visit [exposetobacco.org](#).

About Tobacconomics

Tobacconomics is a collaboration of leading researchers who have been studying the economics of tobacco control policy for nearly 30 years. The team is dedicated to helping researchers, advocates and policymakers access the latest and best research about what's working—or not working—to curb tobacco consumption and the impact it has on our economy. As a program of the University of Illinois Chicago, Tobacconomics is not affiliated with any tobacco manufacturer.

For more information, visit [tobacconomics.org](#)

