

# Sin tax bills pros and cons economics essay



**ASSIGN  
BUSTER**

With tobaccos and cigarettes being the major cause of lung cancer deaths in the Philippines, advocates are pushing to pass the Sin Tax Bill. Sin tax bill is the tax levied on any products that are notorious to be harmful like cigarettes, alcohol and even activities like gambling. In connection to this, it is said to be effective in reducing behaviour of using such. This thesis paper aims to show the pros and cons of the Sin Tax Bill reforms to the Philippine economy, presented before the Senate and the House. There were three specific sin tax reforms discussed, the Abaya Bill, Recto Bill, and the Santiago Bill. This study accentuates that the approval of the said bill has its great advantages that will help the country's economy, but its possible disadvantages must not be neglected. Moreover, the ideas written here are not against the bill, but therefore require further analysis and revisions that are deemed helpful to the Philippine Economy.

Discussion

## **Introduction**

According to the World Health Organization in 2009, tobacco is responsible for 12% of male and 6% of female deaths worldwide. The Acting Chief of NCI Tobacco Control Research Branch Chief, Michele Bloch, MD, PhD said that overall around the globe, there are 41% of men that smoke and only 9% for women; also it is estimated that the total number of tobacco-related deaths will rise from 6 million today to 8 million in 2030 (Fromer, 2011). Every day, a person dies from lung cancer in the Philippines. Tobacco or cigarette is the only legal consumer product that kills half of its users when used as directed by the manufacturer. And not only cigarettes, but as well as other socially proscribed goods such as alcoholic beverages, drugs and even soft drinks (in

other areas), are considered to be undesirable or harmful, and thus were levied with higher taxes compared to the original by the government - in layman's term: The Sin Tax.

" Sin tax in modern economic terms, are externality taxes, taxes designed to reduce behaviour which is known to be 'harmful to society'" (Gifford, 1997. p. 1). It is an excise tax on which its objectives is to make consumers lose interest in buying such by imposing taxes on goods that are known to be harmful and lethal such as cigarettes and liquor or activities like gambling (Philippine Daily Inquirer, 2012).

Before, a Tiered Specific Tax system based on suggested retail price (srp) was put in place. Until the late Pres. Corazon Aquino's administration in 1986, reforms the tax system by changing the specific or unit-based tax to an Ad valorem Scheme, from where the price is based on the manufacturers, for cigarettes. From then on, sin tax bill was revised many times until the year 2004, where the Congress passed Republic Act No. 9334: an act increasing the tax collection; but this is widely considered to be ineffective and a watered-down law. On its implementation in January 2005, under this law, all brands of cigarettes and alcohol products are mandated to an increase in the excise tax rate every two years, up until the year 2011, where there will be specified varying rates of increases (Philippine Daily Inquirer, 2012).

The matter on the issuance of the new sin tax bills proposed by different officials, mainly those of Abaya, Recto and Santiago, has caught many people in between two arguments. The Department of Finance wants the sin

tax bill to raise P60 billion to fund the government's universal healthcare program, especially for the care of public hospital patients with lung diseases. The bill's obvious benefit on its approval is more health-related, but there are still quite a number of critics against the approval of the said bill. Why? Because there are multiple reasons as to why the sin tax bill reform must not be approved and therefore must be a subject for further and more improved revisions.

### **Different types of Sin Tax Bills proposed**

**A data from the American Cancer Society and World Lung Foundation says, " Despite the existence of laws that limit smoking, male Filipino smokers are among the top smokers in the world occupying the ninth spot following India and China among others" (Manongdo, ¶1). In accordance to this, many government officials started passing reforms of different kinds that are to change the current sin tax bill implemented.**

Firstly, the approved Abaya Bill: House Bill 5727, or the Act Restructuring the Excise Tax on Alcohol and Tobacco Products states that there will be equal taxes rates to be charged to any cigarette brands. With this, there will be competition between cigarette companies. Cavite Rep. Joseph Emilio Abaya agreed to amend the sin tax on tobacco products from unitary tax system to two tiers. Under " substitute" bill, there will be two tiers or groups for cigarettes while distilled and fermented liquor will have 3. Tier 1: Cigarette packs priced lower than 11. 50php below are meted with a P12 tax on the first year and P24 on the next year; while on Tier 2: Cigarette packs priced 11. 50php above are meted with P28. 30 on the first year, and P30 on the second year. Indexation or increase will be 8% for every two years, until the <https://assignbuster.com/sin-tax-bills-pros-and-cons-economics-essay/>

year 2025. It has been over 15 years since a sin tax bill made it out of committee meetings in Congress. A landslide vote happened in June, where 210 lawmakers voted to pass the amended House Bill 5727, by Cavite Rep. Abaya. But the bill was watered down, since the bill aims to reduce consumption of tobacco and alcohol, especially among the poor, while raising additional revenues, which will be channeled to the government's health care program (Balea, 2012). According to Finance Assistance Secretary Teresa Habitan, amended version will only translate to P33 billion from the original plan of P60billion revenue.

Secondly is the Recto Bill by Sen. Ralph Recto. For cigars, the current 2-tiered NRP-based structure shall be retained, but starting March 1, 2013, there shall be an increase to the ad valorem rates by more than 100 percent. Pursuant to Cathy Yamsuan's report in the Philippine Daily Inquirer 2012, there will be an increase of 121 percent to hand-packed cigarettes taxes from P2. 72 to P6 per pack beginning March 1, 2013, particularly in low-priced cigarettes. While mid-priced cigarettes, a 32% rise from P7. 56 to a P10 tax; and high-priced cigarettes, a 17% increase from P12 to P14 tax per pack. Recto, however, presented a committee report that would raise only between P15 billion and P20 billion in additional sin taxes.

Lastly is Sen. Miriam Santiago's proposed reform.

" Santiago said that under her bill, 85 percent of the P60 billion would be used for the government health program while the remaining 15 percent for safety nets that would ensure that tobacco farmers can shift to more

lucrative crops like vegetables that have a bigger market than tobacco" (Yamsuan, 2012, ¶12).

No more further discussions needed to Santiago's Bill because Juan Ponce Enrile, the current Philippine Senate President, noted that the Santiago bill is "almost similar to the government's original position. Sen. Miriam Defensor-Santiago's version of the Sin Tax Bill or the Senate Bill 3249 espouses a single tier excise tax scheme for cigarettes. The version reported out by Recto's Ways and Means Committee pushes a multi-tier scheme, while the House-approved bill is a two-tier system.

## **Advantages**

There are a lot to mention when we look in-depth to the possible benefits, the country may be subjected to, that will be a great help to the society. Here, there are three main points that are most likely to be emphasized. First are the sin tax bills' health-related purposes and benefits. Since the real reason behind the implementation of this law is to discourage the people, especially the youth to smoke cigarettes and indulge themselves to other vices, Department of Health (DOH) said that sin tax bill is a 'health bill'. If this is approved, many Filipino lives will be saved if this law is effective enough after its implementation. As stated by The National Youth Commission (NYC), the number of young smokers in the country had increased. "Two of five Filipinos aged 13 to 15 years old consumed tobacco last year. The increase in cigarette prices may thus limit the number of young smokers" (Garcia, 2012, ¶15). On the other hand when the Laylo Research Strategies made a poll survey on how will Filipino smokers react if there is an increase in sin taxes, the survey results confirms what the <https://assignbuster.com/sin-tax-bills-pros-and-cons-economics-essay/>

advocates have been saying higher tobacco taxes would accomplish: discourage consumption and therefore reduce the number of Filipinos who either develop diseases or die from smoking. " The Southeast Asia Initiative on Tobacco Tax says higher " sin taxes" can help save 140, 000 to 1. 3 million Filipinos. With the pending Sin Tax bill likely to affect cigarette prices, 31% of the regular smokers said they will slowly stop smoking, while 17% will stop immediately" (Rappler. 2012 ¶2&4).

In a study on Tobacco and Poverty of the World Health Organization (WHO) in 2008, the annual government revenues of P23 Billion from tobacco taxes is not enough compared to the conservatively estimated P149 Billion annual economic losses due to expenses for productivity and health care costs of the top four tobacco related diseases: Cancer, Chronic Obstructive Pulmonary Disease, and stroke. (Manongdo, 2012). According to reports furnished, the money the government spends on tobacco-related healthcare issues is more than the revenue it gets from the taxes collected from tobacco and alcohol products. " This means that the government is spending more to cure diseases - chronic pulmonary diseases, heart disease, cancer, liver diseases etc. - that are caused by the consumption of tobacco and alcohol" (Garcia, 2012 ¶9).

Secondly, with higher sin tax rates means higher government revenues. Let's say there's no existence of the sin tax bill, which means, 0% tax increase. With no tax, the government will only garner 25. 4B php annually. But in consideration of the Recto's Bill, with 65% tax increase, there will 37. 8B php revenue. While in Santiago's Bill, with 265% tax increase, there will be no less than 68. 7B php revenue, which is by the way more than enough for the <https://assignbuster.com/sin-tax-bills-pros-and-cons-economics-essay/>

government's goal of 60B php. According to Dr. Antonio Dans, professor at the UP-College of Medicine, with the approval of 265% proposed tax increase by Santiago; chances are, smoking rates will go down to 26% from 31%.. " That drop from 31% to 26% represents more than two million people stopping smoking. If you stop smoking, you will avoid death from 49 diseases that can kill you from smoking like lung cancer, coronary diseases, stroke, heart attack, chronic pulmonary diseases" (Antonio, 2012, ¶).

Lastly, international smuggling of cigarettes will be lessened. According to Sen. Pia Cayetano, " the Philippines has the second cheapest retail price in Asia" (in terms of cigarettes). Even among the cheapest in the world, primarily because of relatively low tobacco taxes. Many other countries levied heavy amount of tax on cigarettes as part of their public health policy. Dr. Aida Yurekli, coordinator of the WHO's Tobacco-Free Initiative, says the nation's low taxes on tobacco drive the foreign demand for illegal imports of cigarette from the Philippines. He once thought the China is the main source of smuggled cigarettes, but he found out that there was a big number coming from the Philippines. Since tobacco companies are paying (low) taxes, they tend to overproduce. And an excess of 2 billion packs from the 5. 4 billion packs to be produced this year, from which only 3. 5 billion packs will be consumed, makes it suspicious (Merueñas, 2012).

With the effectiveness of tax increase, Philippine cigarettes would not be any cheaper than before, and thus will discourage international smuggling, since tobacco companies will pay more taxes, and no longer will have rooms for overproduction - that may end up as smuggled goods to other countries.



## **Disadvantages**

Though many people, if asked, are pro-sin tax bill, due to its undeniable benefits, lawmakers, still, remain divided over the sin tax bill. Debaters tend to overlook the possible drawback, the sin tax bill, may offer to the country's economy.

Tobacco farmers are the most affected in the approval of the any bills mentioned above. La Union Rep. Victor Francisco Ortega said that many tobacco farmers were able to send their children due to their jobs in the tobacco industry. " It has done more good, than evil", he said in an interview hosted by respected broadcast journalist & Rappler editor-at-large Cheche Lazaro (Bisyo: A special report on Sin Tax, 2012).

In the interview, Bayan Muna Rep. Neri Colmenares said,

" The government has not provided a comprehensive program for the support services, subsidy and assistance to tobacco farmers. Tobacco farmers will not benefit from the increase of retail prices of cigarettes increase due to sin tax". Therefore, the higher sin taxes will definitely negatively affect the tobacco industry, which will result into unemployment to huge industries like Fortune Tobacco and the likes. (Bisyo: A special report on Sin Tax, 2012)

In one of the three stated bills proposed above, specifically the Abaya Bill, 'inequity in pricing the goods' may occur. If all brands will be taxed similarly, small scale companies are at a big loss - and at the worst scenario, may stop production. Abaya suggested that equality in taxes will create competition between large scale companies and local tobacco companies; but the latter

<https://assignbuster.com/sin-tax-bills-pros-and-cons-economics-essay/>

will be burdened more since bigger companies are far more able in paying the demand tax levied to their products. With high taxes means less production, which will end up to less profit by the company, and later on - bankruptcy. On a debate, Sen. Ralph Recto said that if they tax too much, it may kill industries, and even the cigarette industry may be burdened too much already. Revenues may be lessened due to insufficient companies producing cigarettes, from where taxes are supposedly to be collected from.

Too high taxes may result in less revenue. How? One of the debaters in the senate, Mr. Manos Koukourakis said, " When you apply so high tax increases, people will find alternative ways to smoke" (Bisyo: A special report on Sin Tax, 2012). Consumption did not diminish; on the contrary, it has increased. At first, sin taxes will give increased revenues for the government, but in no time, it will fall drastically. Why? Because of smuggling. Taxing cigarettes and other sin products will not make people quit intousing it. It's already an addiction and this simple means of increasing retail price is not the answer. Recto said in one of his reports, the solution is not to severely tax the " sin products" but to ban them completely.

" When the price of any product rises excessively, smugglers bring in cheaper products. So instead of discouraging consumption, the very high prices actually encourage it because the smuggled products are very cheap" (Cruz, 2012, 4¶).

A House leader from the Philippine delegation warned that if ever the government would not take a second look to these proposed sin tax bills, the signing of the free trade agreement (FTA) with EU or the European Union,

may be put in jeopardy. The EU expressed their continuous objection to the sin tax bill. EU Trade Commissioner Karel De Gucht told the lawmakers that the approved House version and proposed Senate version will not pass the World Trade Organization (WTO) compliance because of "unfair taxation" (Luci, 2012). British American Tobacco (BAT) Philippines general manager James Michael Lafferty said, "The current tax system has worked against the entry of new brands into the market" (Galang, 2012, ¶46).

## Conclusion

Sen. Miriam Defensor Santiago, one of the most vocal sin tax bill advocates said, "When cigarettes and liquor are cheap, more people will use them"- and so this has been the advocates' standing point. The sin tax bill had been a controversial debate to the lawmakers. It made Sen. Ralph Recto, the chairman of the Senate committee, resign after numerous opposition from the Senate; he had Sen. Franklin Drilon take over his place after resignation. They even called his proposed bill a 'watered-down' bill or ineffective.

In the approval of the Sin tax bill, relations with the European Union may be affected. If ever the Philippines' free trade with EU will be cut-off, our economy will lose a lot. And not only that, since Lucio Tan, a renowned business tycoon, is the owner of the biggest tobacco company in the country, the Fortune Cigarette, increasing of taxes to the sin products might be reflected to other major companies under him as well, like those of Philippine Airlines and the likes. All these factors will not increase the government's revenues, and on the other end might be the opposite. Therefore the sin tax bill has defeated its main purpose of raising revenues.

Also, the argument of the pro-sin tax bill that higher taxes would discourage smokers is a mere assumption. They have not presented clear provisions and relied on surveys, which is not at all very reliable.

Then again, according to Benjamin Diokno, professor of Economics at the School of Economics, UP Diliman and former secretary of budget and management undersecretary for budget operations in the Aquino 1 administration, talking about the threat of smuggling, it is real, and ignoring it would be a monumental mistake. The country has been facing a lot of smuggling cases in other products like rice, oil products, and other consumer goods continuously. And the possible addition of cigarettes to be smuggled would be a lot of work for the Bureau of Internal Revenue, which he considers weak (Diokno, 2012).

But behind the drawbacks mentioned, there are a lot of other alternatives, other than taxing, that may discourage and lessen the use tobaccos and cigarettes. One suggestion is the proposal of former Health Secretary Esperanza Cabral to put graphic photographs of smokers with lung or mouth cancer on the packs of cigarettes, and they believe it should scare some of them into stopping smoking. Though most of the tobacco industries are against it, the Philippine Senate and Congress are also in debate about it. Another suggestion is the prohibition of smoking in the public, from which the Senate lose the case against tobacco companies.

In the question of what would be the most effective among the proposed bills. The countries Vietnam, Cambodia and Laos - currently part of this world's emerging economies - use ad valorem rates in taxing their products

like tobacco and alcohol. These countries must have adopted ad valorem taxation, after learning the best practice from their foreign tax consultants. "The Philippines is the only country in the region that uses specific rates" (Diokno, 2012, ¶17).

On the contrary, economist and former Economic Planning Secretary Solita Collas-Monsod at a forum on Tuesday, September 18, 2012 said that the tobacco industry players are disseminating about the possible aftermaths of the proposed sin tax measure on the Philippine economy, from which she considered as 'all lies'. She opposed all the issues discussed and declared that these are just false claims (cited from Fonbuena, 2012).

But experts urge the Senate to use the proposed bill of Sen. Miriam Santiago. This, Santiago said, would help avoid the 240 deaths daily among Filipino smokers with P200-billion health costs to government. "It hews much more to the actual realities and the actual principles that we want. If everybody is in favor of a sin tax bill, let's start with that sin tax bill," economics professor Solita Monsod commented to Santiago's version of the bill, from where tobacco and alcohol products' projected tax revenues will be around P60 billion (cited from Chua, 2012, ¶13).

The author is not against the approval of this bill, but thus, is in favor of the amendment and better revisions of the sin tax bill. People must look not only to the possible advantage it may bring, but one should always be aware of the possible drawback it will take along its process. The benefits, the sin tax bill, will bring the Philippines is undeniable. Health-related and even revenues is a given. But the fact it has taken a long course of almost 16

years of amendment, has a reason. There are multiple reasons as to why the sin tax bill reform must not be approved and therefore must be a subject for further and more improved revisions; and this reasons must not be neglected.