

# Empirical Analysis of Cigarette Tax Avoidance in THAILAND

Country-Level Results from the Regional Study  
“The Political Economy of Tobacco Control in Southeast Asia”  
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## Overview

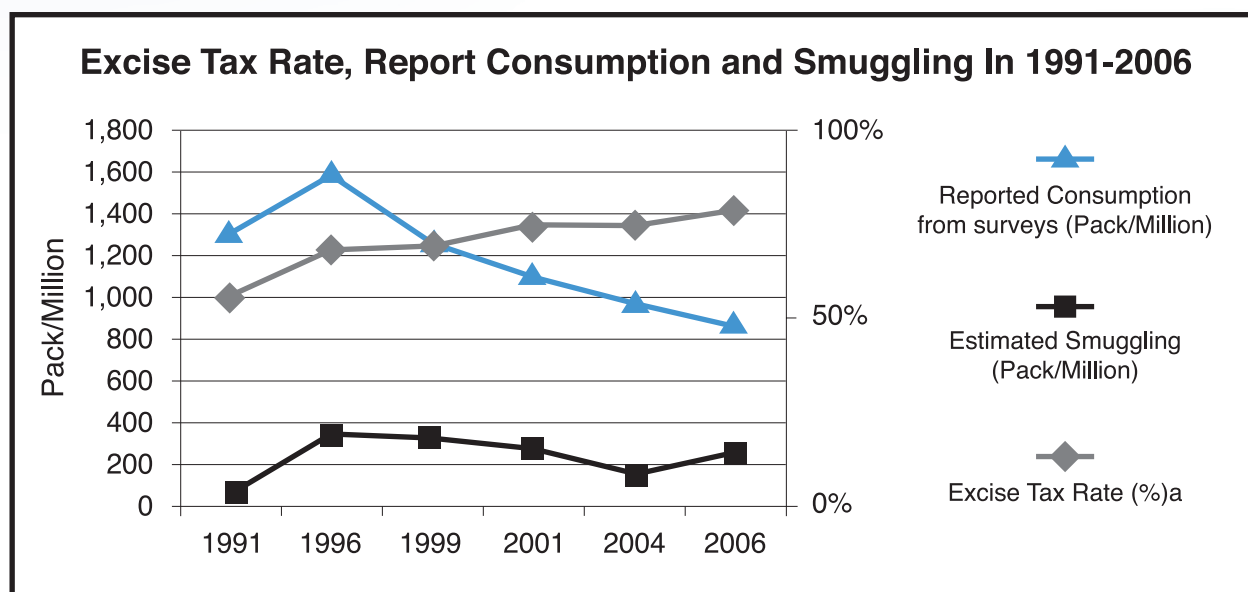
Analysis of tax, trade, and consumption data show that increased taxes on manufactured cigarettes are not correlated with increased smuggling. Illicit consumption of manufactured cigarettes in 2005 accounted for 10% of overall consumption for that year. The Thai government lost approximately 4.5 billion baht per year over the last ten years due to illicitly consumed cigarettes. The Thai government should raise the cap on excise taxes, implement taxes on roll-your-own cigarettes, and implement measures to reduce illicit smuggling and corruption.

## Methods

Two methods were used to measure illicit smuggling into the country and illicit domestic consumption of cigarettes. To measure the level of illicit smuggling into the country, UNCOMTRADE data on other countries' cigarette exports to Thailand were compared against Thailand customs import data. Total consumption was measured by adding legal tax paid sales and estimates of smuggled in cigarettes. Underreporting was measured by calculating the difference between tax paid sales and survey-reported consumption.

## Key Findings

- Between 1995 and 2005, estimates of illicit consumption ranged from 6% (2003) to 17% (1998), with the latest data indicating a rate of 10% in 2005.
- There does not appear to be any evidence of a correlation between the level of the excise tax on tobacco and the magnitude of illicitly traded tobacco (in absolute numbers).



- Corroborating other international research findings, increases in the excise tax in tobacco in Thailand are correlated with declines in the number of smokers.
- The increase in tobacco taxes has resulted in increased government revenues, which is consistent with the price inelasticity of demand for tobacco.
- Illicitly consumed tobacco has resulted in government losses of between 2.6 billion baht and 5.2 billion baht per year over the last ten years. This represents between 7%-18% of revenue from cigarettes.
- Comparisons of survey-reported consumption against tax paid sales revealed that in all years tax paid sales significantly exceeded consumption by 29% to 54%. This is attributed to underreporting

## Other key issues

- There are two possible explanations for the gap in tax paid sales and survey reported consumption. The primary reason is underreporting of consumption on the part of consumers. The high levels of underreporting are not unprecedented as other studies have estimated sales/reported consumption gaps of 35%-55%.<sup>1,2</sup> The secondary reason is the failure of surveys to capture other smoking populations (such as illegal immigrants, tourists, and young people).
- This study does not capture the rate of any illicit domestic production.. It is possible that illicit domestic production is a problem, but this warrants further study.

## Policy Recommendations

- 1. The Thai Government should raise the cap on excise taxes.** Current excise tax rates are approaching the 85% cap, but raising taxes further could continue to have beneficial effects on reducing the number of smokers. In the wake of the WTO ruling, the enforced repeal of part of Thailand's excise tax will cause prices of some cigarettes to drop, which may result in increased cigarette usage. Thailand should be able to counter these effects by raising excise taxes across the board.
- 2. The Thai Government should implement higher taxes on roll-your-own (shredded) tobacco,** which is used in roll-your-own cigarettes. Currently at 0.1% of the price for 10 grams, approximately 50% of smokers in Thailand smoke roll-your-own.<sup>3</sup> If hand-rolled tobacco is a good substitute for manufactured cigarettes, then the price differential between the taxed manufactured cigarettes and the untaxed hand rolled tobacco may encourage smokers to switch to the untaxed hand rolled tobacco instead of reducing consumption. Thus, not taxing hand rolled tobacco reduces government tax revenues and compromises the public health impact of the Thai government's manufactured cigarette tax policy.
- 3. The government should crack down on illicit cigarette smuggling and corruption.** As Thailand cigarette officials have recently been accused of accepting bribes for importing tobacco, they may be causing prices to drop as the supply of tobacco in the country increases. Additionally, since the government is losing up to 4.5 billion baht every year from smuggled cigarettes, if the Thai government spends strategically on combating smuggling, they can actually increase their overall revenues. For every smuggled pack brought into the legal taxation structure, the Thai government will receive 66% of the retail price in revenue (or about 16 baht per pack of imported cigarettes).

1 Warner, K. 1978. "Possible increases in the underreporting of cigarette consumption." *Journal of the American Statistical Association*, Volume 73 No. 362, pp 314-318

2 Ahijevych, KL., Wewers, ME. "Patterns of cigarette consumption and cotinine levels among African American women smokers." *Am. J Respir. Crit. Care Med.*, Volume 150 No. 5 pp 1229-1233.

3 Young, D., Yong, HH., Borland, R., Ross, H., Sirirassamee, B., et al. 2008. "Prevalence and correlates of roll-your-own smoking in Thailand and Malaysia: Findings of the ITC South East Asia Survey." *Nicotine and Tobacco Research*, Volume 10, Issue 5, pp 907-915.

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## **Southeast Asia Tobacco Control Alliance**

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