Philippine Sintax Reform: A Win-Win for Revenues and Health
PRESENTATION OUTLINE

I. Background
II. Impact of Sin Tax Reform
III. Concluding Remarks
Aquino Administration Social Contract with the Filipino People including Universal Health Care.

“No new taxes” promise of President Aquino.

Philippines among top smoking countries in Southeast Asia. Tobacco taxes and prices among lowest in the world.

Strong tobacco lobby with deep business and political connections. Tobacco lobby hindered previous excise tax reform efforts.

Alcohol: Deadline for Philippine compliance to WTO decision on distilled spirits.

Tight deadline during Aquino Administration – one year to make it happen.

The Philippines ratified the WHO Framework Convention on Tobacco Control in 2005.
RATIONALE FOR REFORM

- Help finance Universal Health Care (UHC).
- Address public health issues relating to alcohol and tobacco consumption.
- Simplify the current excise tax system on alcohol and tobacco products and fix long standing, structural weaknesses:
  - Remove price/brand classification freeze.
  - Level the playing field.
  - Reduce number of tiers.
  - Make tax system more buoyant by indexing tax rates to inflation.
REPUBLIC ACT NO. 10351

An Act Restructuring the Excise Tax on Alcohol and Tobacco Products (RA 10351)

(Signed into Law - Dec. 19, 2012)

Landmark Legislation under the Aquino Administration.

Fundamentally a good governance measure with positive impact on both fiscal and public health.
Section 8 (C): After deducting the allocations under Republic Act Nos. 7171 and 8240 (allocations to tobacco farmers),

- Eighty percent (80%) for:
  - National Health Insurance Program
  - Attainment of the Millennium Development Goals
  - Health awareness programs

- Twenty percent (20%):
  - Medical assistance
  - Health enhancement facilities program
Philippine Tobacco Tax Reform Path at a Glance

**Key Features**
- Removal of price classification freeze/tax advantages of legacy brands.
- Unitary tax structure by 2017.
- Tax rates indexed to inflation starting 2017.
- Health impact/WHO FCTC compliance a major consideration in rate setting.
- Bulk of incremental revenues earmarked for UHC.
- Safety nets for tobacco farmers/others.

**Projected Incremental Revenue (Tobacco)**
- 2013: 23.4
- 2014: 29.6
- 2015: 33.5
- 2016: 37.1
- 2017: 40.9

**Projected Incremental Revenue (Alcohol)**
- 2013: 10.6
- 2014: 13.3
- 2015: 17.1
- 2016: 19.8
- 2017: 23.3

**Projected Incremental Revenue (Total)**
- 2013: 34.0
- 2014: 42.9
- 2015: 50.6
- 2016: 56.9
- 2017: 64.2

**Estimated Earmark for Health as of 2012**
- 2013: 30.5
- 2014: 38.4
- 2015: 45.6
- 2016: 51.3
- 2017: 58.0
Historically excise tax increases were gradual ... Focus on health changed this.
KEY ISSUES RAISED
Raising tobacco taxes …

✓ will reduce NOT increase revenues.
✓ will adversely affect tobacco farmers.
✓ will increase smuggling and illicit trade.
✓ will negatively impact the poor.
✓ will increase unemployment.
✓ will destroy the local tobacco industry.
## LEGISLATIVE PROCESS

<table>
<thead>
<tr>
<th>House of Representatives</th>
<th>Senate of the Philippines</th>
<th>Bicameral Conference Committee</th>
<th>Malacañang Palace</th>
</tr>
</thead>
<tbody>
<tr>
<td>House Committee on Ways and Means</td>
<td>Senate Committee on Ways and Means</td>
<td>Reconciliation of Disagreeing Provisions</td>
<td>Enrolment of Ratified Bill</td>
</tr>
<tr>
<td>Plenary Debates</td>
<td>Plenary Debates</td>
<td>Approval and Signing of Bicameral Conference Report</td>
<td>Signing of Republic Act 10351</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ratification of Committee Report by both chambers of Congress</td>
<td></td>
</tr>
</tbody>
</table>
WINS OF SIN TAX REFORM

Passed the Senate by only one vote.

Credits to: Manix Abrera, GMA News Online
Win for Revenues

Actual incremental revenues higher than projected.

Projected vs. Actual Incremental Revenue from RA 10351

In billion Pesos

- **2013**: Projected $0.80 B, Actual $1.21 B
- **2014**: Projected $0.97 B, Actual $1.13 B
- **2015**: Projected $1.11 B, Actual $1.61 B
- **2016**: Projected $1.29 B, Actual
- **2017**: Projected $1.46 B, Actual

Legend:
- Black: Projected
- Red: Actual
- Green: BIR VAT
Win for Revenues

Sin Tax Law reversed the declining trend of tobacco and alcohol excise collections to GDP.

Source: BIR and NSCB
Win for Revenues

Tobacco taxes accounted for bulk of collections with share of tobacco excise tax collections to GDP highest in 2015.

Source: BIR and NSCB
## Win for the Economy

Sin Tax Law made possible Philippines’ first investment grade rating.

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MOODY’S</strong></td>
<td>Investment Grade Baa3 Positive (Oct. 3, 2013); Upgraded to Baa2 Stable (Dec. 11, 2014)</td>
</tr>
<tr>
<td><strong>FITCH RATINGS</strong></td>
<td>Investment Grade BBB- Stable (March 27, 2013); Affirmation (March 25, 2014); Upgraded to BBB- Positive (Sept 24, 2015)</td>
</tr>
<tr>
<td><strong>STANDARD &amp; POOR’S</strong></td>
<td>Investment Grade BBB-/Stable (May 2, 2013) Upgraded to BBB /Stable (May 8, 2014) Affirmation (April 24, 2015)</td>
</tr>
<tr>
<td><strong>JAPAN CREDIT RATING AGENCY (JCRA)</strong></td>
<td>Investment Grade BBB/Stable (May 7, 2013); Affirmation (May 30, 2014); Upgraded to BBB+ /Stable (July 6, 2015)</td>
</tr>
<tr>
<td><strong>RATING &amp; INVESTMENT (R&amp;I) INFORMATION, INC.</strong></td>
<td>Investment Grade BBB/Stable  (July 9, 2014); Affirmation (July 20, 2015)</td>
</tr>
</tbody>
</table>
Win for Public Health

Health Budget almost triple 2012 levels

DOH Budget (In B PhP)

Source: GAA, DBM
Excise tax collections from locally manufactured cigarettes rise steeply as volume drops.

Win for Revenues and Public Health
Win for the Poor
National Government Allocation for Health Insurance Premiums for the Poor

Sin Tax Law increased the number of people with free health insurance – from 5.2 million poor primary members in 2012 to 15.4 million in 2015.

Source: PhilHealth, DOH, GAA
Win for the Young and the Poor

Smoking Prevalence has declined.

- Results of the Smoking Prevalence Study of Dr. Antonio Dans based on National Nutrition Health Survey 2013 and 2015 data:
  - Prevalence of smoking among adult Filipinos went down from 31.0% in 2008 to 25.4% in 2013, and then to 23.3% in 2015.
  - There are about 4.0 million less smokers in the country because of the Sin Tax Law.
  - The drop is partly from people who stopped smoking. It is mostly from people who avoid starting to smoke.
  - At least 70,000 death have been averted since 2013.
  - Health benefits were greatest in price sensitive populations – the poor, rural folk, the very old, and the very young.
CONCLUDING REMARKS

✓ Sintax Reform has generated US$3.9 billion incremental revenues in its first three years of implementation with about 80% accounted for by tobacco taxes. Indeed, raising tobacco taxes is a low lying fruit for raising domestic revenues for health.

✓ Earmarking revenues for health has almost tripled the health budget over 2012 levels and allowed the Philippine National Government to provide free health insurance to the poor and near poor (bottom 40% of the population).
CONCLUDING REMARKS

✓ Aim high for health. Framing sintax as a health measure allowed the Philippines to raise tobacco taxes substantially, than otherwise possible if it was framed as a revenue measure.

✓ Political support at the highest level is important.

✓ Finance, health and other ministries need to collaborate and adopt a systems and whole of government/society approach.

✓ Need to be vigilant and systematically monitor progress and outcomes.
CONCLUDING REMARKS

Excerpt of Speech of President Aquino during the signing of Sin Tax Law –

“… Many thought it was impossible to pass the Sintax reform bill: the enemy is strong, loud, organized, and has deep pockets but, as we have proven time and again, nothing is impossible with the Filipino Nation rowing in one direction, heart in the right place, and ready to stand up for its principles…”
THANK YOU