

Another tax hike to fill the nation's coffers?

BY ESTHER LEE

Just when everyone thought the tobacco boys had escaped a hike in excise duty this year, the government took the market by surprise by jacking up the cigarette tax by 40% last week.

This is the third rise in the excise duty since 2013 and the biggest to date. Previous hikes ranged between 10% and 20%.

Now, one pack of 20 cigarettes produced by British American Tobacco (M) Bhd costs RM17 after the excise duty rose from 28 sen per stick to 40 sen.

BAT's reaction was that it was "extremely disappointed" and "shocked at the unprecedented massive increase". The cigarette maker raised its selling prices by more than 20%, which would have irked smokers considering that its previous price increase was barely five months ago.

BAT's two rivals — Philip Morris (M) Sdn Bhd and JTI International Tobacco Sdn Bhd — had yet to revise their prices at press time. Many analysts think it is just a matter of time before the other two follow suit as it is unlikely that they will absorb such a high tax.

The steep increase in cigarette excise duty comes while the rakyat are still adjusting to the Goods and Services Tax (GST). Although the jump only affects smokers, the public may not be wrong in thinking that higher taxes are now a means for the government to fill the nation's coffers amid lower oil revenue.

After all, the hike comes when the government is looking to close the gap in the fiscal deficit, which is expected to be 3.2% of GDP this year.

Some economists say they would not be surprised if alcohol was next in line for a hike in excise duty, but they see little likelihood of a rise in gaming tax for number forecast operators (NFOs) and casinos.

Excise duty on spirits and malt liquor in 2014 totalled RM1.5 billion, RM20 million lower than the collection in 2013.

The gambling industry, meanwhile, pays several different types of taxes. NFOs pay a gaming tax of 8% and a pool betting duty of another 8% on net revenue while casino operators pay a 25% gaming tax. Excluding corporate taxes, the gambling sector contributed about RM2.76 billion to government tax revenue in 2014.

An economist says sin tax industries are the easiest targets for tax hikes, given that there is a movement to promote healthy living among Malaysians.

The tax rates for cigarettes and alcohol may be high but the total contribution of RM7.4 billion from sin taxes in 2014 is meagre in the context of total government tax revenue of RM164.2 billion. That said, the economist says the amount is still significant, especially when "every sen counts".

The government recently announced that it wants to regulate the vaping industry. Health Minister Datuk Seri Dr S Subramaniam was quoted by the media as saying that the ministry is looking at imposing excise duty on e-cigarettes and vaporisers.

The multibillion-ringgit vaping industry, which is currently unregulated, could boost the government's tax revenue if it is regulated, judging from the growing popularity of vaping (see story on Page 40).

The excise duty on cigarettes is regularly raised in the hope that more expensive packs will help reduce smoking, and the latest significant hike reinforces the government's objective to make Malaysians lead healthier lifestyles.

Nevertheless, hardcore smokers, much like coffee addicts, are not likely to kick the habit simply because the price of cigarettes goes up. In other words, sin taxes only add to the people's burden. On the flip side, health-conscious people would say it is time to quit smoking.

In the end, the contribution of the excise duty to the nation's coffers may not be proportionate to the hike.

In fact, economists and tax consultants opine that the 40% hike will spur on smokers to turn to the much cheaper illegal cigarettes. Any hike in excise duty probably makes contraband cigarettes even more affordable.

According to BAT, illegal cigarette demand is still high at 33.7% as a result of weak consumer sentiment post the introduction of GST.

"I can't say for sure what the main motive behind the increase [in excise duty] is. Yes, raising sin taxes can help increase government revenue. But if they are raised too much, that will just encourage the illicit cigarette trade. That would defeat the purpose of raising the taxes in the first place," says RHB Research economist Peck Boon Soon.

Deloitte Malaysia executive director Tan Eng Yew thinks the increase in duties may not have the desired effect where revenue collection is concerned because sales would decline.

"The drop may be due to various factors, including people smoking less, changing to lower-priced alternatives or even illicit or smuggled cigarettes. Personally, I would have preferred a gradual increase, if one was inevitable."

Tan points out that even though the excise duty on cigarettes in Malaysia is much lower than that in Europe in absolute terms, the price of a pack of cigarettes relative to the income of individuals shows that Malaysians are paying a higher price for a smoke.

To a certain extent, the government's efforts to deter or reduce the number of smokers by imposing high taxes could be working, given that statistics from BAT show that the industry sales volume of cigarettes has been declining.

BAT reported that the sales volume of cigarettes among the three tobacco heavyweights had declined 10% to 7.38 billion sticks as at Aug 31 from 8.2 billion sticks a year ago. It attributed the drop to a prolonged impact of GST with affordability remaining a major concern amid the current weak consumer sentiments.

Last year, the three main tobacco players rang up a sales volume of 12.18 billion cigarettes compared

with 12.75 billion in 2013.

Interestingly, the sales volume of cigarettes declined as the excise duty on tobacco products rose. Excise duty on tobacco products in 2014 contributed RM3.14 billion or 2% to the government's total tax revenue of RM164.2 billion compared with RM3.28 billion in 2013. In 2014, there was a 12% hike in cigarette excise duty.

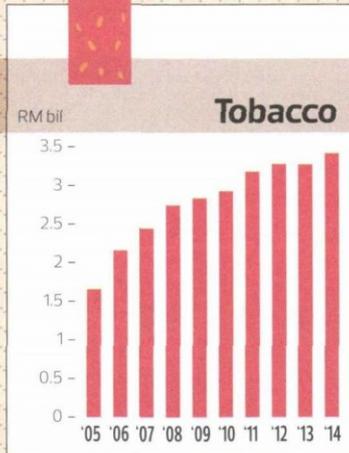
According to a tax consultant, whether or not the government decides to regulate the vaping industry or even slap higher duties on the sin industries, the shift towards illicit trade or underground markets will become stronger as prices in the legal markets rise.

"That is where enforcement comes in. The government will have to step up on enforcement to reduce illicit trade," he says. **E**

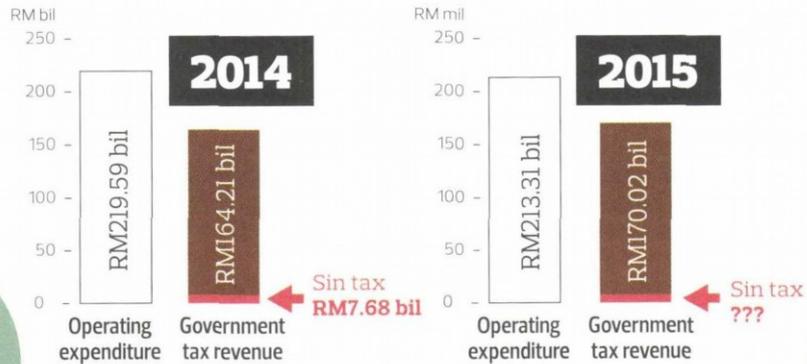
Federal revenue collected from

★★ **SIN TAX** ★★

between 2005 and 2014



Operating expenditure vs tax revenue



SORRY!
40% hike in excise duty.
Smoking is bad for health.

Every sen counts... need to narrow fiscal deficit.

Will decide on VAPE soon...



Yes Sir ... but we might lose even more sales to contraband players

Contraband market is still high at 33.7%

High sales of contraband market means a loss of tax revenue

