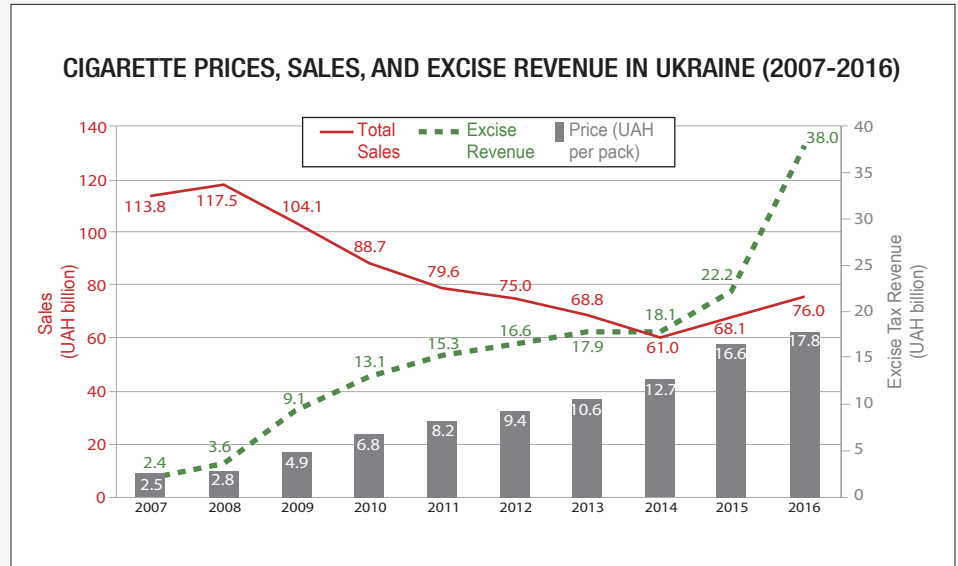


# UKRAINE TOBACCO TAX SUCCESS STORY

**FCTC ARTICLE 6.** Price and tax measures are an effective and important means of reducing tobacco consumption... Each party should... adopt... tax policies and... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

Between 2007 and 2017 in Ukraine, the total tax share of filtered cigarettes increased from 33% to 66% of the average annual retail price—more than tripling the real price per pack in a decade.<sup>1</sup> During the same period, tobacco sales dropped by almost 50% and tax revenue collected from tobacco excises increased more than fifteen-fold.

The most effective method for reducing tobacco consumption is to increase the price of tobacco products through excise tax increases. Higher tobacco prices encourage cessation among existing tobacco users, prevent initiation among potential users, and reduce the quantity of tobacco consumed among continuing users.



## TAX STRUCTURE

Ukraine’s tobacco excise tax system includes a mixed excise with an ad-valorem excise tax (currently based on retail prices) and a specific excise tax. The government requires companies to define a “maximum retail price” (MRP) for each brand sold, which acts as the tax base for the ad-valorem tax. This requirement adds complexity to the tax system and results in manufacturers setting prices to optimize their market share and minimize tax payments, thus greatly limiting the effectiveness of tax increases to reduce tobacco use.

## TAX CHANGE

Ukraine began a series of annual large tobacco excise tax increases in 2008, with the exception of 2015 when there was no increase. Ukraine has modified the ad-valorem tax base several times since 2008. In 2008, Ukraine also introduced a minimum total excise tax of UAH 0.80 per pack, which has increased simultaneously with the specific excise in subsequent years.

## STATUTORY EXCISE TAX CHANGES FROM 2008 TO 2018, FOR FILTERED CIGARETTES \*

	Specific excise in UAH/pack	Minimum specific excise in UAH/pack	Ad-valorem (rate and tax base)
prior to 2008	0.26	*/	10% of max retail price minus VAT minus excise
2008	0.6	0.8	16% of max retail price minus VAT minus excise
2009	1.2	2	20% of max retail price minus VAT
2010	1.8	3	25% of max retail price minus VAT
2011	1.92	3.2	25% of max retail price minus VAT
2012	2.21	3.68	25% of max retail price minus VAT
2013	3.25	4.36	12% of max retail price minus VAT
2014	4.55	6.08	12% of max retail price minus VAT
2015	4.55	6.08	12% of max retail price minus VAT
2016	6.37	8.52	12% of max retail price inclusive of VAT
2017	8.91	11.92	12% of max retail price inclusive of VAT
2018	11.56	15.46	12% of max retail price inclusive of VAT

\* Tax rates and tax bases are as of the end of the calendar (also fiscal) year, even in years when the tax system changed several times. Values are per packs of filtered cigarettes (20 sticks). The minimum excise tax before 2008 was expressed in ad-valorem term.

By 2016, both the specific excise and the minimum total tobacco excise were more than ten times as large as their 2008 values in nominal terms. These reforms have significantly modified the structure of the mixed excise system for cigarettes, towards a greater

emphasis on the specific excise starting in 2013. In 2018, Ukraine increased the specific excise tax by 29.7% and committed to annual increases of 20% until 2024, allowing for adjustments to the rate in light of inflation.<sup>2</sup>

## IMPACT OF TAX INCREASE

### TAX AND PRICE

The average price of filtered cigarettes more than tripled in the 3 years following the largest increase in the excise tax, from 2.8 UAH per pack in 2008 to 8.2 in 2011. Relatively smaller increases in the excise tax led to moderate price increases in the following five years, with average price of filtered cigarettes doubling to 17.8 UAH per pack by 2016.

Including Value-Added Taxes (VAT), the total tax share in the average price of filtered cigarettes increased from 33% of the annual average retail price in 2007 to 66% of the annual average retail price in 2017.<sup>3</sup> Most of this increase was driven by the specific excise tax share, which more than tripled from 10.2% to 37.3% over the decade.<sup>4</sup>

### SALES

Cigarette sales value declined more than 50% from 114 billion UAH in 2007 to 76 billion UAH in 2016.<sup>5</sup> Starting in 2015, there was a slight increase in cigarette sales. This was the only year without a tax increase, and the only instance of increased sales since the tax changes.

### REDUCTION OF SMOKERS

Daily smoking prevalence for adults age 16 and older decreased from 26.4% in 2007 to 20% in 2016.<sup>5</sup> The largest decrease was among men from 50.6% in 2007 to 38.1% in 2016. Daily smoking among women also declined, though more moderately from 6.4% to 5.2%.

### GOVERNMENT REVENUE

Increases in tobacco tax and price led to higher tobacco tax revenues despite declines in sales. Government revenue increased more than 15-fold in 10 years from UAH 2.4 billion in 2007 to UAH 38 billion in 2016.<sup>6</sup>

### INDUSTRY REACTION

Before 2008, the tobacco industry was able to absorb the small tax increases, keeping prices low. After the major tax hikes in 2009, the tobacco industry passed the increases on to consumers and at the same time raised its own prices in order to increase profit margins.

In 2015, the lack of increases in taxes intensified the 'price wars', in which local tobacco producers temporarily reduced prices below production value, in order to make cigarettes cheaper and secure high market shares among cheap brands.

## REFERENCES

1. CTFK calculations based on data from the State Statistics Service of Ukraine (SSSU). Data available at <http://ukrstat.gov.ua/>. 2. Ukraine Law No. 2245-19 On Amendments to the Tax Code of Ukraine and Some Legislative Acts of Ukraine on Ensuring Balance of Budgetary Revenues in 2018. 3. Calculations based on data through October 2017 from SSSU. 4. 2017 average based on January-October data from the SSSU. 5. Annual Household Survey: Population's Self-perceived Health Status and Availability of Selected Types of Medical Aid. Available from the SSSU. 6. State Fiscal Service of Ukraine.