

A Review of Excise Taxation of Sin Products*

I. INTRODUCTION

On December 19, 2017, the Congress enacted Republic Act (RA) No. 10963¹, otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Law. Among the amendments introduced by the TRAIN Law was the increase in the excise tax on cigarettes packed by hand and by machine to further deter tobacco smoking in the country. While the said law is newly implemented effective this year, various bills further increasing the excise taxes on tobacco as well as alcohol products have been filed in Congress.

This paper discusses the excise taxation of sin products prior to and under RA 10963, its revenue performance based on available data from the Bureau of Internal Revenue (BIR), its impact on alcohol and cigarette consumption, the allocation of earmarked revenue based on the Department of Health (DOH) report, and the emerging proposals further increasing the excise taxes on tobacco and alcohol products.

II. EXCISE TAXATION OF SIN PRODUCTS PRIOR TO AND UNDER RA 10963

The latest amendment on the excise taxation of sin products was made under RA 10963 which increased the excise tax rates on cigarettes packed by hand and by machine under Sections 145(B) and (C) of the Tax Code, respectively, based on the following schedules, viz.:

- (a) Effective January 1, 2018 to June 30, 2018 - PhP32.50/pack;

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¹ Entitled, "An Act Amending Sections 5, 6, 24, 25, 27, 31, 32, 33, 34, 51, 52, 56, 57, 58, 74, 79, 84, 86, 90, 91, 97, 99, 100, 101, 106, 107, 108, 109, 110, 112, 114, 116, 127, 128, 129, 145, 148, 149, 151, 155, 171, 174, 175, 177, 178, 179, 180, 181, 182, 183, 186, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 232, 236, 237, 249, 254, 264, 269, And 288; Creating New Sections 51-A, 148-A, 150-A, 150-B, 237-A, 264-A, 264-B, and 265-A; and Repealing Sections 35, 62, and 89; All Under Republic Act No. 8424, Otherwise Known as the National Internal Revenue Code Of 1997, as Amended, And For Other Purposes", approved on December 19, 2017 and effective January 1, 2018.

- (b) Effective July 1, 2018 to December 31, 2019 - PhP35.00/pack;
- (c) Effective January 1, 2020 to December 31, 2021 - PhP37.50/pack; and
- (d) Effective January 1, 2022 to December 31, 2023 – PhP40.00/pack

The law also provides for automatic annual adjustment of four percent (4%) to the rates effective January 1, 2024, through the issuance of revenue regulations by the Secretary of Finance.

It is noted that while the excise tax on cigarettes was increased, there were no adjustments made on alcohol and other types of tobacco products.

Prior to RA 10963, the excise tax on both tobacco and alcohol products was amended by RA 10351², otherwise known as the Sin Tax Reform Law, which was enacted five (5) years ago on December 19, 2012. The said law simplified the excise tax structure of sin products by increasing the tax rates and gradually shifting the excise taxation of fermented liquors (except brewed and sold at microbreweries or small establishments) and cigarettes to unitary tax system in 2017 via Revenue Regulation (RR) No. 17-2012³.

It also changed the excise taxation of distilled spirits from a specific tax to a compound tax structure in compliance with the World Trade Organization (WTO) ruling on the discriminatory taxation of imported distilled spirits in the country.

It also provided for automatic annual adjustment of 4% on the specific excise taxes of certain sin products effective on the following dates, viz.:

- (a) On January 1, 2014 – for wines, fermented liquors brewed and sold at microbreweries, tobacco products and cigars.
- (b) On January 1, 2016 – for distilled spirits
- (c) On January 1, 2018 – for fermented liquors, except those brewed and sold at microbreweries, and cigarettes

RA 10351 also removed the price classification freeze provision under RA 9334⁴ that pegged sin products to 1996 prices as basis for tax classification. The proper tax

² Entitled, “An Act Restructuring the Excise Tax on Alcohol and Tobacco Products by Amending Sections 141, 142, 143, 144, 145, 8, 131 and 288 of Republic Act No. 8424, Otherwise Known as the National Internal Revenue Code of 1997, as Amended by Republic Act No. 9334, and for Other Purposes”, effective January 1, 2013.

³ Subject: Prescribing the Implementing Guidelines on the Revised Tax Rates on Alcohol and Tobacco Products Pursuant to the Provisions of Republic Act No. 10351 and to Clarify Certain Provisions of Existing Revenue Regulations, issued December 26, 2012.

classification of wines, fermented liquors and cigarettes were determined every two (2) years from the date of the effectivity of RA 10351.

The law further amended the disposition of the fifteen percent (15%) incremental revenue collected from the excise tax on tobacco products under RA 8240⁵ by allocating the same for the following purposes, viz.:

- (a) Programs that will provide inputs training, and other support for tobacco farmers who shift to production of agricultural products other than tobacco including, but not limited to, high-value crops, spices, rice, corn, sugarcane, coconut, livestock and fisheries;
- (b) Programs that will provide financial support for tobacco farmers who are displaced or who cease to produce tobacco;
- (c) Cooperative programs to assist tobacco farmers in planting alternative crops or implementing other livelihood projects;
- (d) Livelihood programs and projects that will promote, enhance and develop the tourism potential of tobacco-growing provinces;
- (e) Infrastructure projects such as farm to market roads, schools, hospitals, and rural health facilities; and
- (f) Agro-industrial projects that will enable tobacco farmers to be involved in the management and subsequent ownership of projects, such as post-harvest and secondary processing like cigarette manufacturing and by-product utilization. [Sec. 288(B), National Internal Revenue Code (NIRC) of 1997, as amended by RA 10351]

In addition, it amended the disposition of incremental revenues from the excise tax on alcohol and tobacco products by allocating the remaining incremental revenues after deducting the allocations under RA Nos. 7171⁶ and 8240 as follows:

- (a) Eighty percent (80%) – for the universal health care under the National Health Insurance Program, for the attainment of the Millennium Development Goals (MDGs) and health awareness programs; and

⁴ Entitled, “An Act Increasing the Excise Tax Rates on Alcohol and Tobacco Products, Amending for the Purpose Sections 131, 141, 142, 143, 144, 145 and 288 of the National Internal Revenue Code of 1997, as Amended,” effective January 1, 20005.

⁵ Entitled, “An Act Amending Sections 138, 139, 140 and 142 of the National Internal Revenue Code of 1997, As Amended, and for Other Purposes”, effective January 1, 1997.

⁶ Entitled, “An Act to Promote the Development of the Farmers in the Virginia Tobacco-Producing Provinces”, approved January 9, 1992.

- (b) Twenty percent (20%) – nationwide, based on political and district subdivisions, for medical assistance and health enhancement facilities program, the annual requirements of which shall be determined by the Department of Health (DOH). [Sec. 288(C), NIRC of 1997, as amended by RA 10351]

It should be noted that the principal objectives of RA 10351 were to generate revenues to fund the universal health care program (UHCP) of the government and reduce the consumption of sin products, thus, improving the general well-being of the people. Likewise, the increase in the excise tax rates for cigarettes was in adherence to the commitment of the Philippines to the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) to increase excise tax incidence, which is the ratio of excise tax to price, from then 29.1% to 52.5 % in 2013 and 63% by 2017.

Presented below is the present excise taxation of sin products under RA 10351, as amended by RA 10963, viz.:

Table 1. EXCISE TAX RATES ON SIN PRODUCTS, 2017-2024 ONWARDS

EXCISE TAX RATES								
PRODUCT	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
TOBACCO PRODUCTS								
Under RA 10963								
(1) Cigarettes packed by hand	PhP30.00*	PhP32.50 (Jan. 1 – June 30) PhP35.00 (July 1 – Dec. 31)	PhP35.00	PhP37.50	PhP37.50	PhP40.00	PhP40.00	Effective 1/24/2024, the specific tax rate shall be increased by 4% every year thereafter
(2) Cigarettes packed by machine	PhP30.00*	PhP32.50 (Jan. 1 – June 30) PhP35.00 (July 1 – Dec. 31)	PhP35.00	PhP37.50	PhP37.50	PhP40.00	PhP40.00	
Under RA 10351								
(3) Tobacco Products (Per kg)								
(a) Tobacco twisted by hand or reduced into a condition to be consumed in any manner other than the ordinary mode of drying and curing;	PhP2.05	PhP2.13	PhP2.22	PhP2.31	PhP2.40	PhP2.50	PhP2.60	
(b) Tobacco prepared or	PhP2.05	PhP2.13	PhP2.22	PhP2.31	PhP2.40	PhP2.50	PhP2.60	

EXCISE TAX RATES								
PRODUCT	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
partially prepared with or without the use of any machine or instrument or without being pressed or sweetened; and (c) Fine-cut shorts and refuse, scraps, clippings, cuttings, stems, midribs and sweepings of tobacco	PhP2.05	PhP2.13	PhP2.22	PhP2.31	PhP2.40	PhP2.50	PhP2.60	4% increase every year since 2014
(4) Chewing tobacco, unsuitable in any other manner	PhP1.75	PhP1.82	PhP1.89	PhP1.97	PhP2.05	PhP2.13	PhP2.22	
(5) Cigars (Per piece)								
(a) Based on the net retail price per cigar [excluding the excise tax and value-added tax (VAT)], and	20%	20%	20%	20%	20%	20%	20%	20%
(b) Per cigar	PhP5.85	PhP6.08	PhP6.32	PhP6.57	PhP6.83	PhP7.10	PhP7.38	4% increase every year since 2014

* Excise tax rate under RA 10351

EXCISE TAX RATES								
PRODUCT	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
ALCOHOL PRODUCTS								
(1) Distilled Spirits								
(a) Ad valorem rate	20%	20%	20%	20%	20%	20%	20%	20%
Based on the net retail price (NRP) per proof (excluding the excise tax and VAT), and								

EXCISE TAX RATES								
PRODUCT	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
(b) Specific tax Per proof liter	PhP21.63	PhP22.50	PhP23.40	PhP24.34	PhP25.31	PhP26.32	PhP27.37	4% increase every year since 2016
(2) Wines (Per liter)								
(a) Sparkling wines/ champagnes, where the NRP (excluding excise tax and VAT) per bottle of 750 ml., regardless of proof is:								
(1) PhP500 or less	PhP292.47	PhP304.17	PhP316.34	PhP328.99	PhP342.15	PhP355.84	PhP370.07	
(2) More than PhP500	PhP818.90	PhP851.66	PhP885.73	PhP921.16	PhP958.01	PhP996.33	PhP1,036.18	
(b) Still wines and carbonated wines containing 14% of alcohol by volume or less	PhP35.10	PhP36.50	PhP37.96	PhP39.48	PhP41.06	PhP42.70	PhP44.41	4% increase every year since 2014
(c) Still wines and carbonated wines containing more than 14% of alcohol by volume but not more than 25% of alcohol by volume	PhP70.20	PhP73.01	PhP75.93	PhP78.97	PhP82.13	PhP85.42	PhP88.84	
(d) Fortified wines containing more than 25% of alcohol by volume	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	

EXCISE TAX RATES								
PRODUCT	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
(3) Fermented Liquors (Per liter)								
(a) Fermented liquors, regardless of the NRP	PhP23.50	PhP24.44	PhP25.42	PhP26.44	PhP27.50	PhP28.60	PhP29.74	4% increase every year since 2018
(b) Fermented liquors brewed and sold at microbreweries or small establishments such as pubs and restaurants, regardless of the NRP	PhP32.76	PhP34.07	PhP35.43	PhP36.85	PhP38.32	PhP39.85	PhP41.44	4% increase every year since 2014

III. REVENUE PERFORMANCE OF THE EXCISE TAX ON SIN PRODUCTS

A. Overall Performance of the Excise Tax on Sin Products, 2008 - 2017

Under RA 9334, excise tax collection on sin products for the years 2008 to 2012 showed an erratic trend. It decreased every two years or on the year when the excise tax rates were increased. It registered an average share of 76.3% to total excise tax collection (ETC), 5.9% to total BIR collection and 0.6% to GDP. (**Table 2**)

When RA 10351 was implemented in 2013, excise tax collection went up by 85.0% despite the decrease in volume of removals of sin products, except distilled spirits. Collection continued to grow the following years by 2.6% to 18.2% annually. The increase in collection was the result of higher tax rates under RA 10351 for the period 2013 to 2017.

Meanwhile, the average annual ratio of the excise tax collection on sin products to total ETC, BIR collection and GDP also increased as compared to previous ratios under RA 9334. Average annual ratio to total ETC increased from 76.3% to 86.4%, to total BIR collection from 5.9% to 9.0%, and to GDP from 0.6% to 1.0%.

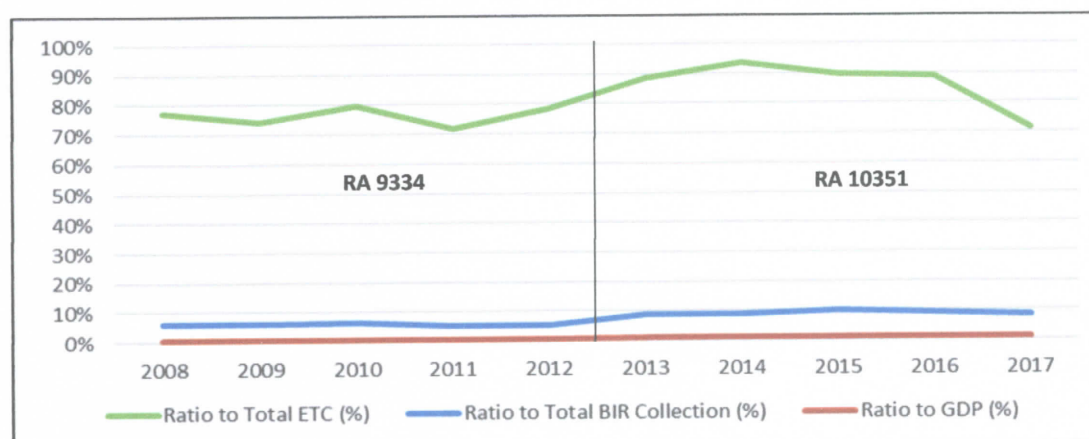
Table 2. EXCISE TAX COLLECTION ON SIN PRODUCTS, GROWTH RATE, AND RATIO TO TOTAL EXCISE TAX COLLECTION, TOTAL BIR COLLECTION, AND GDP
2008-2017
(Amounts in Billion PhP)

Year	Sin Products		Ratio to		
	Collection	Growth Rate (%)	Total ETC (%)	Total BIR Collection (%)	GDP (%)
RA 9334 (effective January 1, 2005)					
2008	47.39	-	77.17	6.09	0.64
2009	44.87	-5.33	74.10	5.98	0.56
2010	53.51	19.26	79.62	6.50	0.59
2011	48.87	-8.67	71.88	5.29	0.50
2012	56.84	16.30	78.56	5.37	0.54
Ave.	50.30	5.39	76.27	5.85	0.57
RA 10351 (effective January 1, 2013)					
2013	105.14	84.99	88.46	8.64	0.91
2014	119.86	14.00	93.50	8.98	0.95
2015	141.72	18.24	89.51	9.83	1.06
2016	145.33	2.55	88.83	9.22	1.00
2017	149.99	3.21	71.60	8.42	0.95
Ave.	132.41	24.59	86.38	9.02	0.98

Source of basic data: BIR Annual Report 2008-2016 and BIR data for CY 2017

RA 10351 brought significant increase in excise tax collection of sin products. Throughout its implementation from 2013 to 2017, its ratios to total ETC, BIR collection and GDP were higher than those recorded under RA 9334. It was only in 2017 when the ratio to total ETC declined to a rate similar with those recorded under RA 9334. (Figure 1)

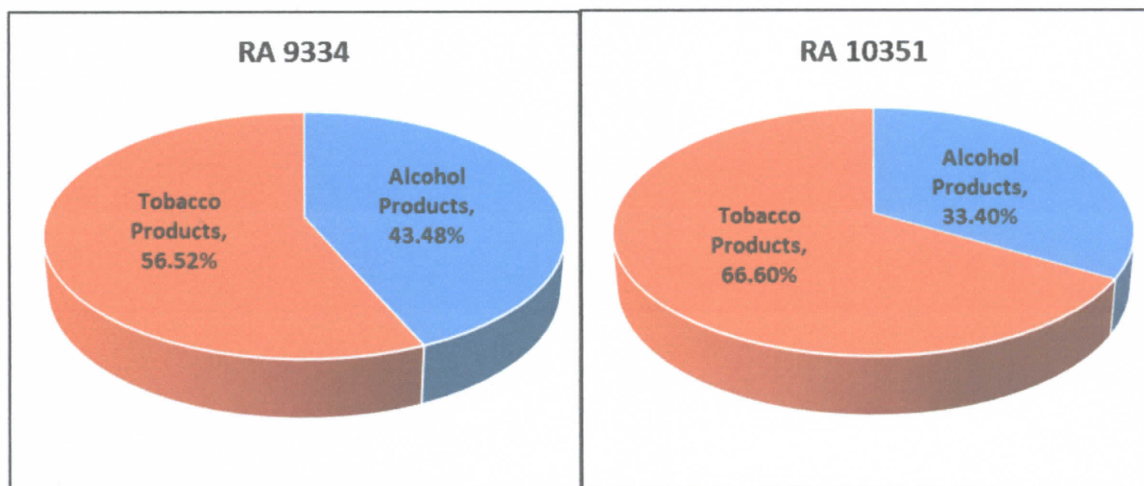
Figure 1. RATIO OF EXCISE TAX COLLECTION ON SIN PRODUCTS TO TOTAL EXCISE TAX COLLECTION, TOTAL BIR COLLECTION AND GDP, 2008 – 2017



Source of basic data: BIR

It is noted that under RA 9334 more than half (56.6%) of excise tax collection on sin products came from tobacco products. The percent share of tobacco products further increased to 66.6% under RA 10351 indicating that the increase in the excise tax rates on alcohol products are not that high compared to those of tobacco products. **(Figure 2)**

Figure 2. AVERAGE PERCENTAGE SHARE OF TOBACCO AND ALCOHOL PRODUCTS TO TOTAL EXCISE TAX COLLECTION ON SIN PRODUCTS UNDER RA NOS. 9334 AND 10351, 2008 – 2017



Source of basic data: BIR

B. Excise Tax Collection and Volume of Removals by Type of Sin Product, 2008 - 2017

On Tobacco Products

Total excise tax collection on tobacco products for the period 2008 to 2017 was generally on the uptrend, with highest annual growth rate of 111% recorded in 2013, the first year of the implementation of RA 10351. The significant increase in the collection was attributable to the increase in excise tax rates on tobacco products. **(Table 3)**

It is noted that under RA 9334, the decreases in collection were recorded on the years when new excise tax rates were implemented. This was the result of the frontloading particularly on high-priced brands on the last month of the year prior to the increase in excise tax rates.⁷ On the other hand, the significant increase of 32.5% in the excise tax collection on tobacco products in 2010 was the effect of the merger of two major players in the tobacco industry coupled by the introduction and adoption of new practices by both sides.⁸

⁷ BIR Annual Report, 2009, 2010 and 2012.

⁸ BIR Annual Report, 2010.

Meanwhile, under RA 10351, excise tax collection was generally on the uptrend except in 2016 when growth rates on both cigars and cigarettes went down to -29.2% and -11.8%, respectively. Aside from the increase in excise tax rates, the increase in collection was the result of significant increases in the volume of removals of cigarettes due to frontloading during the last quarter of 2013 in anticipation of the increased excise tax rates in 2014. It was also due to the rise in the year-on-year nominal growth rates of tobacco manufacturers by 19.6% from -4.2% in the previous year despite the shift of tobacco consumers' preference to lower priced brands manufactured by a local tobacco manufacturer.⁹

It is also noted that the increase of 31.0% in 2015 was the result of the required affixture of internal revenue stamps on cigarettes and its monitoring using the Internal Revenue Stamps Integrated System (IRSIS).¹⁰

Table 3. EXCISE TAX COLLECTION ON TOBACCO PRODUCTS AND GROWTH RATE BY TYPE, 2008 – 2017
(Amounts in Billion Php)

Year	Tobacco Products			Growth Rates (%)		
	Cigars	Cigarettes	Total	Cigars	Cigarettes	Total
RA 9334 (effective January 1, 2005)						
2008	*	27.35	27.35			
2009	*	23.87	23.87		-12.71	-12.71
2010	*	31.63	31.63		32.49	32.49
2011	*	25.50	25.50		-19.37	-19.37
2012	0.01	32.16	32.17		26.14	26.16
Ave.	0.00	28.10	28.10	-	6.64	6.64
RA 10351 (effective January 1, 2013)						
2013	0.02	67.94	67.96	190.60	111.24	111.26
2014	0.02	74.33	74.34	-4.94	9.40	9.40
2015	0.02	97.39	97.41	-1.9	31.03	31.02
2016	0.01	85.92	85.93	-29.20	-11.78	-11.79
2017	0.01	90.88	90.89	0.58	5.77	5.77
Ave.	0.01	83.29	83.31	31.03	29.13	29.13

*no available data

Note: Value 0.00 means less than PhP10 million.

Source of basic data: BIR

⁹ BIR Annual Report, 2013.

¹⁰ BIR Annual Report, 2015.

For the period 2008-2017, the trend on volume of removals on tobacco products varied under RA 9334 and RA 10351. Under RA 9334, volume of removals for both cigars and cigarettes were erratic while under RA 10351, volume of removals for both cigars and cigarettes was on a downtrend for the period 2013 to 2017, except for 2015 when cigarettes recorded positive growth of 9.1%.

Under RA 9334, volume of removals on cigarettes decreased on the years when excise tax rates were increased. This was the result of frontloading on the last month of the previous year prior to an increase in excise tax rates.¹¹

**Table 4. VOLUME OF REMOVALS ON TOBACCO PRODUCTS
AND GROWTH RATE, BY TYPE, 2008 – 2017**

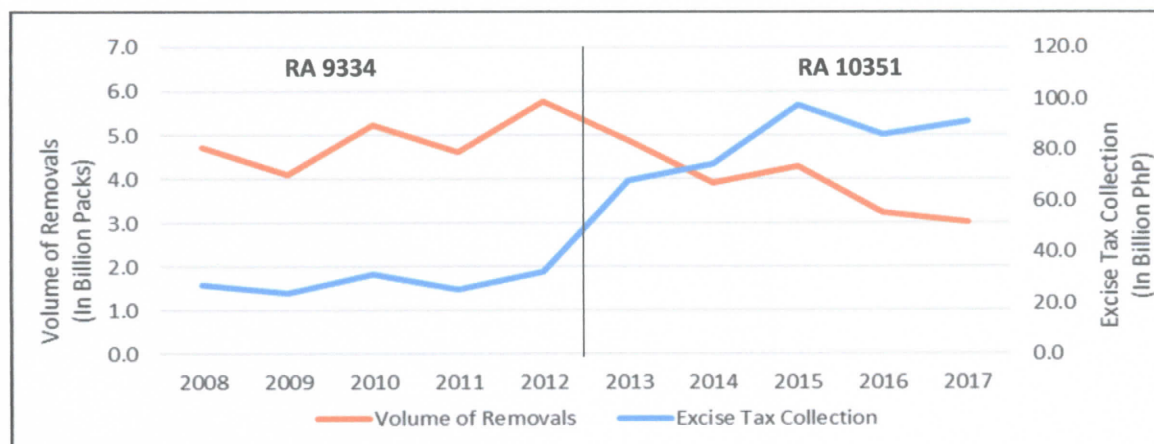
Year	Tobacco Products		Growth Rates (%)	
	Cigars (in million pieces)	Cigarettes (in million packs)	Cigars	Cigarettes
RA 9334 (effective January 1, 2005)				
2008	1.86	4,727.58		
2009	1.38	4,086.84	-25.81	-13.55
2010	1.45	5,240.25	5.07	28.22
2011	1.68	4,618.62	15.86	-11.86
2012	1.63	5,763.74	-2.94	24.79
Ave.	1.60	4,887.40	-1.95	6.90
RA 10351 (effective January 1, 2013)				
2013	1.33	4,868.97	-18.66	-15.52
2014	1.11	3,916.62	-16.5	-19.56
2015	1.00	4,273.75	-9.25	9.12
2016	0.86	3,239.19	-14.81	-24.21
2017	0.78	3,029.20	-8.55	-6.48
Ave.	1.02	3,865.55	-13.57	-11.33

Source of basic data: BIR

It is noted that under RA 9334, the movements of volume of removals and excise tax collection on cigarettes followed the same trend. However, under RA 10351, excise tax collection continuously grew despite the continuous decrease in volume of removal. This shows that RA 10351 was effective in deterring tobacco consumption of Filipinos without compromising the excise tax collection on cigarettes. **(Figure 3)** Thus, it is expected that further increases in the excise tax rates under the TRAIN Law or RA 10963 would further reduce the volume of removals.

¹¹ BIR Annual Report, 2009 and 2012.

Figure 3. EXCISE TAX COLLECTION AND VOLUME OF REMOVALS ON CIGARETTES UNDER RA NOS. 9334 AND 10351, 2008 – 2017



Source of basic data: BIR

On Alcohol Products

During the period 2008-2012, total excise tax collection on alcohol products was on the uptrend from PhP19.7 billion in 2008 to PhP59.1 billion in 2017. It is noted that the average excise tax collection on alcohol products under RA 10351 more than doubled vis-à-vis the average collection under RA 9334. (**Table 5 and Figure 4**)

For distilled spirits, excise tax collection from 2008 to 2012 under RA 9334 ranged from PhP3.5 billion to PhP4.2 billion annually. It is noted that the decrease in excise tax collection of 10.5% in 2009 was the result of temporary closure of an alcohol plant due to an on-going protest arising from environmental issues.¹² Meanwhile, excise tax collection on distilled spirits grew under RA 10351, from PhP11.0 billion in 2013 to PhP16.0 billion in 2017. Annual growth rate also increased dramatically by 161.6% in 2013 under RA 10351. In subsequent years, the collection grew by 7% to 13% annually.

For wines, excise tax collection under RA Nos. 9334 and 10351 remained low. Under RA 9334, excise tax collection ranged from PhP16.1 million in 2008 to PhP25.9 million in 2012 while under RA 10351, it ranged from PhP34.4 million in 2013 to PhP62.6 million in 2017.

For fermented liquors, excise tax collection under RA 9334 ranged from PhP15.6 billion in 2008 to PhP19.3 billion in 2012. It is noted that the continuous increase in excise tax collection under RA 9334 was due to the increase in excise tax rates and high demand for low-price brands of fermented liquors.¹³ Under RA 10351, excise tax collection remained on the uptrend from PhP21.9 billion in 2013

¹² BIR Annual Report, 2009.

¹³ BIR Annual Report, 2008 and 2009.

to Php43.0 billion in 2017. The increase in collection under the said regime was a result of the rise in the year-on-year nominal growth rates of the beverage industry manufacturers by 7.2% in 2013 from 3.4% in 2012, and the expansion and growth of the beer business in 2015.¹⁴

**Table 5. EXCISE TAX COLLECTION ON ALCOHOL PRODUCTS
AND GROWTH RATE, BY TYPE, 2008 – 2017
(Amounts in Billion PhP)**

Year	Collection				Growth Rates (%)			
	Distilled Spirits	Wines	Fermented Liquors	Total	Distilled Spirits	Wines	Fermented Liquors	Total
RA 9334 (effective January 1, 2005)								
2008	4.08	0.02	15.63	19.72				
2009	3.65	0.03	17.01	20.69	-10.49	65.67	8.87	4.91
2010	3.53	0.03	17.99	21.55	-3.34	10.07	5.73	4.13
2011	3.74	0.04	19.06	22.83	5.97	19.50	5.95	5.97
2012	4.22	0.03	19.29	23.54	12.80	-25.94	1.23	3.08
Ave.	3.84	0.03	17.79	21.67	1.24	17.33	5.44	4.52
RA 10351 (effective January 1, 2013)								
2013	11.04	0.03	21.92	32.99	161.61	32.69	13.63	40.19
2014	12.52	0.04	24.74	37.30	13.41	12.85	12.86	13.05
2015	13.51	0.05	28.27	41.83	7.91	35.47	14.27	12.16
2016	14.44	0.05	35.27	49.76	6.88	-8.26	24.76	18.95
2017	16.02	0.06	43.01	59.09	10.94	29.63	21.94	18.76
Ave.	13.51	0.05	30.64	44.20	40.15	20.48	17.49	20.62

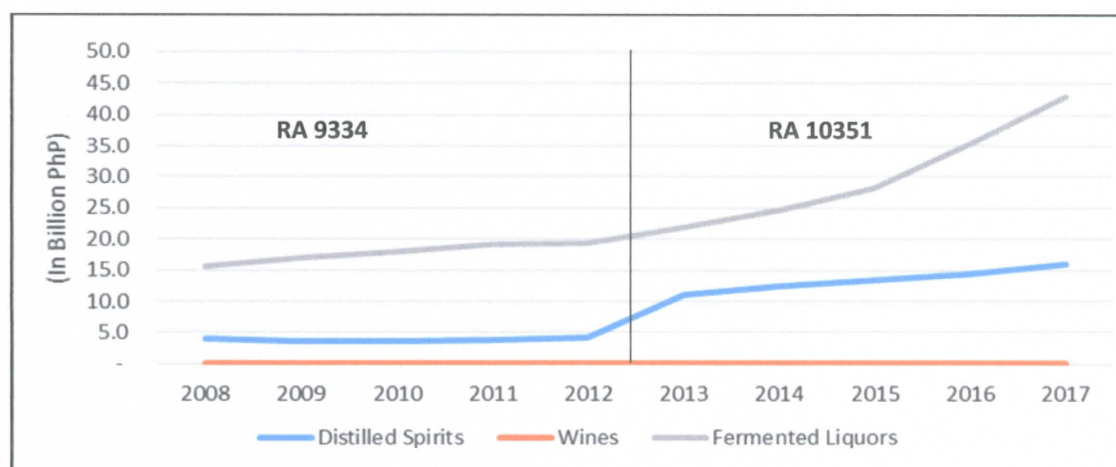
Source of basic data: BIR

The growth in excise tax collection on distilled spirits and fermented liquor for the period 2008 to 2017 indicates that the increase in tax rates was an effective tool in augmenting revenues from the said products. Excise tax collection on wines, however, remained low during the period. **(Figure 4)**

On the other hand, despite the increase in excise tax rate on alcohol products, volume of removals remained generally on the uptrend. It is noted that under RA 9334, average annual growth rates on volume of removals remained positive except for distilled spirits. Meanwhile, under RA 10351, average annual growth rates on volume of removals for all types of alcohol products remained positive. This just shows that the increase in excise tax rates on wines and fermented liquors as well as the restructuring of the excise tax rates on distilled spirits did not discourage the consumption of alcohol products. **(Table 6)**

In fact, under RA 10351, average annual growth rate on the volume of removals of distilled spirits and fermented liquors increased on the average from -2.4% to 9.5% and from 2.1% to 3.4%, respectively. Only the volume of removals of wines recorded a decrease from 12.1% to 9.8% on the average. **(Table 6)**

¹⁴ BIR Annual Report, 2013 and 2015.

Figure 4. EXCISE TAX COLLECTION BY TYPE OF ALCOHOL PRODUCTS UNDER RA NOS. 9334 AND 10351, 2008 – 2017

Source of basic data: BIR

Table 6. VOLUME OF REMOVALS ON ALCOHOL PRODUCTS AND GROWTH RATE, BY TYPE 2008 – 2017

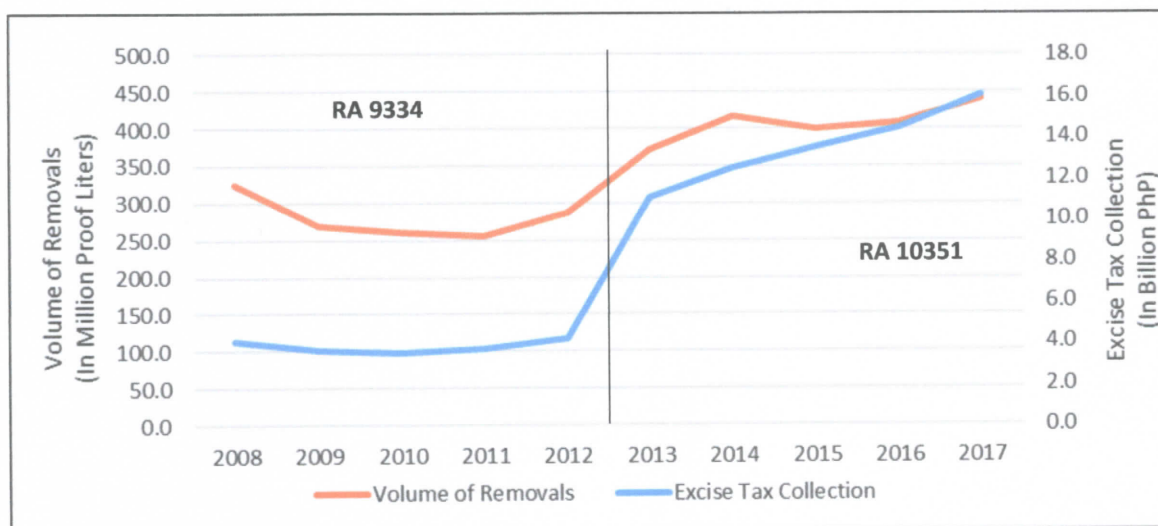
Year	Volume of Removals			Growth Rates (%)		
	Distilled Spirits (in million proof liters)	Wines (in million liters)	Fermented Liquors (in million liters)	Distilled Spirits	Wines	Fermented Liquors
RA 9334 (effective January 1, 2005)						
2008	324.34	0.85	1,450.47			
2009	268.74	1.31	1,474.78	-17.14	53.40	1.68
2010	259.78	1.44	1,581.41	-3.34	10.07	7.23
2011	254.85	1.59	1,556.19	-1.90	10.65	-1.59
2012	287.30	1.18	1,572.73	12.73	-25.94	1.06
Ave.	279.00	1.27	1,527.12	-2.41	12.05	2.09
RA 10351 (effective January 1, 2013)						
2013	371.81	1.15	1,397.30	29.42	-2.65	-11.15
2014	415.88	1.25	1,410.98	11.85	8.51	0.98
2015	398.45	1.62	1,431.29	-4.19	30.26	1.44
2016	407.70	1.43	1,641.20	2.32	-11.80	14.67
2017	441.14	1.78	1,825.48	8.20	24.64	11.23
Ave.	407.00	1.45	1,541.25	9.52	9.79	3.43

Source of basic data: BIR

The generally increasing trend in the volume of removals of distilled spirits under RA 10351 only shows that there is still a room to further increase the excise tax rates on alcohol products if the objective is to discourage the Filipinos from consuming the said products due to health reasons.

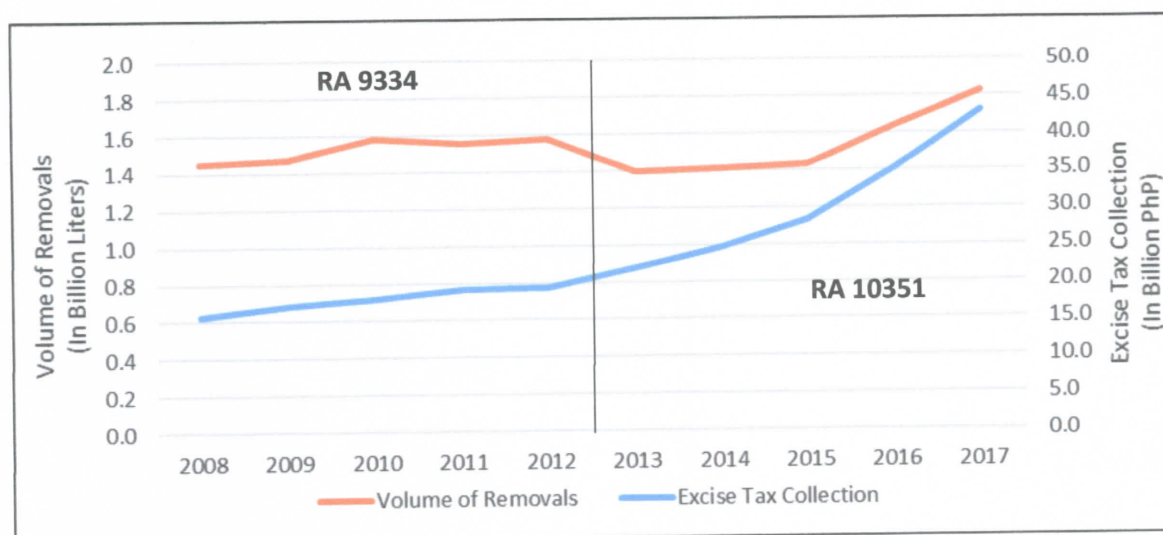
On the other hand, RA 10351 was only successful in lowering volume of removals of fermented liquors on the first three years of its implementation but it started to increase in 2016 and 2017. Thus, there is also a need to further increase the excise tax rates in order to lower its consumption. (Figures 5 and 6)

Figure 5. EXCISE TAX COLLECTION AND VOLUME OF REMOVALS ON DISTILLED SPIRITS UNDER RA NOS. 9334 AND 10351, 2008 – 2017



Source of basic data: BIR

Figure 6. EXCISE TAX COLLECTION AND VOLUME OF REMOVALS ON FERMENTED LIQUORS UNDER RA NOS. 9334 AND 10351, 2008 – 2017



Source of basic data: BIR

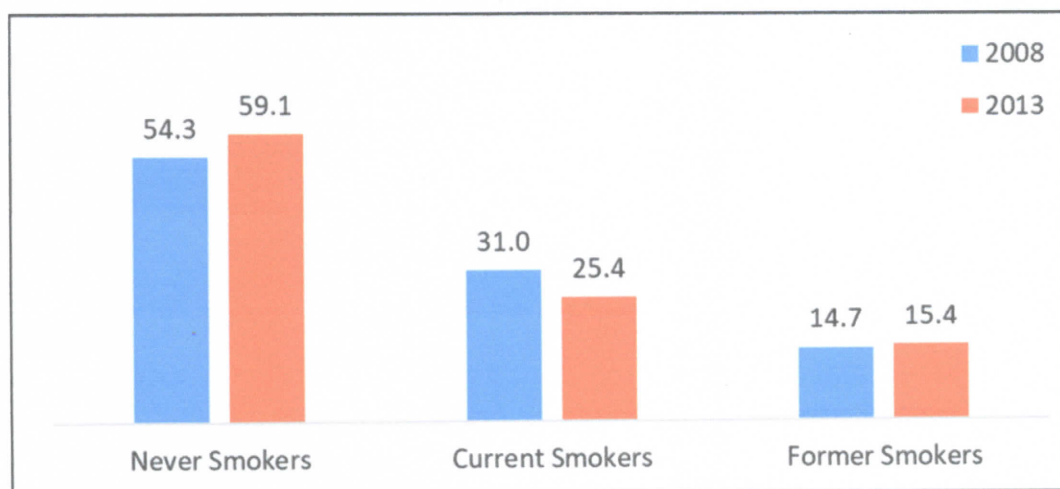
IV. EFFECTS OF THE INCREASE IN EXCISE TAX RATES ON TOBACCO AND ALCOHOL CONSUMPTION IN THE PHILIPPINES

A. On Tobacco Consumption

Based on the 7th and 8th National Nutrition Surveys (NNS) conducted by the Food and Nutrition Research Institute-Department of Science and Technology (FNRI-DOST), the percent distribution of current smokers for the year 2013, the first year of implementation of RA 10351, was lower than in 2008 or under RA 9334, from 31.0% in 2008 to 25.4% in 2013. **(Figure 7)**

On the other hand, there was an increase in the percent distribution on adults who have never smoked before (never smokers) from 54.3% in 2008 to 59.1% in 2013. Likewise, the percent distribution on former smokers or persons who have smoked but are not currently smoking during the time of survey has increased from 14.7% in 2008 to 15.4% in 2013. **(Figure 7)**

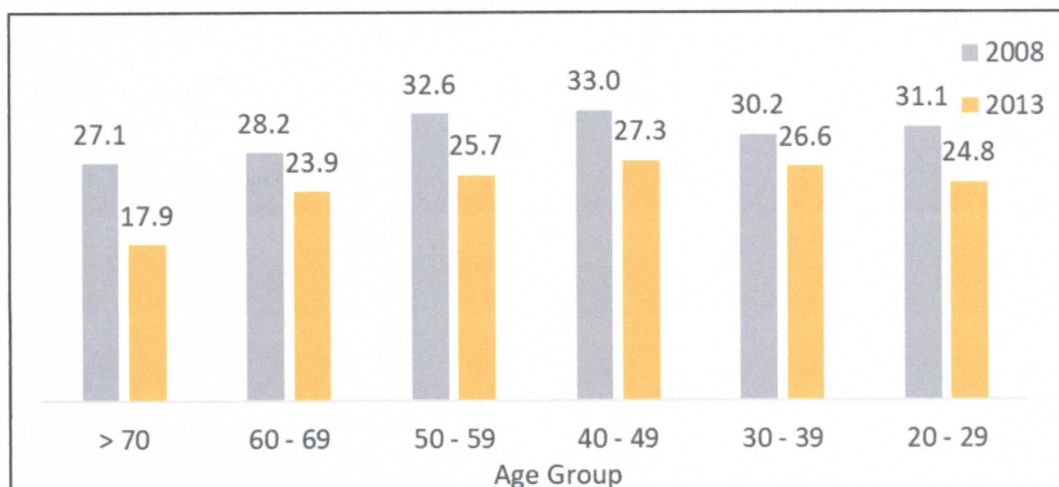
Figure 7. PERCENT DISTRIBUTION OF ADULTS 20 YEARS AND OVER BY SMOKING STATUS IN THE PHILIPPINES: 2008 AND 2013



Source of basic data: FNRI 7th and 8th NNS

A closer examination of the figures shows that the largest decrease in the percent distribution of current smokers are from adults aged 70 years and older, which decreased by 34%, followed by adults aged 50 to 59 years old, with a decrease of 21%, and by adults aged 20 to 29 years old at a decrease of 20%. **(Figure 8)**

Figure 8. PERCENT DISTRIBUTION OF ADULT CURRENT SMOKERS, BY AGE GROUP: 2008 AND 2013



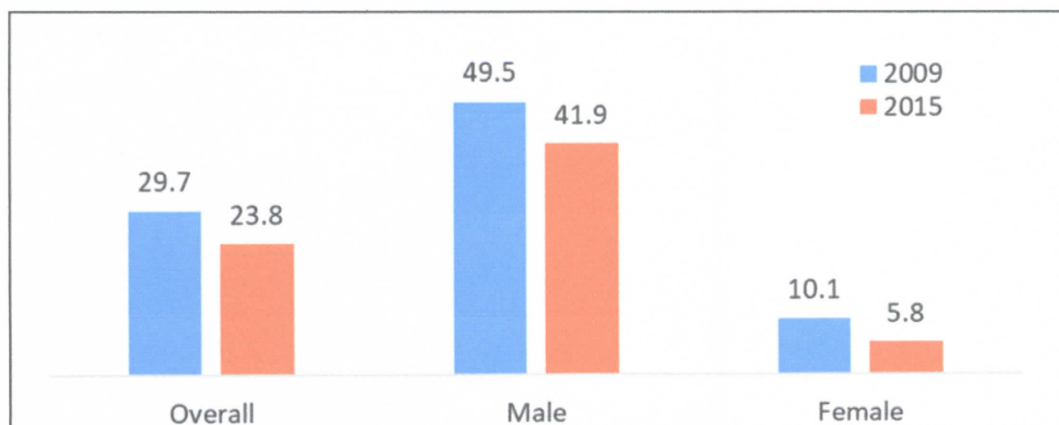
Source of basic data: FNRI 7th and 8th NNS

On the other hand, the most recent survey on tobacco smoking, the 2015 Global Adult Tobacco Survey (GATS) conducted by the World Health Organization (WHO) in partnership with the DOH, the Philippine Statistics Authority (PSA), and the Center for Disease Control and Prevention (CDC) shows the following key findings for the Philippines, viz.:

- (a) Tobacco use prevalence significantly decreased among adults aged 15 years and older from 29.7% in 2009 to 23.8% in 2015. This represents a 19.9% relative decline of tobacco use prevalence. **(Figure 9)**
- (b) The proportion of smokers who are interested in quitting in the last 12 months increased significantly while the proportion of current smokers who were advised to quit by health care providers and smokers who made quit attempts increased moderately. On the other hand, the proportion of smokers who successfully quit in the past 12 months remained level from 2009 to 2015. **(Figure 10)**
- (c) Among daily smokers, the average cigarette expenditure per month increased from PhP336.3 (inflation adjusted) in 2009 to PhP678.4 in 2015. Likewise, the average cost of a pack of 20 manufactured cigarettes almost doubled during the same period from PhP24.9 in 2009 to PhP48.0 in 2015. **(Figure 11)**

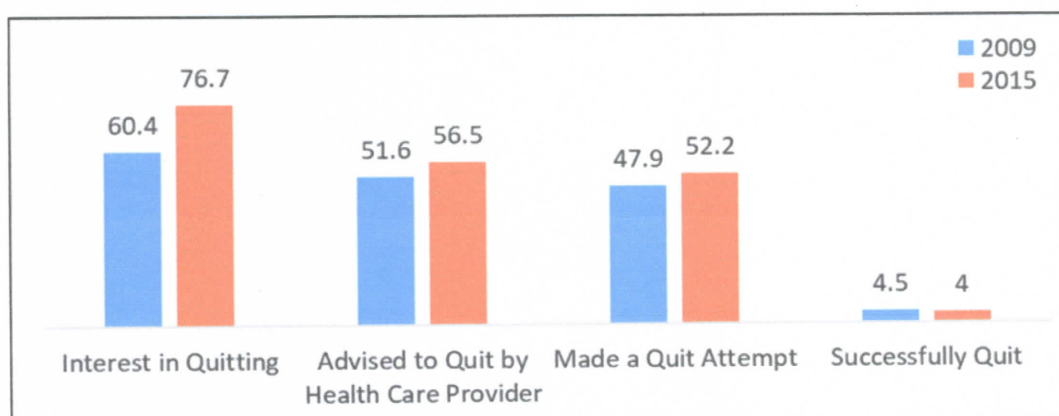
The survey also mentioned that 55.5% of current smokers attempted to quit smoking in the past 12 months because of higher prices of cigarettes.

Figure 9. PREVALENCE OF CURRENT TOBACCO USE BY GENDER PHILIPPINES: 2009 AND 2015



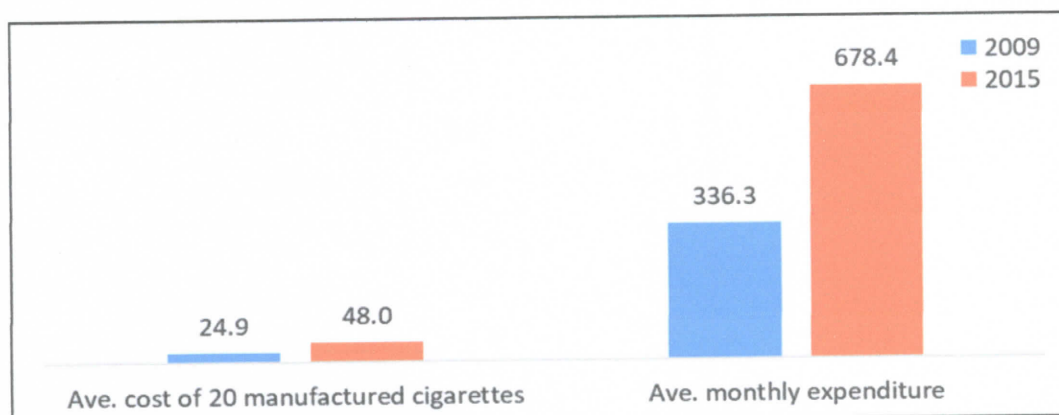
Source of data: GATS Comparison Fact Sheet, Philippines: 2009 and 2015

Figure 10. QUIT SUCCESSES, QUIT ATTEMPTS AND INTEREST IN QUITTING PHILIPPINES: 2009 AND 2015



Source of data: GATS Comparison Fact Sheet, Philippines: 2009 and 2015

Figure 11. AVERAGE COST OF 20 MANUFACTURED CIGARETTES AND MONTHLY EXPENDITURE, PHILIPPINES: 2009 AND 2015 (IN PHP)



Source of data: GATS Comparison Fact Sheet, Philippines: 2009 and 2015

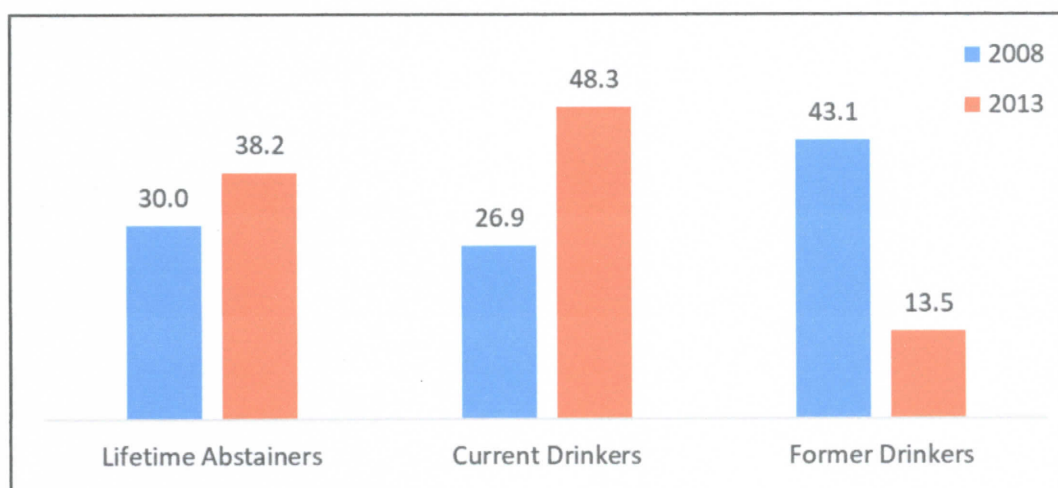
The results of the survey presented show that the increase in excise tax rates on tobacco products under RA 10351 was effective in lowering tobacco consumption in the Philippines as compared to the excise tax rates under RA 9334.

B. On Alcohol Consumption

With regard to alcohol consumption, the only survey available comparing the consumption levels of Filipinos under RA 9334 and RA 10351 was conducted by FNRI-DOST. The latest available global status report on alcohol and health by the WHO covers only the period under RA 9334.

Based on the 7th and 8th NNS by the FNRI-DOST, the percent distribution of former drinkers decreased from 43.1% in 2008 under RA 9334 to 13.5% in 2013 under RA 10351 or by 69%. Moreover, lifetime abstainers or people who have never consumed alcohol increased from 30.0% in 2008 to 38.2% in 2013. However, percent distribution of current drinkers in 2013 increased from 26.9% in 2008 to 48.3% in 2013 which means that higher excise tax rates under RA 10351 did not deter alcohol drinking. **(Figure 12)**

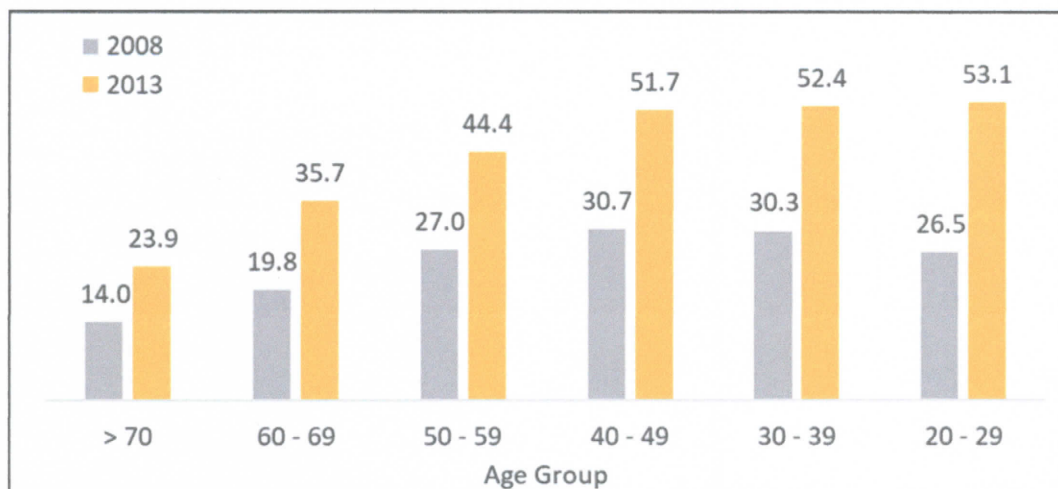
Figure 12. PERCENT DISTRIBUTION OF ADULTS 20 YEARS AND OVER BY ALCOHOL CONSUMPTION STATUS IN THE PHILIPPINES: 2008 AND 2013



Source of basic data: FNRI 7th and 8th NNS

A closer examination of the figures shows that there was an increase in the percent distribution of current drinkers for all age groups, with adults aged 20 to 29 having the largest increase of 100% followed by those aged 60 to 69 with 80% increase, and those aged 30 to 39 with 73%. This means that the prices of alcohol are affordable even for young adults aged 20 to 29 years. **(Figure 13)**

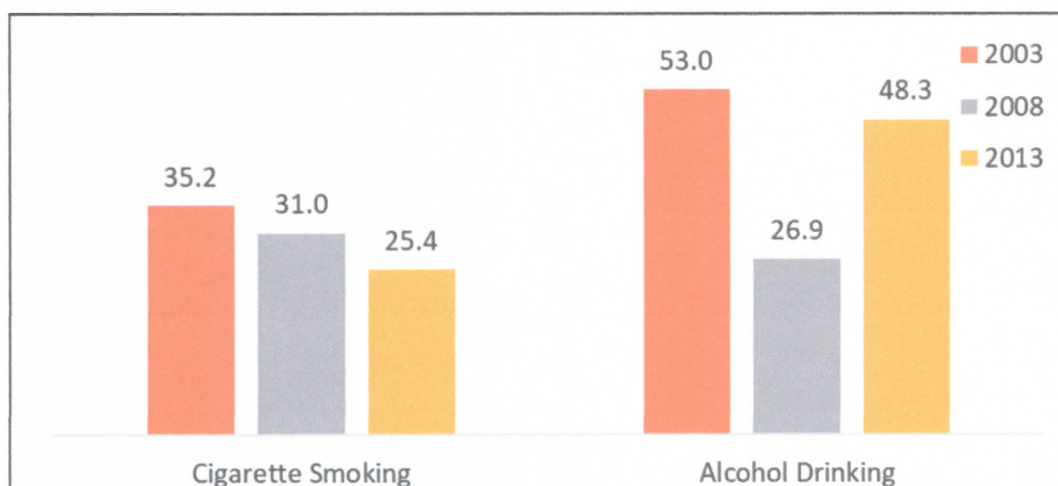
Figure 13. PERCENT DISTRIBUTION OF ADULT CURRENT DRINKERS IN THE PHILIPPINES: 2008 AND 2013



Source of basic data: FNRI 7th and 8th NNS

Meanwhile, based on prevalence trend on cigarette smoking and alcohol drinking in the Philippines for the years 2008 and 2013, RA 10351 was successful in lowering cigarette consumption while the taxation of alcohol needs further improvement in order to lower the consumption. While the prevalence trend from 2003 to 2008 on alcohol drinking decreased from 53.0% to 26.9%, it again went up to 48.3% in 2013. (**Figure 14**)

Figure 14. PREVALENCE TREND OF CIGARETTE SMOKING AND ALCOHOL DRINKING IN THE PHILIPPINES: 2003, 2008 AND 2013



Source of basic data: FNRI 7th and 8th NNS

V. EARMARKED REVENUE FROM RA 10351 OR THE SIN TAX REFORM LAW¹⁵

Per Joint Circular 001-2014, otherwise known as the Implementing Rules and Regulations on Revenue Earmarking of RA 10351, the DOH is the main agency tasked to compute for the allocation of sin tax revenue for health and different health programs.

For CY 2013 and 2014, the projected sin tax incremental revenue for health is lower than the actual collection, resulting to balances amounting to PhP14.2 billion from 2013 and PhP8.8 billion from 2014. However, in 2015 and 2016, projected incremental revenue is higher than actual collection by PhP6.7 billion and PhP36.0 billion, respectively, resulting in to a negative total balance of PhP19.7 billion for the period 2013 to 2016. (**Table 7**)

**Table 7. SIN TAX INCREMENTAL REVENUE EARMARKED FOR HEALTH
(Amounts in Billion PhP)**

Year	Projected Sin Tax Increment for Health ¹⁶	Actual Collection ¹⁷	Balance from Sin Tax ¹⁸
2013	30.49	44.72	14.22
2014	33.74	42.55	9.12
2015	69.40	62.69	(6.72)
2016	95.27	59.23	(36.04)
Total			(19.72)

Source of data: DOH Sin Tax Law Incremental Revenue for Health Annual Report 2017

It is noted that any sin tax increment for health not included in the budget will be included in the succeeding year's budget. (Rule II Section 2: Bases for Appropriation)

In 2013, a total of PhP30.43 billion was released as follows: PhP9.1 billion for DOH's Miscellaneous Personnel Benefits Fund (MPBF) and PhP3.2 billion for the Philippine General Hospital (PGH), or a total of PhP12.3 billion. Also, an additional PhP13.0 billion was allocated to the DOH. For other agencies, PhP4.1 billion and PhP1.1 billion were allocated for the feeding programs of the Department of Education (DepEd) and Department of Social Welfare and Development (DSWD), respectively.

¹⁵ DOH, Sin Tax Law Incremental Revenue for Health Annual Report 2017. Available at http://www.doh.gov.ph/sites/default/files/publications/2017%20DOH%20Sin%20Tax%20Report_0.pdf, (viewed 27 March 2018).

¹⁶ Computed as DOH Budget based on General Appropriations Act (GAA) minus DOH 2013 Budget based on GAA (PhP 53.23 B).

¹⁷ Based on Collection Certifications issued by Department of Finance (DOF).

¹⁸ Computed as actual collection minus Projected Sin Tax Increment for Health.

Table 8. DBM RELEASES CHARGED TO THE SIN TAX INCREMENTAL REVENUE FUND FOR HEALTH
(Amounts in Billion PhP)

Purpose	Released Amounts
DOH - Miscellaneous Personnel Benefits Fund	9.10
PGH – Hospital Equipment	3.15
DOH – Additional Releases	12.95
Dep.Ed - Feeding Programs	4.14
DSWD - Feeding Programs	1.09
Total	30.43

Source of data: DOH Sin Tax Law Incremental Revenue for Health Annual Report 2017

Of the total PhP95.3 billion sin tax incremental revenue for health included in the 2017 DOH budget, the biggest share of PhP40.6 billion went to PhilHealth premium subsidies for the health insurance of indigents and senior citizens not covered by the National Health Insurance Program (NHIP). This is followed by the allocations for health programs for the attainment of Sustainable Development Goals (SDGs) and other Universal Health Care (UHC) related programs with PhP35.1 billion, Health Facilities Enhancement Program (HFEP) with PhP0.61 billion, Human Resource for Health (HRH) with PhP4.9 billion and Medical Assistance and Health Enhancement Facilities Program (HEFP) with PhP14.0 billion. (Table 9)

Table 9. SIN TAX INCREMENTAL REVENUE EARMARKED FOR HEALTH
CY 2017
(Amounts in Billion PhP)

Particulars	FY 2013 DOH Budget (Baseline Budget w/o Sin Tax)	FY 2017 DOH OSEC & PhilHealth Budget	Sin Tax Incremental Revenue for Health included in the 2017 DOH OSEC & PhilHealth Budget ¹⁹
PhilHealth	12.63	53.22	40.59
Sustainable Development Goals (SDGs) and Others	24.16	59.29	35.12
Health Facilities Enhancement Program (HFEP)	13.56	14.17	0.61
Human Resource for Health (HRH)	2.88	7.82	4.94
Medical Assistance and Health Enhancement Facilities Program (HEFP)	0.00	14.00	14.00
Total	53.23	148.50	95.27

Source of data: DOH Sin Tax Law Incremental Revenue for Health Annual Report 2017

¹⁹ FY 2016 DOH Budget minus FY 2013 Budget (Baseline Budget without Sin Tax)

Meanwhile, Medical Assistance to the indigents as prescribed allocation of Sin Tax incremental revenue for health is delivered through the (i) Medical Assistance Program (MAP), which provides financial assistance to indigent patients confined in government hospitals, and (ii) provision of medicines to LGU health facilities. The Health Enhancement Facilities Program (HEFP) provides financial assistance for the continued improvement of government hospitals and government owned health facilities. **(Table 10)**

**Table 10. SIN TAX ALLOCATION BY PROGRAM, ACTIVITY AND PROJECT (PAP) –
GENERAL APPROPRIATIONS ACT (GAA)
(Amounts in Billion PhP)**

Prescribed Allocation	Programs, Activities & Projects (PAPs)	Sin Tax Incremental Revenue Added to:				Percent Share			
		2014 DOH Budget	2015 DOH Budget	2016 DOH Budget	2017 DOH Budget	2014 DOH	2015 DOH	2016 DOH	2017 DOH
80% for Universal Health Care Expenditure (NHIP, MDG, Health Awareness)	Enrollment Coverage of the Poor (PhilHealth Premiums)	22.71	24.56	31.26	40.59	75%	73%	45%	43%
	Attainment of SDGs	1.68	3.41	3.25	11.43	6%	10%	5%	12%
	Hospital Operations	2.17	1.33	5.58	15.76	7%	4%	8%	17%
	Quick Response Fund	0.50	0.5	0.51	0.00	2%	1%	1%	0%
	Health Policy, Regulations, & Gen. Admin.	0.14	-0.03	7.56	7.97	0%	0%	11%	8%
	Health Awareness Program	0.00	0.01	0.04	0.00	0%	0%	0%	0%
	Health Facilities Enhancement Program including CO of DOH Hospitals	-	-2.87	7.45	0.61	-	-9%	11%	1%
	SUBTOTAL	27.20	26.91	55.65	76.36	89%	80%	80%	80%
20% for Medical Assistance & HEFP	Medical Assistance to Indigent Patients Including Provision of Medicines	3.19	2.72	3.73	3.98	10%	8%	5%	4%
	Health Enhancement Facilities Program	—	2.67	5.86	10.02	-	8%	8%	11%

Prescribed Allocation	Programs, Activities & Projects (PAPs)	Sin Tax Incremental Revenue Added to:				Percent Share			
		2014 DOH Budget	2015 DOH Budget	2016 DOH Budget	2017 DOH Budget	2014 DOH	2015 DOH	2016 DOH	2017 DOH
	Implementation of Doctors to the Barrios	0.09	1.38	4.16	4.94	0%	4%	6%	5%
	SUBTOTAL	3.28	6.77	13.75	18.94	11%	20%	20%	20%
TOTAL OF SIN TAX INCREMENT		30.48	33.68	69.40	95.30	100%	100%	100%	100%

Source of data: DOH Sin Tax Law Incremental Revenue for Health Annual Report 2017

VI. PROPOSALS TO INCREASE THE EXCISE TAX RATES ON SIN PRODUCTS

A. On Tobacco Products

Under the 17th Congress, four (4) bills were filed in Congress seeking the increase in the excise tax on tobacco products. These are House Bill (HB) Nos. 4575²⁰ and 6648²¹, and Senate Bill (SB) Nos. 1599²² and 1605²³.

HB 4575 proposes to increase the excise tax rates on cigarettes packed by machine to Php40.00 per pack starting January 1, 2018 to be increased by Php5.00 annually for four (4) years. Effective January 1, 2022, the specific tax rate shall be increased by 5% every year thereafter.

On the other hand, HB 6648 and SB 1599 propose to increase both the excise tax rates of cigarettes packed by hand and by machine to Php60.00 per pack while SB 1605 is at Php90.00 per pack starting January 1, 2018 with automatic annual adjustment of 9% starting January 1, 2019.

Presented below is the excise tax rates under the present tax system and the proposals calculated up to Year 2023. (**Table 11**)

²⁰ Entitled, “An Act Restructuring the Excise Tax on Tobacco Products and Amending for the Purpose Pertinent Sections of the National Internal Revenue Code of 1997, as Amended,” introduced by Rep. Joey Sarte Salceda, 17th Congress, 1st Regular Session.

²¹ Entitled, “An Act Increasing the Excise Tax on Tobacco Products, Amending for the Purpose Section 145 of the National Internal Revenue Code of 1997, as Amended by Republic Act No. 10351 or the Sin Tax Reform Law,” introduced by Hon. Angelina “Helen” D.L. Tan, M.D., 17th Congress, 1st Regular Session.

²² Entitled, “An Act Raising the Excise Tax on Tobacco Products and Amending for the Purpose Pertinent Sections of the National Internal Revenue Code, as Amended,” introduced by Senator Emmanuel D. Pacquiao, 17th Congress, 1st Regular Session.

²³ Entitled, “An Act Increasing the Excise Tax on Tobacco Products and Amending for the Purpose Section 145 of Republic Act No. 8424, Otherwise Known as the National Internal Revenue Code of 1997, as Amended by Republic Act No. 9334 and Republic Act No. 10351, and for Other Purposes,” introduced by Senator Joseph Victor G. Ejercito, 17th Congress, 1st Regular Session.

Table 11. COMPARATIVE EXCISE TAX RATES UNDER PRESENT SYSTEM AND VARIOUS BILLS

PRODUCT	EXCISE TAX RATES						
	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022	Jan. 1, 2023	Jan. 1, 2024 onwards
A. PRESENT TAX SYSTEM							
(1) Cigarettes packed by hand	PhP32.50 (Jan. 1 – June 30)	PhP35.00	PhP37.50	PhP37.50	PhP40.00	PhP40.00	Effective 1/1/2024, the specific tax rate shall be increased by 4% every year thereafter
(2) Cigarettes packed by machine	PhP35.00 (July 1 – Dec. 31)						
B. HB 4575							
(1) Cigarettes packed by hand	No proposal						
(2) Cigarettes packed by machine	PhP40.00	PhP45.00	PhP50.00	PhP55.00	PhP60.00	PhP63.00	Effective 1/1/2022, the specific tax rate shall be increased by 5% every year thereafter
Amount Increase	PhP7.50 PhP5.00	PhP10.00	PhP12.50	PhP17.50	PhP20.00	PhP23.00	
Percent Increase	23% 14%	29%	33%	47%	50%	58%	
C. HB 6648 and SB 1599							
(1) Cigarettes packed by hand	PhP60.00	PhP65.40	PhP71.29	PhP77.70	PhP84.69	PhP92.32	Effective 1/1/2019, the specific tax rate shall be increased by 9% every year thereafter
(2) Cigarettes packed by machine							
Amount Increase	PhP27.50 PhP25.00	PhP30.40	PhP33.79	PhP40.20	PhP44.69	PhP52.32	
Percent Increase	85% 71%	87%	90%	107%	112%	131%	
D. SB 1605							
(1) Cigarettes packed by hand	PhP90.00	PhP98.10	PhP106.93	PhP116.55	PhP127.04	PhP138.48	Effective 1/1/2019, the specific tax rate shall be increased by 9% every year thereafter
(2) Cigarettes packed by machine							
Amount Increase	PhP57.50 PhP55.00	PhP63.10	PhP69.43	PhP79.05	PhP87.04	PhP98.48	
Percent Increase	177% 157%	180%	185%	211%	218%	246%	

According to the WHO, for the excise tax on tobacco to be effective, it should be at least 70% of the retail prices. Such tax policy would lead to significant price increase, induce many current users to quit, especially the youth, thus, leading to large reductions in the death and diseases caused by cigarette smoking. High tax rates will generate significant increases in tobacco tax revenues while taxing all tobacco products at a single rate reduces the potential for substitution among products, i.e., shifting from high-priced cigarette brands to low-priced brands.

Using the excise tax rates for January 1, 2018 and the NRPs of three (3) cigarette brands available in the market, it is noted that, the ratio of excise tax to suggested retail price (SRP) for these brands ranges from 32% to 50%. Meanwhile, the ratios under the proposals would range from 36% to 54% for HB 4575, from 45% to 62% for HB 6648 and SB 1599, and from 54% to PhP69% for SB 1605. Thus, among the bills, SB 1605 will reach the WHO required ratio of excise tax to SRP for Brand A. (**Table 12**)

Table 12. RATIO OF EXCISE TAXES TO SUGGESTED RETAIL PRICE OF THREE (3) CIGARETTE BRANDS AVAILABLE IN THE MARKET UNDER THE PRESENT SYSTEM AND PROPOSED TAX RATES OF VARIOUS BILLS FOR JANUARY 1, 2018

Cigarette Brand	NRP (exclusive of excise & VAT)	SRP (inclusive of excise & VAT)	Excise Tax Due	Ratio of Excise Tax to SRP
A. Present				
Brand A	PhP25.98	PhP65.50	PhP32.50	50%
Brand B	PhP45.85	PhP87.75	PhP32.50	37%
Brand C	PhP58.13	PhP101.50	PhP32.50	32%
B. HB 4575				
Brand A	PhP25.98	PhP73.90	PhP40.00	54%
Brand B	PhP45.85	PhP96.15	PhP40.00	42%
Brand C	PhP58.13	PhP109.90	PhP40.00	36%
C. HB 6648 and SB 1599				
Brand A	PhP25.98	PhP96.30	PhP60.00	62%
Brand B	PhP45.85	PhP118.55	PhP60.00	51%
Brand C	PhP58.13	PhP132.30	PhP60.00	45%
D. SB 1605				
Brand A	PhP25.98	PhP129.90	PhP90.00	69%
Brand B	PhP45.85	PhP152.15	PhP90.00	59%
Brand C	PhP58.13	PhP165.90	PhP90.00	54%

It is noted, however, that the proposed increase in excise tax rates of PhP60.00 and PhP90.00 is too high. As shown in Table 11, the proposed excise tax rates would result in an increase of 85% to 177% from the present excise tax rate of PhP32.50 per pack. Thus, it is suggested that the increase should be done on a staggered basis.

On the other hand, had RA 10963 not amended the previous law on the excise tax on cigarettes, the following are the excise tax rates based on a 4% increase every year under RA 10351, viz.:

**Table 13. COMPARATIVE EXCISE TAX RATES ON CIGARETTES
RA 10351 VIS-À-VIS RA 10963**

Year of Effectivity	Excise Tax Rates		Increase	
	RA 10351	RA 10963	Amount	%
Jan. 1, 2018	31.20	32.50	1.30	4.17
July 1, 2018		35.00	3.80	12.18
Jan. 1, 2019	32.45	35.00	2.55	7.86
Jan. 1, 2020	33.75	37.50	3.75	11.12
Jan. 1, 2021	35.10	37.50	2.40	6.85
Jan. 1, 2022	36.50	40.00	3.50	9.59
Jan. 1, 2023	37.96	40.00	2.04	5.38

In effect, RA 10963 increased the excise tax rates of cigarettes by 4% to 12% compared to a flat 4% increase every year under RA 10351.

B. On Alcohol Products

Meanwhile, only one bill, HB No. 4839²⁴, was filed seeking the increase of the excise tax rates on distilled spirits, wines and fermented liquors. It proposes to revert to the two-tier excise tax structure on fermented liquor to level the playing field of the stakeholders producing alcohol products using domestic raw materials and those that are using imported raw materials.

In effect, the bill proposes to amend the imposition of the unitary excise tax of PhP24.44 on fermented liquors starting January 1, 2017 while maintaining the four percent (4%) annual adjustment for the specific tax effective January 1, 2018 under RA 10351. However, a five percent (5%) specific tax shall apply for fermented liquors affected by the ‘no downward classification’. The Bill also proposes automatic annual adjustment of 5% in the specific tax of distilled spirits and wines starting January 1, 2018. (Note: HB 4839 was filed in January 2017)

²⁴ Entitled, “An Act Amending Sections 141,142, and 143 of the National Internal Revenue Code (NIRC) of 1997 Increasing and Restructuring the Excise Tax Rates on Alcohol,” introduced by Representative Sharon S. Garin, 17th Congress, 1st Regular Session.

Presented below are the excise tax rates under the present tax system and as proposed under HB 4839, viz.:

Table 14. COMPARATIVE EXCISE TAX RATES UNDER PRESENT AND PROPOSED TAX SYSTEM ON ALCOHOL PRODUCTS

PRODUCT	PRESENT		HB 4839		Increase/(Decrease) 1 st Year of Implementation vis-à-vis 2018 rates	
	Jan. 1, 2018	Jan. 1, 2019 onwards	Year 1	Year 2	Amount/ Percentage Points	Percent
(1) Distilled Spirits						
(a) Ad valorem rate	20%	20%	25%	25%	5%	25%
Based on the NRP per proof (excluding the excise and value-added taxes), and						
(b) Specific tax Per proof liter	PhP22.50	4% increase since 2016	PhP30.00	To be increased by 5% every year thereafter	PhP7.50	33.33%
(2) Wines (Per liter)						
(a) Sparkling wines/ champagnes, where the NRP (excluding excise and value-added taxes) per bottle of 750 ml., regardless of proof is:						
(1) PhP500 or less	PhP304.17	4% increase since 2014	PhP350.00	To be increased by 5% every year thereafter	PhP45.83	15.07%
(2) More than PhP500	PhP851.66		PhP800.00		(PhP51.66)	-6.07%
(b) Still wines and carbonated wines containing 14% of alcohol by volume or less	PhP36.50	4% increase since 2014	PhP40.00	To be increased by 5% every year thereafter	PhP3.50	9.59%
(c) Still wines and carbonated wines containing more than 14% of alcohol by volume but not more than 25% of alcohol by volume	PhP73.01	4% increase since 2014	PhP70.00	To be increased by 5% every year thereafter	(PhP3.01)	-4.12%
(d) Fortified wines containing more than 25% of alcohol by volume	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits		

PRODUCT	PRESENT		HB 4839		Increase/(Decrease) 1 st Year of Implementation vis-à-vis 2018 rates	
	Jan. 1, 2018	Jan. 1, 2019 onwards	Year 1	Year 2	Amount/ Percentage Points	Percent
(3) Fermented Liquors (Per liter)						
(a) Fermented liquors, where the NRP (excluding excise and value-added taxes) per liter of volume capacity is:				To be increased by 4% every year thereafter. However, for those affected by the no downward provision, it shall be increased by 5%		
(1) PhP50.60 or less	PhP24.44	4% increase since 2018	PhP28.00		PhP3.56	14.57%
(2) More than PhP50.60	PhP24.44		PhP30.00		PhP5.56	22.75%
(b) Fermented liquors brewed and sold at microbreweries or small establishments such as pubs and restaurants, regardless of the NRP (Per liter)	PhP34.07	4% increase since 2014	No proposal			

It is noted that the proposed increase in excise tax rates might be too low to effectively reduce alcohol consumption in the Philippines. As can be seen from Table 14, the proposed rates are higher only by PhP3.50 to PhP45.83, with two rates on wines below the present excise tax rates.

As already mentioned, there is a need to review the taxation of distilled spirits since subsequent to the change made by RA 10351, the volume of removals increased (**Table 6**) and the prevalence trend on alcohol consumption likewise increased (**Figure 14**).

VII. COMPARATIVE EXCISE TAXATION OF ALCOHOL PRODUCTS IN ASEAN MEMBER-COUNTRIES

Presented in Table 15 is a comparison of the alcohol excise tax structure among member-countries of the Association of Southeast Asian Nation (ASEAN), viz.:

Table 15. COMPARATIVE EXCISE TAXATION OF ALCOHOL PRODUCTS IN ASEAN MEMBER COUNTRIES

Country	Distilled Spirits	Wines	Fermented Liquor
Philippines	Mixed – unitary (20% of NRP per proof plus PhP22.50 per proof liter)	Mixed – differentiated (PhP36.50 to PhP851.66 depending on NRP or alcohol content; if alcohol content is more than 25%, taxed as distilled spirits)	Specific – unitary (PhP 24.44 per liter)
Brunei	Specific – differentiated (PhP712.73 to PhP1,979.79 per liter depending on type and alcohol content)	Specific – differentiated (PhP435.56 to PhP950.30 per liter depending on type and alcohol content)	Specific – unitary (PhP237.58 per liter)
Cambodia	Ad valorem – unitary (35%)	Ad valorem – unitary (35%)	Ad valorem – unitary (30%)
Indonesia	Specific – differentiated (Domestic: PhP307.89/liter, Imported: PhP534.95/liter)	Specific – differentiated (Domestic: PhP127.00/liter, Imported: PhP169.34/liter)	Specific – unitary (PhP50.03 per liter)
Laos	Ad valorem – unitary (50%)	Ad valorem – unitary (45%)	Ad valorem – unitary (50%)
Malaysia	Specific – differentiated (PhP537.76 to PhP2,016.61 per proof liter)	Mixed – differentiated (PhP2,016.61 to PhP6,049.83 per proof liter)	Specific – unitary (PhP2,352.71 per proof liter)
Myanmar	Mixed – differentiated (PhP3.56 to PhP231.30 per liter depending on NRP; 60% of NRP per liter if more than PhP1,017.42)	Specific – differentiated (PhP3.17 to PhP205.59 per liter depending on NRP; 50% of NRP per liter if more than PhP1,017.42)	Ad valorem – Unitary (60% of NRP per liter)
Singapore	Specific – unitary (PhP3,509.24 per proof liter)	Specific – unitary (PhP3,509.24 per proof liter)	Specific – unitary (PhP2,392.66 per proof liter)
Thailand	Mixed – unitary (20% of NRP plus PhP849.86 per proof liter*)	Mixed – differentiated (0% of NRP plus PhP4,999.12 per proof liter*)	Mixed – unitary (22% of NRP plus PhP1,433.08 per proof liter*)
Vietnam	Ad valorem – unitary (65%)	Ad valorem – unitary (35%)	Ad valorem – unitary (65%)

*It is noted that the indicated specific tax rate is twice the actual rate per one liter of pure alcohol when converted into per proof liter.

Among the ASEAN member-countries, Cambodia, Laos and Vietnam impose purely ad valorem rates on alcohol products. In Cambodia, distilled spirits and wines are similarly taxed while a lower rate is imposed on fermented liquor. On the other hand, in Laos and Vietnam, distilled spirits and fermented liquor are similarly taxed while a lower rate is imposed on wines. Singapore imposes a purely specific tax on alcohol products. It imposes similar tax on distilled spirits and wines and a lower rate on fermented liquor. Other ASEAN member-countries impose mixed ad valorem and specific taxes.

VIII. CONCLUSION AND RECOMMENDATIONS

The implementation of RA 10351 or the Sin Tax Reform Law for the period 2013 to 2017 generated much needed revenues for the government and effectively reduced the consumption of cigarettes.

The increasing volume of removals on fermented liquors and distilled spirits and the high prevalence trend on current alcoholic drinkers is an indication that the present tax rates are still relatively low to effectively reduce consumption of these alcoholic beverages. Hence imposing higher excise tax on alcohol products is supported.

With regard to tobacco products, although the increase in excise tax rates was successful in reducing volume of removals and tobacco consumption in the country without revenues suffering, the ratio of excise taxes to retail price is still way below the WHO recommendation of at least 70% of the retail prices. Hence, further gradual increase in the tax rates is likewise recommended.

