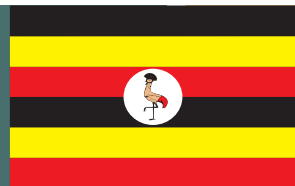




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## Leveraging Excise Tax for Tobacco Control: A Strategy for Reducing Consumption and Improving Public Health in Uganda



### Policy Brief No: 11 2023

#### Key Takeaway

Tobacco consumption in Uganda, while showing a decline, continues to pose a significant public health challenge. The findings of this study suggest that significant increases in excise tax could lead to substantial reductions in tobacco consumption, thereby alleviating the associated health burden. Regular and consistent tax increases, taking into account factors such as income and inflation, are recommended to effectively curb tobacco use.

## 1. The issue

Tobacco consumption poses a significant public health challenge in Uganda, contributing to a high burden of non-communicable diseases such as heart disease, lung disease, and various forms of cancer. Despite a noticeable reduction in tobacco use, particularly among individuals aged 45-50 years, the health impact of tobacco use remains substantial.

The current taxation policy on tobacco in Uganda, while having some effect on consumption rates, is not fully aligned with the World Health Organization's (WHO) recommendations. The WHO suggests that taxes should constitute about 75% of the retail price of tobacco products, a target Uganda has yet to meet. The country's tax policy has been irregular and inconsistent, with changes often driven more by revenue needs than health concerns.

Furthermore, the tax structure in Uganda is complex and tiered, with different rates applied based on the brand and characteristics of tobacco products. This complexity can create loopholes that undermine the effectiveness of taxation as a tobacco control measure. There is also a discrepancy in the taxation of locally produced and imported tobacco products, with the former often taxed less in an effort to encourage local production. This approach overlooks the fact that locally produced tobacco products are equally harmful to health as imported ones.

In addition to these challenges, the impact of income and inflation on tobacco consumption. Finally, there is a lack of comprehensive and standardized data on tobacco use in Uganda, which hampers the design and evaluation of effective tobacco control policies. This data gap needs to be addressed to enable more accurate assessments of policy impacts and to guide future reforms.

## 2. Key findings and implications

The study conducted a comprehensive analysis of tobacco consumption patterns in Uganda and simulated the potential impact of changes in tobacco taxation on consumption in both the short run (3 years) and the long run (10 years). The key findings and implications from the study are as follows:

### **Tobacco consumption trends:**

The study found that tobacco consumption has significantly reduced, especially among individuals aged 45-50 years. However, despite this decline, the burden of disease due to tobacco use remains very large.

### **Impact of tax increase:**

The simulations revealed that increasing the excise tax by 26 percent from the current levels would result in an 8.7 percent reduction in cigarette consumption in the short run. In the long run, maintaining the same average tax increment at 14 percent over a 10-year period would yield a 33 percent reduction in per capita consumption and an 18 percent reduction in smoking intensity.

### **Sensitivity analysis:**

The study conducted a sensitivity analysis using different price elasticities of demand. The results showed that the reduction in cigarette consumption varied between scenarios, underscoring the importance of having accurate elasticity figures for aggregate variables like cigarette consumption, smoking prevalence, and smoking intensity. While increasing the tax by UGX 10,000 (about US\$ 3) would result in a 7.1 percent reduction in consumption, increasing by UGX 15,000 (US\$ 4.2) would result in an 8.7 percent reduction indicating that more significant increases are needed.

### **Impact of income growth:**

The study also found that factors contributing to affordability, like incomes and inflation, play a significant role in tobacco consumption. The long-term simulations showed that increasing or stationary aggregate incomes could potentially offset the impact of tax increases on reducing tobacco consumption.

These findings have significant implications for tobacco control policies in Uganda. They highlight the potential effectiveness of tax increases in reducing tobacco consumption and the importance of considering factors like income growth and inflation in setting tax rates. They also underscore the need for regular and consistent changes in tax rates to maintain their effectiveness over time.

### 3. Main policy recommendations

#### **Harmonize tax rates:**

Uganda should work towards eliminating the tiers in the excise tax structure and harmonizing tax rates for all tobacco products, regardless of whether they are locally produced or imported. This is crucial because from a health perspective, all tobacco products are equally harmful and should be taxed the same.

#### **Increase specific tax rates:**

The country should increase specific tax rates and peg them to inflation and aggregate incomes. This would help to maintain the effectiveness of the tax as a deterrent for tobacco consumption, even as incomes rise.

#### **Implement regular and consistent tax changes:**

Changes in tax rates should be made regularly and consistently. This would help to gradually reduce tobacco consumption over time and would also make it harder for the tobacco industry to adjust their prices in a way that negates the impact of the tax increase.

#### **Align with WHO recommendations:**

Uganda should strive to meet the World Health Organization's recommended proportion of tax on tobacco retail prices. This would help to bring the country's tobacco control policies in line with global best practices.

#### **Improve data collection:**

National surveys should enhance the type and amount of data collected on tobacco use. This would facilitate the processes of calculating elasticities and better illustrate the impact of tobacco control policies. It would also help to identify trends and patterns in tobacco consumption, which could inform future policy decisions.

#### **Focus on health gains:**

The primary focus of tax strategies for tobacco products should be on achieving health gains, rather than on short-term revenue benefits. While increased tax revenues can be a positive side effect of higher tobacco taxes, the main goal should be to reduce the negative health impacts of tobacco consumption.

#### **Monitor and address affordability factors:**

Changes in tax rates must take into account factors contributing to affordability, such as incomes and inflation. This is important because as incomes rise and inflation occurs, tobacco products can become more affordable, which could potentially increase consumption. By monitoring these factors and adjusting tax rates accordingly, the government can help to ensure that tobacco products remain unaffordable and thus discourage consumption. These recommendations, if implemented, could significantly reduce tobacco consumption in Uganda, leading to improved public health outcomes and reduced healthcare costs associated with tobacco-related diseases.

### 4. Further reading:

For more detailed information, please refer to the full study:

*Tobacco Control in Uganda: An analysis of the impact of taxation on consumption patterns.*

<https://elibrary.acbfpact.org/acbf/collect/acbf/index/assoc/HASH019d/87a0d202/112b60d6/d180.dir/Tobacco%20Control%20Uganda.pdf>[https://untobaccocontrol.org/impldb/wp-content/uploads/benin\\_2018\\_annex-3\\_analysis\\_contraband\\_tobacco\\_product\\_2017.pdf](https://untobaccocontrol.org/impldb/wp-content/uploads/benin_2018_annex-3_analysis_contraband_tobacco_product_2017.pdf)



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