

KEY RECOMMENDATIONS:

- ◆ It is strongly recommended to raise tobacco taxes in Montenegro by at least 50 percent and then continue increasing to reach the level of an overall excise rate of at least EUR 90 per 1,000 cigarettes, in line with EU Directive 2011/64, to effectively reduce consumption and the high prevalence of tobacco use. Policy makers should seriously consider an increase in tobacco excise taxes because of their inherent progressivity.
- ◆ Revenues collected from excise taxes should be earmarked for health promotion, cessation, and smoking prevention programs, especially for the most marginalized groups.
- ◆ Workplace cessation programs should be promoted, encouraged and implemented, to increase work productivity and performance.
- ◆ The government should ensure strong tax administration so it can help assure full benefits of the tax reform to the population. Strong tax administration is critical to efficiently collect taxes and minimize tax avoidance and evasion.

INTRODUCTION:

The most effective way to reduce tobacco use is to increase tobacco excise taxes and prices (WHO FCTC, Article 6). Efficient taxation policies can discourage tobacco consumption while improving population health and productivity. On the other hand, the greater affordability of tobacco products can hinder economic growth by increasing prevalence, poverty, lost productivity, and health disparities. This report focuses on the estimation of the distributional impact of tobacco taxes in Montenegro, applying Extended Cost Benefit Analysis (ECBA). Results show that the tobacco taxes in Montenegro are progressive and that the poorest households would benefit the most from the increased tobacco taxes. As a result of increased tobacco taxes, cost reductions from lower spending on cigarettes and medical services, as well as those related to premature deaths due to tobacco use, would result in improvements in total population available income.

RESULTS:

Change in tobacco consumption and expenditures

- ◆ A 50 percent specific tax increase would reduce spending on tobacco among the low-income group. The available income of the poorest group for other non-tobacco-related spending would increase by 0.8 percent, while the high-income group would experience a loss of 0.2 percent.

The implementation of a higher cigarette tax would have a progressive effect, meaning lower consumption and affordability, and more resources for other beneficial spending, with the positive effects more pronounced among the poorest individuals, as their available disposable income becomes higher after the price increase.

Change in medical expenditures

The more economically vulnerable population will have greater resources after the tax increase, as the reduced prevalence and quantity consumed would lower the incidence of smoking-related diseases and the spending to treat them.

- ◆ A 50 percent specific tax increase would increase disposable income due to the reduction in medical costs. For the low-income group, available income would increase between 0.4 and 0.6 percent, while the wealthiest group would see an increase of around 0.1 percent.

The results depend on the smoking attributable fraction (SAF) used. SAF represents a proportion of health expenditures related to smoking-attributable diseases.

Change in Years of Working Life Lost (YWLL)

The increase in tobacco taxes could decrease the number of smoking-attributable deaths and diseases and therefore produce a more productive population. The positive effects are obtained through higher earnings associated with the lower number of YWLL.

- ◆ A 50 percent specific tax increase would increase earnings by reducing the number of productive years of life lost due to tobacco-attributable diseases. The estimated impact is similar among all groups, as available income would increase between 0.4 percent and 0.6 percent.

Net impact

The total net income gains in each income group are estimated by summing up the changes in consumption, medical costs, and years of working life lost. Under all assumptions designed the income gains are positive, outweighing the costs, and tax progressivity is confirmed.

- ◆ **A 50 percent specific tax increase would have a progressive effect on the distribution of income as the increase in available income of low-income group would be between 1.6 and 1.8 percent, whereas for high-income group it would be approximately 0.2 percent (Figure 1).**

Figure 1 additionally shows the effects of two SAFs applied (estimations using research from the USA and Eastern-European countries) to assess more precisely the range of income gains which could be generated for all income groups. From the results it can be concluded that significant tax increases would generate income gains for the whole population.

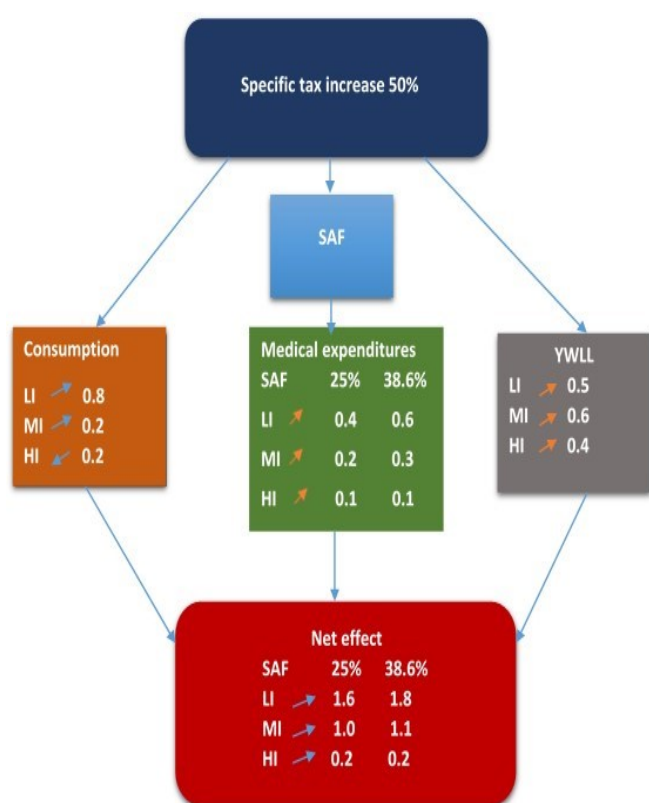


Figure 1. Tobacco taxes distributional impact

CONCLUSIONS:

⇒ The estimated income gains are positive for all income groups, with the highest increase in available income for the low-income households. Assuming a 50 percent specific tax rise, the total increase in available income would be between €9.9 million and €11.2 million depending on assumed SAF and consisting of:

- reduction of cigarette expenditures by €0.95 million;
- reduction of medical expenses associated with smoking between €2.4 million and €3.7 million;
- saved earnings of €6.5 million due to avoided mortality in productive ages of life.

⇒ The poorest group of population would benefit between €4.3 million and €4.9 million in income through:

- a decrease in tobacco consumption of €1.7 million;
- reduction in medical costs between €1.1 million and €1.6 million;
- and saved earnings in amount of €1.5 million due to saved productive years of life.

The progressive excise tax policy would save from 188 to 198 lives, depending on the SAF used. This means that a 50 percent specific tax increase would lead to reduction between 7.9 percent and 11.6 percent in avoidable premature deaths caused by smoking.

The negative health consequences of smoking impact the economy through higher levels of health care expenses representing a high social burden. To reduce the adverse effects of tobacco use, increasing tobacco taxes is an effective way to combat high prevalence and accessibility of tobacco products. The increase in excise taxes will benefit poorer households the most, by reducing health and social inequalities. Through the increase in excise taxes health and social inequalities will be reduced, and the benefits will accrue mainly to the low-income groups.