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Abstract

The amendment of the existing excise tax law on tobacco and alcoholic products is the only revenue measure that the Aquino administration has certified as urgent to date. This paper reviews and evaluates the different versions of both houses of the sin tax reform measure. RA 10351, otherwise known as the Sin Tax Reform 2012, appears to have successfully put together the desirable provisions of the House and Senate version. RA 10351 not only simplifies tax administration and increases tax revenues, but also eliminates the preferential tax treatment given to existing brands by doing away with the freeze in price classification. However, earmarking of the incremental revenues, despite arguments against it, continues to be one of its major features.

Keywords: *Sin tax, excise tax, Philippines, alcohol, tobacco, cigarette, reform*

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The amendment of the existing excise tax law on tobacco and alcoholic products is the only revenue measure that the Aquino administration has certified as urgent to date (Macaraig 2012). In principle, the excise tax on sin products is imposed for the purpose of (i) raising revenues and (ii) discouraging the consumption of the tobacco products and alcoholic beverages. It is argued that higher excise taxes on tobacco will "induce some smokers to quit, reduce consumption of continuing smokers, and prevent others from starting" (Sunley 2009). Because the demand for cigarettes is relatively price inelastic, the expectation is that higher taxes will yield higher revenues in the near term while deterring smoking in the longer term.

Context and rationale. At present, the excise tax on tobacco and alcoholic products follows a multi-tiered schedule that is based on the net retail price (exclusive of VAT and the excise tax itself) of each brand, with cheaper brands being taxed less than the more expensive brands. For instance, the excise tax schedule for cigarettes consists of four tiers referring to low-, medium-, high-, and premium-priced brands while those for fermented liquors and distilled spirits produced from raw materials other than nipa, coconut, cassava, camote, buri palm or sugar cane consist of three tiers each (**Table 1**).

The multi-tiered excise tax rate schedule based on the net retail price was first introduced in 1996 with the enactment of Republic Act 8240 and was later amended by RA 9334 which took effect in 2005. The adoption of specific tax rates for excise taxes in lieu of ad valorem rates under RA 8240[1] meant that the specific rates were fixed until amended by Congress thereby reducing the buoyancy of the excise tax system because the specific tax rates are not automatically indexed to inflation. While RA 9334 provided for discrete increases in the tax rate on tobacco and alcoholic products in 2005 and every other year thereafter until 2011, the mandated increases in the excise tax rates between 2005 and 2011 are less than the actual rate of increase in the prices of tobacco and alcoholic products for the most part.

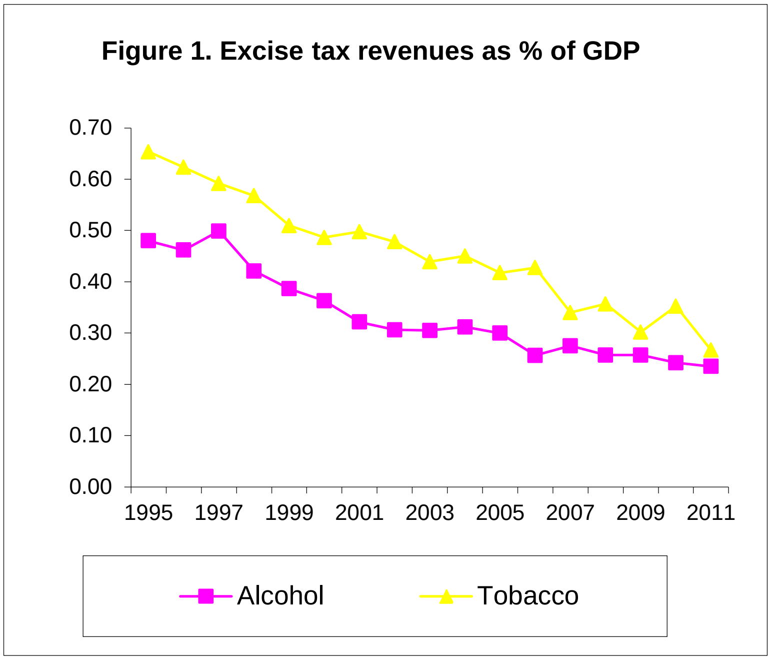
At the same time, RA 9334 pegged the classification of the various brands of excisable products for purposes of ascertaining the tax rate that will apply on them on the average net retail price prevailing in October 1, 1996. If the reclassification of brands in accordance with the net retail prices prevailing in 2005 when RA 9334 became effective were allowed, the inadequate adjustment of the specific tax rates relative to inflation would have been mitigated due to bracket creep. For instance, had RA 9334 allowed a reclassification of the various brands of excisable products in line with the market prices prevailing in 2005, most of the cigarette brands that were in existence in 1996 would have been subjected to the tax rate that is applicable to either the next higher tier or the one above the next higher tier in the original schedule found in RA 8240.[2]

[1] This move was meant to address tax evasion arising from the transfer pricing between the manufacturers of tobacco and alcoholic products and their related marketing arms.
[2] This conclusion is based on 2004 retail prices of various brands of cigarettes as cited in dela Cruz (2004) and 2009 retail prices of various brands of cigarettes as cited in Latuja *et al*. (2010).

Table 1. Existing excise tax rates on tobacco and alcoholic products (RA 9334)

	Date of effectivity			
	1/1/2005	**1/1/2007**	**1/1/2009**	**1/1/2011**
Tobacco				
i) Tobacco twisted by hand or reduced into a condition to be consumed	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
ii) Tobacco prepared/partially prepared with/without the use of any machine/instruments	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
iii) Fine-cut shorts, refuse, scraps, etc. of tobacco (provided these are to be exported or used in the manufacture of other tobacco products)	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
iv) Tobacco specially prepared for chewing so as to be unsuitable for use in any other manner	P0.79/kilo	P0.84/kilo	P0.89/kilo	P0.94/kilo
Cigars and cigarettes				
i) Cigars				
NRP of P500 or less per cigar	10% of NRP	10% of NRP	10% of NRP	10% of NRP
NRP in excess of P500	P50 + 15% of NRP	P50 + 15% of NRP	P50 + 15% of NRP	P50 + 15% of NRP
ii) Cigarettes packed by hand (each pack with 30 pieces)	P2/pack	P2.23/pack	P2.47/pack	P2.72/pack
iii) Cigarettes packed by machine (each pack with 20 pieces)				
NRP below P5 per pack (low-priced)	P2/pack	P2.23/pack	P2.47/pack	P2.72/pack
NRP of P5 to P6.50 per pack (medium-priced)	P6.35/pack	P6.74/pack	P7.14/pack	P7.56/pack
NRP above P6.50 to P10 per pack (high-priced)	P10.35/pack	P10.88/pack	P11.43/pack	P12/pack
NRP of above P10 per pack (premium-priced)	P25/pack	P26.06/pack	P27.16/pack	P28.30/pack
Distilled Spirits				
i) Produced from sap of nipa, coconut, cassava, camote, buri palm or sugarcane ii) Produced in a pot still by small distillers (up to 100 liters/day and 50% alcohol by volume)	P11.65/ proof liter	P12.58/ proof liter	P13.59/ proof liter	P14.68/ proof liter
iii) Produced from raw materials other than above				
NRP per bottle of 750 ml volume capacity is less than P250	P126/ proof liter	P136.08/ proof liter	P146.97/ proof liter	P158.73/ proof liter
NRP per bottle of 750 ml volume capacity is P250 up to P675	P252/ proof liter	P272.16/ proof liter	P293.33/ proof liter	P317.44/ proof liter
NRP per bottle of 750 ml volume capacity is more than P675	P504/ proof liter	P544.32/ proof liter	P587.87/ proof liter	P634.9/ proof liter
Wines				
i) Sparkling wines/ champagne, regardless of proof				
NRP per bottle of P500 or less	145.6	157.25	169.83	183.42
NRP per bottle of more than P500	436.8	471.74	509.48	550.24
ii) Still wines containing 14% or less alcohol	17.47	18.87	20.38	22.01
iii) Still wines containing over 14% but not over 25% alcohol	34.94	37.74	40.76	44.02
iv) 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
Fermented liquors (e.g., beer, lager beer, ale, and other fermented liquors)				
i) NRP per liter is less than P14.50	8.27	8.93	9.64	10.41
ii) NRP per liter is P14.50 up to P22	12.3	13.28	14.34	15.49
iii) NRP per liter is more than P22	16.33	17.64	19.05	20.57

As it is, the inadequate adjustment of specific tax rates to inflation and the reclassification freeze combined resulted in the erosion of excise tax revenues in real terms. Thus, revenues from the excise tax on tobacco products declined persistently from 0.59% of GDP in 1997 to 0.27% of GDP in 2011. On the other hand, revenues from the excise tax on alcoholic products dipped from 0.50% of GDP in 1997 to 0.23% of GDP in 2011 (**Figure 1**).



By providing manufacturers of excisable product the opportunity to mis-declare higher-priced (and therefore, higher-taxed) brands as lower-priced (and therefore, lower-taxed) brands so as to evade paying the correct taxes, the multi-tier rate structure of the excise tax system may have also contributed to the deterioration of the excise tax effort in 1997 to 2011. For instance, Manasan (2010) noted that a shift towards the production of brands subjected to a lower tax rate and a decline in the volume of production of tobacco products, as measured by the total volume of cigarette removals from the plants reported by cigarette manufacturers to the BIR in 2005 to 2009 are not consistent with the positive growth in personal consumption of tobacco products in real terms as per the National Income Accounts during the same period. Also, the data on volume of removals indicate that cigarette producers reported higher than normal volume of removals in 2004, 2006 and 2008, apparently in anticipation of the mandated increase in specific tax rates in 2005, 2007 and 2009.

The current system also distinguishes between the old and new brands. Brands that existed before 1996 are taxed based on their 1996 price while newer brands, including imports, are taxed based on their current prices which tend to be higher. The differential tax treatment of old and new brands results in an uneven playing field for the producers of excisable products with new brands or variants and imported brands being taxed more than locally manufactured older brands. Related to this, the taxation of distilled spirits has been ruled by the WTO to have broken the rules of free trade. The WTO holds that the current excise tax structure of the country discriminates against imported spirits in violation of the General Agreement on Tariffs and Trade (GATT).

Tobacco and alcohol excise tax rates in the Philippines are among the lowest not just in Asia but worldwide (Sunley 2009, Nakayama et. al. 2011). Thus, it is perhaps not a coincidence that the Philippines is currently the highest consumer of tobacco in Southeast Asia, where there are 17.3 million cigarette consumers as estimated by the Department of Health.

Health advocates also argue that the social costs of cigarette smoking and alcohol consumption in terms of their harmful effects on health are the same regardless of the net retail price of any one brand of the excisable product. From this perspective, a uniform rate makes more sense than the existing multi-tier rate structure. To wit, a uniform rate structure is preferable to a multi-tier rate structure because it eliminates the opportunity for consumers to switch from higher-priced, higher-taxed brands to cheaper, lower-taxed (but just as harmful) brands.

Status of reform efforts. In December 20, 2012, President Benigno Aquino III signed into law Republic Act 10351 (RA 10351), otherwise known as the Sin Tax Reform 2012. RA 10351 is a consolidation of the amendments passed by both houses of Congress.

<u>Original House Bill 5727</u>

House Bill 5727 (HB 5727), sponsored by Congressman Emilio Abaya, perhaps represents the version that is most favoured by the Department of Finance. HB 5727 proposes to collapse the present four-tier excise tax on cigarettes into two tiers during the first two years of implementation before completing the shift to a unitary tax rate of PhP 30 per pack of cigarettes on the third year of implementation (**Table 2**). Alcohol products, on the other hand, will be taxed based on alcohol content instead of raw materials. Over a period of three years, the excise tax on distilled spirits will be phased towards a uniform tax rate of PhP 150 per proof liter (**Table 3**) while the excise tax on fermented liquor will immediately be unified at PhP 25 per liter. Following the implementation of a unitary tax rate, the tax will automatically be indexed to inflation. Automatic adjustments of the tax rates will be based on tobacco and alcohol indices established by the National Statistics Office (NSO). Furthermore, HB 5727 will also lift the price classification freeze on old brands. Thus, all excisable products will be classified according to their net retail price based on the latest price survey to be conducted by the Bureau of Internal Revenue (BIR).

Table 2. Proposed excise tax rates on cigarettes under the original version of HB 5727 (pesos per pack)

Net retail price	**Year 1 tax per pack**	**Year 2 tax per pack**	**Year 3 tax per pack**
PhP 10 and below	14	22	30
above PhP 10	30	30	30

The proposed tax system is projected to raise an additional PhP 60.7 billion of government revenue during its first year of implementation- PhP 30.1 billion of which will be from cigarettes, PhP 11.2 billion from distilled spirits and PhP 19.4 billion from fermented liquor. This will be followed by incremental revenues of PhP 84.3 billion, PhP 118.4 billion and PhP 128.5 billion in the second, third and fourth year of implementation, respectively. The incremental tax burden arising from HB 5727 is projected to be shared equally by the tobacco and the alcoholic beverage sectors.

Table 3. Proposed excise tax rates on distilled spirits under the original version of HB 5727 (pesos per proof liter)

Alcohol content	Year 1	Year 2	Year 3
45% alcohol volume or less	42	80	150
more than 45% alcohol volume	317.45	233.73	150

The Department of Finance projects that cigarette consumption will go down from 5.45 billion packs per year to 2.8 billion in the first year of implementation of HB 5727. This will go down further to 2.6 billion, 2.51 billion and 2.5 billion in the succeeding years.

HB5727 earmarks 15% of the incremental revenues collected from the excise tax on tobacco products for support programs that will promote economically viable livelihood alternatives for tobacco farmers and workers. The remaining balance of the incremental revenues from the excise tax on tobacco and alcoholic products is set aside to finance the government's Universal Health Care Program.

Revised House Bill 5727

After much debate, the House of Representatives passed the revised version of HB 5727 in June 5, 2012. The revised version of HB 5727 proposes to impose a two-tier system for cigarettes (**Table 4**), fermented liquors and wines, and a three-tier system for distilled spirits in lieu of the unitary excise tax rates in the original version (**Table 5**). Also, the excise tax rates will not be automatically indexed to inflation. Rather, taxes are proposed to be increased at a fixed rate of 8% every two years starting from 2015 to 2025.

Incremental government revenue from the revised version of HB 5727 is projected to be PhP 31 billion in the first year of implementation, slightly more than half of projected incremental revenue under the original version of the bill. Incremental revenues in the succeeding years are projected at P39 billion, P42.7 billion and P41.5 billion.

Table 4. Proposed excise tax rate on cigarettes under the revised version of HB 5727 (pesos per pack)

Net retail price	Year 1	Year 2
PhP 11.50 and below	12.00	22.00
above PhP 11.50	28.30	30.00

Table 5. Proposed excise tax rates on alcoholic products under revised HB 5727

	Net retail price	Tax (pesos)
Distilled spirits a/		
	below PhP 90	20
	PhP 90- PhP 150	80
	above PhP 150	320
Beer b/		
	PhP 50.60 and below	13.75
	above PhP 50.60	18.80
Wine b/		
	PhP 500 and below	250
	above PhP 500	700

a/ per proof liter
b/ per liter

The revised version of HB 5727 shifts the tax burden of the excise tax reform towards the tobacco sector. Thus, the incremental excise tax burden on alcoholic products drops from PhP 30 billion under the original version to only PhP 4.48 billion (or 15% of the total incremental tax burden) under the amended version. In comparison, the incremental tax liability of cigarette companies is projected to be equal to P26.8 billion (or 85% of the total incremental tax burden of the reform).

Given the lower tax rates under the revised version of HB 5727, the expected decline in the consumption of cigarette is not as large as what is expected under the original version. Cigarette consumption during the first year of implementation of the revised version is projected to decline to 3.1 billion packs per year as compared to 2.8 billion under the original HB 5727.

Senate Bill No. 3299

Senate Bill 3299 (SB 3299), sponsored by Senator Ralph Recto, proposes a three-tiered system for cigarettes that essentially collapses the premium- and high-priced brands under the present system to one tier in 2013 to 2020 before further reducing the number of tax tiers to two in 2021. On the other hand, fermented liquor will be subjected to a two-tier excise tax system while distilled spirits will continue to be subjected to four-tier tax rates.

SB 3299 proposes to increase the excise tax rate on cigarettes from the present PhP 2.72 to PhP 6 per pack in 2013 to 2014 for brands that are currently classified as low-priced, from PhP 7.56 to PhP 10 for brands that are currently classified as medium-priced brands, from PhP 12 to PhP 14 for brands that are currently classified as high-priced brands and to reduce the excise tax from PhP 28.3 to PhP 14 for brands that are currently classified as premium-priced brands. From 2015 onwards, SB 3299 proposes to tax cigarettes based on net retail prices that are determined on the year immediately before the date of effectivity of the new rates (**Table 6**). Under this scheme, cut-off prices defining the tax brackets are adjusted by 8% every two years between 2015 and

2021. However, the bill does not allow for any adjustment in the excise tax rates on cigarettes after 2021.

Table 6. Proposed excise tax rates on cigarettes packed by machine under SB 3299 (pesos per pack) a/

Net retail price	2015	2017	2019	2021
below PhP 15	7.50	9	10.50	
PhP 15- PhP 18	10.50	11	11.50	12
above PhP 18	14.50	15	15.50	16

a/ cut-off prices of tax brackets adjusted by 8% every two years

The effective tax rates for cigarettes under SB 3299 are significantly lower than those imposed under the revised HB 5727. Not only are the specific rates under SB 3299 lower, the cut-off prices defining the tax brackets under SB 3299 are also higher compared to the revised version of HB 5727.

On the other hand, the tax rates for alcohol products are somewhat similar to the revised version of HB 5727. SB 3299 proposes to tax fermented liquor in the same manner as HB 5727. However, relative to the revised version of HB 5727, SB 3299 proposes to increase the number of tax tiers on distilled spirits from the 3 to 4 with the cut-off price for the top tax bracket being higher for the latter compared to the former. Instead of providing for the automatic indexation of the tax rates to inflation, SB 3299 proposes to adjust the tax rate by 8% every other year between 2015 and 2019 and by 4% every other year from 2020 onwards. Thus, the expected tax take from SB 3299 is lower than that from the revised HB 5727.

Table 7. Proposed excise tax rates for distilled spirits under SB 3299 (pesos per proof liter)

Net retail price	2015	2017
below PhP 90	20	21.60
PhP 90- 150	80	86.40
PhP 150- 250	160	172.80
above PhP 250	320	345.60

Projected incremental revenue under SB 3299 is only PhP 15 billion to PhP 20 billion during the first year of its implementation. Of this amount, PhP 9.8 billion to PhP 14.8 billion will be collected from the sales of tobacco products while PhP 5.2 billion to PhP 7 billion will be collected from alcohol products. Of the total incremental tax revenues, 40% will be allotted to the Philippine Health Insurance Corp. to finance the universal coverage of the national health insurance program, 5% to regional hospitals operated by the Department of Health, 5% to district hospitals operated by LGUs, PhP 1 billion for programs that promote economically viable alternative livelihood for tobacco farmers and workers, PhP 100 million for financial support services to tobacco farmers, and PhP 100 million for education campaign on health implications of smoking and drinking.

Amidst much criticism, Senator Recto resigned as chairman of the Senate Committee on Ways and Means and withdrew the committee report he authored.

Revised Senate Bill 3299

Subsequently, Senator Franklin Drilon assumed the chairmanship of the Senate Committee on Ways and Means and put forward substitute sin tax bill (revised Senate Bill 3299) which targets to collect 40 to 45B excise tax in the initial year. With a vote of 15-2, the senate approved on the third and final reading the Drilon version Senate Bill 3299 with some amendments from Senators Juan Ponce Enrile, Ralph Recto and Ferdinand Marcos Jr. last November 20, 2012.

The final version of SB 3299 proposes a three-tier system for cigarettes until 2014 (**Table 8**). The number of tiers will be reduced to two in 2015 to 2016. From 2017 onwards, a uniform rate of PhP 26 per pack of cigarettes will be applied to all brands, a rate that is lower than the proposed tax rate of PhP 32 under Drilon's substitute bill. SB 3299 also proposes to adjust this rate by 4% annually starting 2018. Furthermore, it requires cigarette manufacturers and sellers to purchase at least 15% of their raw materials locally.

Table 8. Proposed excise tax rates on cigarettes under the final version of SB 3299 (pesos per pack)

	2013	**2014**	**2015**	**2016**	**2017**
Hand-Packed Cigarettes	12	15	18	21	26
Machine-Packed Cigarettes					
taxed less than PhP 7.56 in 2012	12	15	18	21	26
taxed at PhP 7.56 but less than PhP 12 in 2012	16	18	22	24	26
taxed at PhP 12 or more in 2012	20	21	22	24	26

The final version of SB 3299 proposes to impose an ad valorem cum specific tax rate on distilled spirits - PhP 20 per proof liter plus and an additional 15% of the net retail price in 2013 to 2014 and PhP 20 per proof liter plus 20% of net retail price from 2015 onwards. It also will impose a two-tier system on fermented liquor. A tax of PhP 20 will be imposed if the net retail price is equal or less than PhP 22 per liter, while a tax of PhP 25 will be imposed if net retail price exceeds PhP 22 per liter. Fermented liquors which are brewed and sold at micro-breweries or small establishments shall be taxed PhP 22 per liter. On the other hand, the proposed excise tax rates on wines and champagnes under the final version of SB 3299 are shown in **Table 9** below. The sin tax bill approved by the Senate mandates that a 5% yearly increase in the specific excise tax rates starting 2014 be imposed.

Table 9. Proposed excise tax rates on wines under the final version of SB 3299

	Tax (pesos)
Sparkling wines or champagnes (with a volume of 750 ml)	
NRP of PhP 500 or less	250
NRP of more than PhP 500	700
Still wines and carbonated wines	
14% or less alcohol content	30
more than 14% alcohol content	60

Under the final version of the Senate's sin tax bill, the government is expected to generate additional revenue amounting to PhP 40 billion during the first year – PhP 24 billion of which will be borne by the tobacco sector while PhP 16 billion will be borne by the alcoholic beverage sector. The target burden sharing of 60-40 for tobacco and alcohol shall be maintained from 2013 to 2017. During the second to fifth year of implementation, the government is expected to collect additional revenues of PhP 45.7 billion, PhP 52.3 billion, PhP 57.7 billion and PhP 64.4 billion, respectively.

The Senate agreed to earmark PhP 23 billion of the additional tax revenues to the Philippine Health Insurance Corp. for its universal healthcare coverage program, PhP 750 million for anti-smoking campaigns, PhP 100 million for the physical and operational upgrading of 16 regional hospitals and 22 medical centers, PhP 10 million also for the upgrading of 618 district hospitals operated by LGUs, and PhP 750 million to finance farmer support programs. The additional funds for farmer support, according to Drilon, will double the safety net provided for under the current law. Of the tax revenues, PhP 2 billion will be used for tax administration, which shall be increased 3% every year. This fund will be used to combat smuggling that could arise as a result of the implementation of the bill.

Bicameral Committee Version

The bicameral committee version of the sin tax on tobacco and alcoholic products proposes to impose a two-tier excise tax system on cigarettes and fermented liquor in 2013 to 2016 before shifting to a uniform rate of PhP 30 per pack of cigarettes and PhP 23.50 per liter of fermented liquor in 2017 (**Table 10**). On the other hand, it proposes to impose a hybrid tax of PhP 20 pesos per proof liter of distilled spirits plus 15% of its net retail price. It also provided for a 4% increase in the specific rates yearly starting 2018 and the removal of the price classification freeze.

Table 10. Proposed excise tax rates on cigarettes and fermented liquor under the Bicameral version (pesos) a/

	2013	2014	2015	2016	2017
Cigarettes					
NRP is below PhP 11.50 per pack	12	17	21	25	30
NRP is PhP 11.50 or more per pack	25	27	28	29	30
Fermented liquor					
NRP is below PhP 50.60 per liter	15	17	19	21	23.5
NRP is PhP 50.60 or more per liter	20	21	22	23	23.5

The additional revenue take from the bicameral version of the sin tax bill is estimated to be PhP 34 billion in 2013, PhP 43 billion in 2014, PhP 51 billion in 2015, PhP 57 billion in 2016 and PhP 64 billion in 2017. Eighty percent of the remaining balance of the said incremental revenues after deducting the 15% of incremental collections from the excise tax on tobacco products that will go to provinces where Virginia tobacco is produced (as mandated under RA 7171) and the 15% of the additional revenues collected from the excise tax on tobacco products that will be allocated among barley and native tobacco producing provinces (as mandated under RA 8240) shall be allocated for the universal health care under the National Health Insurance Program, the attainment of the Millennium Development Goals and health awareness campaigns. On the other hand, the remaining 20% of the remaining balance shall be allocated based on political and district subdivisions for medical assistance and the health facilities enhancement program.

Assessment.

The bicameral version appears to have successfully put together the desirable provisions of the House and Senate versions of the sin tax bill. The bicameral version has greatly simplified the tax structure by adopting a unitary excise tax rate for cigarettes, fermented liquor and distilled spirits. Such a shift away from the existing multi-tiered tax structure will tend to result in greater ease in tax administration by minimizing the opportunities for mis-classification or mis-declaration of goods and transactions. Furthermore, such a move will tend to minimize the downshifting to cheaper brands thus tending to reduce consumption of tobacco products and alcoholic beverages better.

Although the bicameral version of the sin tax bill does not allow for the automatic indexation of the excise tax rates to inflation, it does allow for a 4% increase in the excise tax rates yearly from 2018 onwards. This change is will not only yield additional revenues in the near term but will also prevent the erosion of excise tax revenues in real terms over the long term. Moreover, as indicated earlier, a yearly adjustment in the excise tax rate is preferable over an adjustment that occurs every other year as proposed under the House version because the latter tends to give manufacturers the opportunity to avoid taxes by reporting higher than normal volume of removals in the year prior to the mandated increase in specific rates.

Also, by doing away with the freeze on price classification of excisable products, the bicameral version of the sin tax bill eliminates the preferential tax treatment given to existing brands over new entrants and imports. Such a move tends to level the playing field among the various industry players and enables the country to comply with WTO requirements. On the other hand, the provision with regards to local content of tobacco products in the Senate version is muted somewhat in the bicameral version which states that “Of the total volume of cigarettes sold in the country, any manufacturer and/or seller of tobacco products must source at least 15% of its tobacco leaf raw materials supply locally, subject to adjustment based on international treaty commitments."

While the bicameral version removed the very detailed earmarking provisions found in the Senate version of the sin tax bill, earmarking of the incremental revenues resulting from the proposed amendment to the excise tax law continues to be one of its major features. The arguments against earmarking in the public finance literature are well known. To wit, earmarking is said to lead “to inefficient budgeting, essentially because it creates rigidities in the expenditure allocation process and prevents authorities from smoothly reallocating funds when spending priorities change.” Also, when earmarked funds are off-budget, some loss in budgetary accountability may result because “off-budget often means out of sight and out of mind” (Bird and Jun 2005). However, earmarking may be justified if there is a close link between the payment of earmarked taxes and the benefits accruing to the taxpayer from the favored expenditures as this is consistent with the benefit principle of taxation. But the IMF (2011) points out that “it is difficult to isolate health expenditure on smoking related diseases and finance them by tobacco duties” or taxes (Nakayama et. al. 2011).

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