

## **Sin Tax Law: Its Effect to Consumption Pattern of Liquor Drinkers and Smokers In Calinog, Iloilo, Philippines**

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**Abstract** – *The study determined the effect of sin tax law in the consumption pattern of the respondents in liquor and cigarettes when taken as a whole and classified as to age, gender, civil status, and monthly family income. Descriptive type of research was utilized in the study. Results showed that After the sin tax law was implemented, the consumption pattern of liquor of the respondents as an entire group were increased and when classified as to age, gender, civil status, and monthly family income in their respective categories. The effect after the implementation of sin tax law, smoker increased in consumptions in entire group, in all genders, in all civil status, and Monthly Family Income of above 16,000.00, in the 20-40 years old age bracket and in the 56 years old and above age bracket.*

**Keywords** – Sin Tax Law, Cigarette, Liquor

### **I. INTRODUCTION**

RA 8240 (An Act Amending Sections 138, 140 & 142 of the National Internal Revenue Code) provides that 15% of the additional revenue collected from the excise tax on tobacco products be allocated and divided among the burley and native tobacco-producing provinces.

The Philippines' Bureau of Internal Revenue has published guidelines on the country's new 'Sin Tax' law, which applies progressive increases to the taxation of alcohol and tobacco starting from January 1, 2013. The legislation imposes new flat taxes on distilled spirits and cigars, as well as new VAT rates for these and for other products. The guidelines explain that alcohol and tobacco products currently in the market will be initially classified according to a 2010 price survey conducted by the Bureau of Internal Revenue (BIR), with items introduced since then classified using the suggested retail price as given in a sworn statement by the manufacturer or importer. These prices will be subject to validation by the BIR, followed by revalidation nine months later. An understatement of 15% or more will make the manufacturer or importer liable for additional excise tax equivalent to the tax due and the difference between the understated suggested net retail price and the actual net retail price.

Republic Act 10351, Sin Tax Reform Bill 2012, on Dec. 20, 2012. The “sin tax” on cigarettes and alcohol dampened the New Year party spirit when it was introduced in the Philippines Tuesday, Jan. 1, 2013, as

part of a government bid to boost finances. MANILA, Philippines—A “sin tax” on cigarettes and alcohol dampened the New Year party spirit when it was introduced in the Philippines to boost finances. Tax on cigarettes will gradually be raised to P30 (\$0.72) per pack by 2017, roughly doubling the current price to around 52 pesos. Duty on alcohol will also increase gradually until 2017, increasing the price of a bottle of beer by 23.50 pesos, with varying levels for other drinks including wine and spirits. It will be further increased by four percent each year thereafter.

Anti-smoking campaigner Emer Rojas said he hoped the new taxes would lead to a gradual decline in the number of people suffering from tobacco-related illness.

The government has said that the country of 100 million has the highest incidence of smoking in the region, with tobacco-related diseases costing the country P177 billion (\$4.3 billion) last year. The new taxes aim to raise P33 billion (\$800 million) this year alone, gradually increasing over the coming years. A large percentage of the money will go towards the government's healthcare program. The government first asked Congress to raise taxes on “sin” products as early as 1997, but a strong lobby by tobacco manufacturers stifled change. The lobby included members of Congress representing tobacco-growing regions as well as powerful cigarette companies that enjoyed one of the lowest tobacco taxes in Southeast Asia.

Collin and Gilmore (2002) pointed out that the most tobacco related laws have been enacted as internal market measures because there is a legal subordination of public health to the harmonization of the single market, developing a shared position... produces the lowest common denominator position, particularly when the most reluctant participant is also one of the most powerful.

Allebeck (2001) discuss the use of alcohol taxes to fund alcohol control activities, including health, education, research into alcohol policy and support to health services.

Beecham (1999) pointed out that the tax would not solve the NHS's pressing financial problems, but the priority must be to persuade young people not to smoke and help smokers to stop. Given the strength of the evidence linking price increases with decreases of demand, with the consensus that the price elasticity is inversely related to age, cigarette tax increases are often seen as one of the most effective policy tools for decreasing smoking, especially among children (Lewit and Grossman et al. (1983), Baltagi and Goel (1987), Barnett et al. (1995), Hu et al. (1995), Keeler et al. (1996), Cicca De et al. (1998), Evans and Farrelly (1998) and Chaloupka and Warner (2000). In addition, the health benefits of a tax increase could justify its imposition since the effects of diminishing smoking generate savings in health care expenditure. However, there are some conceptual and empirical problems in the construction of measures of social cost of smoking. In the definition of social cost, some analysts include both negative externalities and private costs, while economists agree that private costs should not be considered in contemplating a corrective tax on cigarettes. Calculation of the true net negative externalities associated with smoking is a difficult challenge.

Even for those for which there is consensus about what should be included and what should not, estimates of the magnitude of social externalities vary widely Manning et al. (1989), Hay (1991), Hodgson (1992), Barendregt and Olekaln (1998), Viscusi (1995), Warner et al. (1999). Health problems associated with alcohol abuse include both acute and chronic effects (Cook and Moore, 2000).

More recently Goldbaum (2000) demonstrates that the desire to quit smoking can be the outcome of a rational consumption path of a harmful and addictive good chosen at the time that the consumer began smoking. The consumer accounts for the future health consequences of smoking and the withdrawal cost of quitting. A consumer's preferences dictate if he smokes

or abstains, and if he smokes whether he is content or dissatisfied with his addiction for the majority of time that he smokes.

Laux (2000) has attempted to draw out the policy implications of the rational addiction literature. His argument is that addiction creates a form of internality. Many people adopt their addictive behaviours before the age at which society regards them as sovereign and responsible for their own decisions. Hence, this provides a rationale for public policy intervention to prevent consumption. Gruber and Koszegi (2002) state that there is no evidence, psychological or other, that supports time consistent preferences over inconsistent ones and also documenting forward looking behaviour by consumers and showing that smokers are not fully myopic, but not the second premise, time consistency. These authors show some evidence sustaining time inconsistency in smoking behaviour, for instance laboratory experiments, calibration of real world behaviour against models with and without time inconsistency, and an economic test by Gruber and Mullainathan (2001).

As stated in Ruhm (2000) —who investigates the relationship between macroeconomic conditions and liquor consumption and highway vehicle fatalities—, the use of microdata has the advantage of allowing for more fully specified models but can introduce other problems. The comparison of results from studies which use macro and micro data can lead to different results.

Ruhm (1995) and Freeman (1999), which confirmed that alcohol consumption moves procyclically. On the other hand, Thomas (2001) concluded that the stress from anxiety over being unemployed in a period of recession raises the levels of alcohol consumption. The sin tax has just been implemented and the response of drinkers and smokers are not yet clear and know this is the main reason why the researcher chose the study.

## II. OBJECTIVES OF THE STUDY

This study aimed to determine the sin tax law and its effect to the consumption pattern of liquor drinkers and smokers in Calinog, Iloilo. The study specifically determined the effect of sin tax law in the consumption pattern of the respondents in liquor and cigarettes when taken as a whole and classified as to age, gender, civil status, and monthly family income.

## III. MATERIALS AND METHODS

This descriptive research study was to determine the sin tax law in its effect to the consumption pattern of liquor drinkers and smokers in Calinog, Iloilo. The

respondents of this study were the fifty five (55) liquor drinkers and smokers were administered a questionnaire after they had been selected through convenience sampling techniques.

All questions used in the survey pertain to the consumption pattern of liquor drinkers and smokers. The data collected was processed and statistically analyzed through SPSS Ver.11.5.

The questionnaire included a series of statements and the respondents were asked to indicate their degree of agreement with each statement. Responses were scored on a four-point scale: 4 for “**Increased in Consumption**”; 3 for “**Remained the same**”; 2 for “**Increased in Consumption**”; and 1 for “**Stopped Consumption**”. To evaluate the answers to the statements in the perception on disasters were the frequency counts, percentage analyses, means, and standard deviations were employed a statistics.

#### IV. RESULT AND DISCUSSION

Table 1 Distribution of Respondents

Category	f	%
<b>Age</b>		
15-25 years old	17	30.9
26-40year old	33	60.0
41-55years old	4	7.3
56 years old and above	1	1.8
<b>Gender</b>		
Male	17	30.9
Female	16	29.1
Gay	11	20.0
Lesbian	6	10.9
Bi Sexual	5	9.1
<b>Civil Status</b>		
Single	33	60.0
Marrried	17	30.9
Separated	4	7.3
Widow	1	1.8
<b>Monthly Family Income</b>		
Below 15,000	21	38.2
Above 16,000	34	61.8
Entire Group	55	100

The respondents were 55 conveniently chosen which comprised of 100 percent. As to age 15-25 years old were 17 or 30.9 percent; 26-40 years old were 33 or 60 percent; 41-55 years old were 4 or 7.3 percent; 56

years old and above 1 or 1.8 percent. As to gender, there were 17 male which were 30.9 percent, female were 16 which composed of 29.1 percent; gays were 11 which composed of 20.0 percent, lesbian were 6 or 10.9 percent, and 5 bi-sexuals which composed of 9.1 percent.

As to civil status, there were 33 single which were composed of 60.0 percent, married were 17 or 30.9 percent, separated were 4 or 7.3 percent, and 1 widow or 1.8 percent of the entire group.

As to family income, there were 21 or 38.2 percent whose income were below 15,000.00 and those were 34 or 61.8 percent whose income were above 16,000.00. Table 1 reflect the data of the distribution of respondents in terms of Age, Gender, Civil Status, and Monthly Family Income.

After the sin tax law was implemented, the consumption pattern of liquor of the respondents as an entire group were increased and when classified as to age, gender, civil status, and monthly family income in their respective categories.

Table 2. The Effect of Sin Tax Law in the Consumption Pattern of the Respondents in Liquor and Cigarettes

Category	Liquor			Cigarettes		
	M	VI	SD	M	VI	SD
Entire Group	2.80	IC	.620	2.71	IC	.685
<b>AGE</b>						
15-25 years old	2.52	IC	.943	2.35	RS	.931
26-40year old	2.93	IC	.348	2.93	IC	.348
41-55years old	2.75	IC	.500	2.25	RS	.957
56 years old and above	3.00	IC	.	3.00	IC	.
<b>GENDER</b>						
Male	2.52	IC	1.007	2.23	RS	1.032
Female	2.87	IC	.341	2.87	IC	.341
Gay	3.00	IC	.000	3.00	IC	.000
Lesbian	3.00	IC	.000	3.00	IC	.000
Bi Sexual	2.80	IC	.447	2.80	IC	.447
<b>Civil Status</b>						
Single	2.75	IC	.751	2.66	IC	.777
Married	2.82	IC	.392	2.70	IC	.587
Separated	3.00	IC	.000	3.00	IC	.000
Widow	3.00	IC	.	3.00	IC	.777
<b>Monthly Family Income</b>						
Below 15,000	2.52	IC	.872	2.38	RS	.864
Above 16,000	2.97	IC	.300	2.91	IC	.451

*Increased in Consumption (IC): 3.26-4.00; Remained the same (RS): 2.51-3.25; Decreased in Consumption (DC): 1.76-2.50; Stopped Consumption: 1.00-1.75*

The effect after the implementation of sin tax law, smoker increased in consumptions in entire group, in all genders, in all civil status, and Monthly Family Income of above 16,000.00, in the 20-40 years old age bracket and in the 56 years old and above age bracket. However, the consumption of cigarettes remained the same in 15-25 years old age bracket, 41- 55 years old age bracket, and Monthly Family Income of below 15,000.00.

## V. CONCLUSION AND RECOMMENDATION

Generally, the respondents increased their liquor and cigarette consumption after the implementation of the sin tax law. This is a gain of the BIR and not necessarily of the Department of Health. It is recommended that more studies may be conducted in order to dig deeper into the issue, future researches may delve deeper into the reasons of the respondents for their behaviour modification.

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