Headline	The colorful change for the sin tax on cigarettes		
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The colorful change for the sin tax on cigarettes

Cigarette smoking significantly affects the lives of many Filipinos whether directly or indirectly. In fact, dating back to 2009, based on the Global Adult Tobacco Survey (GATS), the Philippines has an estimated 17.3 million tobacco consumers. Filipinos, on average, consume 1,073 cigarette sticks annually. This large number of tobacco consumers encouraged the Congress in 2012 to pass Republic Act (RA) No. 10351, commonly known as the "Sin Tax Law," which aims to restructure the existing taxes imposed on alcohol and tobacco products.

The Philippine government saw the duties on these products as a potential revenue source to fund the Universal Health Care Program of the government. Likewise, higher taxes and consequently higher costs are seen as a deterrent to the consumption of "sinful" products, whose adverse effects are mostly borne by the marginalized segments of society.

TOP OF MIND

KARLO P. PORTO

On Dec. 26, 2012, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 17-2012 which prescribes the implementing guidelines on the revised tax rates on alcohol and tobacco products pursuant to the provisions of RA No. 10351 and clarifies certain provisions of the existing RR.

Under the said RR, cigarettes packed by hand would be imposed an excise tax per pack of P12.00 starting Jan. 1, 2013 and would be increased every year thereafter to P15.00, P18.00 and P21.00 until the unitary rate of P30.00 is imposed starting Jan. 1, 2017.

On the other hand, cigarettes packed by machine where the net retail price per pack is P11.50 and below would be imposed an excise tax per pack of P12.00 starting Jan. 1, 2013 and would be increased every year thereafter to P17.00, P21.00 and P25.00 until the unitary rate of P30.00 also is imposed starting Jan. 1, 2017.

However, cigarettes packed by machine where the net retail price per pack is more than P11.50 would be imposed an excise tax per pack of P25.00 starting Jan. 1, 2013 and would be increased every year thereafter to P27.00, P28.00 and P29.00 until the unitary rate of P30.00 also is imposed starting Jan. 1, 2017.

Moreover, the specific tax rates for cigarettes whether packed by hand or packed by machine shall be increased by four percent four percent every year thereafter, starting on Jan. 1, 2018. The new structure of excise tax imposed on cigarettes, implemented through RR No. 17-2012, clearly shows the intent of the government which is to generate more revenue on the consumption of cigarettes by prescribing higher tax rates.

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Aside from the revised excise tax rates, RA No. 10351 mandated the commissioner of internal revenue to "prescribe, provide and distribute to the proper officials xxx internal revenue stamps; unique, secure and non-removable identification markings, such as codes or stamps, be affixed to or form part if all unit packets and packages and any outside packaging of cigarettes xxx."

To implement this mandate of law, the BIR issued RR No. 07-2014, as amended, which prescribes the affixture of internal revenue stamps (IRS) on imported and locally manufactured cigarettes and the use of the Internal Revenue Stamps Integrated System (IRSIS). As described under Section 2(c) of the said RR, an IRS shall refer to the BIR-issued stamp with a dimensional size of 23 millimeters (mm) by 43 mm containing multi layered security features and an IRSIS-assigned Unique Identifier Code and a Quick Reference Code containing information pertinent only to the cigarette container (e.g. pack) to which the IRS is affixed. The IRS comes in six different color designs according to whether the cigarettes are packed by hand or by machine (with colors for high or low tax bracket), for locally manufactured cigarettes; or imported cigarettes with different colors (for high or low tax bracket) or for export. An IRS is usually located on the top seal or closure of cigarette packs.

As previously mentioned, the unitary excise tax rate of P30.00 per pack of cigarettes whether packed by hand or packed by machine is already in effect starting Jan. 1, 2017; thus, the two-tiered rates for cigarettes (i.e. for high and low tax bracket) were reduced to a single rate.

Relative thereto, the BIR recently issued Revenue Memorandum Circular (RMC) No. 1-2017 which clarifies Section 2(c) of RR No. 07-2014 on the colors of cigarette tax stamp. The said RMC clarified that starting Jan. 1, 2017, the classification of IRS would be reduced from six to three. As previously mentioned under RR 07-2014, there are six different colors of IRS for locally manufactured cigarettes, imported cigarettes and cigarettes for export, according to tax bracket (i.e. high or low tax bracket). By virtue of RMC 01-2017, there are now only three colors of IRS for cigarettes according to its classification (i.e. local, imported and export) as follows: pink, for locally manufactured cigarettes; orange, for imported cigarettes; and green, for cigarettes that are be exported.

Lastly, RMC No. 1-2017 provides that in order to effectively monitor the implementation of the said unitary tax rate, the Excise LT Field Operations Division (ELTFOD) would conduct inventory count of all unused/unissued/unaffixed IRS in the possession of cigarette manufacturers or importers and exporters as of Dec. 31, 2016. Thereafter, all removals /importations using the old internal revenue stamps would pay the differential excise tax due thru Electronic Filing and Payment System using BIR Form No. 2200-T.

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The changes brought by RMC 1-2017 is only one of the efforts of the Philippine government to efficiently and effectively collect taxes on the consumption of cigarettes. It may be seen as an indication for a possible cigarette price hike. However, on the brighter side, this will help the Philippine government to promote health by discouraging vice and to collect more revenue for healthcare.

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