

3. Designing an effective Excise Tax structure

One of the other challenges mentioned by the ATO countries is designing an effective excise tax structure. It is important to note that the structure of an excise tax has huge impact on the effectiveness of the tax itself and whether the tax will achieve the intended purposes. Section 8.2 above highlighted best practices in designing effective tax structures and from the analysis of the ATO data, many countries need to review their excise existing tax structures in order to improve their revenue mobilisation efforts.

4. Production Monitoring and Digital Marking systems (Track and Trace systems)

Production monitoring and tracking and tracing of excisable goods is a concern. The main concerns by tax authorities are how to ensure that they have full visibility of the production of tobacco products (and other excisable goods). In addition, how do countries implement effective production monitoring systems and track and trace systems.

Some countries like Kenya, Ghana and Morocco have implemented robust production monitoring systems, and track and trace systems that monitor production of excisable goods in the licensed factories. This ensures that they have visibility over production of tobacco products (and other excisable goods) which are produced in their countries.

Box 8.5

Kenya's gains from its production monitoring system, and track and trace systems

In Kenya, the implementation of the Excisable Goods Management system reduced illicit cigarette market from 15% in 2003 to 5% in 2016. This was achieved through a comprehensive strategy that included sticking tax stamps on cigarettes for domestic consumption, the licensing and registration of cigarette producers and importers, improved coordination between implementing agencies, the implementation of a track-and-trace system, the introduction of scanners at points of entry, increased enforcement, and heavier penalties for those involved in the illicit tobacco trade.

Source: (World Bank, 2018)

5. Low education of the tobacco tax reforms and illicit tobacco trade

Most tax authorities do not have adequate training on tobacco tax developments, new and emerging tobacco products, global developments on tobacco taxation and regulation, implementation of global instruments such as the Framework Convention on Tobacco Control and its Protocol to eliminate Illicit trade in tobacco products, among others.

6. Tax Administration Challenges

Another key challenge that was highlighted by ATO countries is non-compliance by the tobacco industry players and the capacity of tax administrations to address these challenges. Imposition of taxes alone without efficient tax administration systems cannot achieve the intended objectives. WHO (2023) highlights some key interventions to improve tax administration which include:

- ensuring compliance (through licensing, detailed tax declaration requirements and advanced information technology)
- ensuring control and enforcement on the supply chain (through, for example, the use of risk-based approaches for enforcement targets, tax stamps, track, and trace systems, implementing anti-forestalling methods)
- following clearly defined procedures after detecting illicit trade of tobacco (including high penalties).