

Tobacco Policy: Prioritize State Revenue or Public Health

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Abstract

The Indonesian government has tried to make tobacco policy fair on many fronts. This is because even though the excise tax on tobacco provides a fairly high amount of revenue for the state, at the same time, the existence of tobacco has a negative health impact on the community. This research seeks to see how tobacco policy implementation affects state revenues and public health. The method used in this study is a descriptive qualitative approach. The data used in this research comes from various research results and previous studies regarding tobacco policy in Indonesia. The results of this study then found that tobacco control policies in Indonesia always experience development every year. This is because the government needs to devise a strategy that can be fair to all parties in the short and medium term. As for the long term, the government needs to find alternative solutions to tobacco excise revenue. This is because the tobacco policy's ultimate goal is to provide welfare for the people of Indonesia.

Keywords: *Excise, State Revenue, Policy, Public Health.*

Introduction

Indonesia's tobacco or cigarette industry, especially clove cigarettes, has contributed to the community and state income. The enactment of Law Number 39 of 2007 concerning Amendments to Law Number 11 of 1995 concerning Excise proves the state's concern for regulating state revenue from excise. With these excise provisions, the tobacco industry has greatly contributed to state revenues (Yandri et al., 2020).

State revenue from tobacco excise has always experienced an increasing trend. Although there has been a decline in recent years, the decline is not significant. In 2010, for example, excise revenues reached IDR 63.3 trillion. Then in 2015, state revenue rose to IDR 139.5 trillion. Furthermore, in 2022, state revenue from tobacco excise will be IDR. 122.14 trillion constitutes 66% of total state revenue (Couillard et al., 2021). The amount is large and cannot be underestimated for state revenue. And what should be underlined is that the actual amount of state revenue from tobacco excise, according to data from the Directorate General of Customs and Excise, Ministry of Finance of the Republic of Indonesia, tends to always be above the 100% target (Němec et al., 2021). However, in other aspects, smoking has proven to have a negative impact on "public health". This is even more so the influence of smoking on the younger generation as new smokers, whose chances will continue to increase if tobacco control is unchecked (Znyk et al., 2021).

In addition to state revenue, tobacco and cigarettes have been assessed as having an impact on health. The research results for 187 countries, one of them Indonesia, state that 57% of Indonesia's population, especially men, are active smokers. Cigarettes as a product of tobacco have two different phenomena, which have conflicting values. On the one hand, smoking contributes to state income or revenue, but on the other hand, it negatively impacts public health (Dyah Kurniasari et al., 2022). Furthermore, the results of research in the health sector state that the consumption of tobacco or cigarettes causes the death of at least 200,000 people per year in Indonesia and harms the health of all organs of the human body. On the occasion of opening the Indonesia Conference on Tobacco or Health (ICTOH) activities on May 30, 2013, the Indonesian Minister of Health at that time, Dr. Nafsiah Mboi, Sp.A., MPH. also conveyed the adverse effects of tobacco and smoking on public health in Indonesia (Triasih et al., 2022).

WHO believes more than 200 thousand people in Indonesia die yearly from smoking. Other health data also shows that one in 8 people who die is due to smoking-related diseases, namely non-smokers, or at least 25,000 deaths are passive smokers. The premature death experienced by half of all smokers in Indonesia will have an impact on reducing the relative size of the workforce, which in the long term has an important impact on the economy due to reduced income (Nurhasana et al., 2022). In addition, the proportion of spending on purchasing tobacco products from households with smokers is 11.5%. This figure is higher than spending on fish, meat, eggs, and milk (11%), health financing (2.3%), and education expenses (3.2%). This means that household spending on cigarette consumption is often greater than the consumption of other staples (Hoteit et al., 2021).

As explained in article 1 of Law Number 39 of 2007 is a state levy imposed on certain goods with the properties or characteristics specified in the Excise Law. The characteristics or characteristics referred to are as regulated in Article 2 of the Excise Law, namely goods whose consumption needs to be controlled, their circulation needs to be monitored, their use can harm society or the environment, and their use requires the imposition of state levies for the sake of justice and balance (Irianto et al., 2022).

Excise is included in the indirect tax category. Waluyo, Wirawan, and Illyas explain the characteristics of direct or indirect taxes by taking into account the three elements of the tax subject, namely the person in charge of the tax, the person in charge of the tax, and the bearer of the burden. The person who is responsible for taxes is a person who is formally required to pay taxes if some factors/events cause the tax to be imposed on themselves (Elamonovich, 2022). In the realm of cigarette excise, the elements of the tax subject according to the above category are in more than one person, namely, the person responsible for the tax and the bearer of the tax are entrepreneurs who provide excisable goods, and bearers of the tax burden are consumers of excisable goods (Prainsack, 2020)

Taxes received by the government will be used to finance various government activities. In highly developed countries, taxes are the main source of government spending, part of government spending is to finance government administration, and the other is to finance development activities (Mpfung & Mhlanga, 2022). It pays government employees' salaries, finances the people's education and health systems, finances expenditures for the armed forces, and finances various critical infrastructures the government will finance. These expenditures will increase aggregate spending and raise the country's economic activity level (Preker et al., 2021).

The Indonesian government has issued various regulations, such as the Minister of Finance Regulation (PMK), which contains revisions regarding customs tariffs. This policy is the most important instrument for determining tobacco excise rates and a strategic policy for controlling tobacco (tobacco control). Determining the PMK RI policy is difficult and through the applicable mechanism (Saputro et al., 2021). Apart from that, the policy process for determining PMK RI also considers various aspects involving various stakeholders in its long journey. Departing from the unraveled background and the interesting dynamics of the case, this research was conducted (Ramadhani, 2021).

Through the brief discussion above, the researcher then intends to look at the dilemma in tobacco policy in Indonesia, where the state needs to choose between a sizable state income or public health, which is quite important.

Method

This research was conducted using a qualitative approach. The method of this research is descriptive analysis. The data used in this study comes from various previous studies and

studies that still have relevance to the dynamics of tobacco policy in Indonesia. Research data that researchers have successfully collected will soon be processed so that the results of this study can be concluded.

Result and Discussion

1. Effect of Excise Increase on State Revenue

One important reason for the government's involvement in controlling the tobacco market is to create government revenue from excise. Tobacco excises have provided an important source of revenue for the government, which has been increasing yearly. Furthermore, increasing tobacco product excise rates is assumed to be the most effective way to reduce tobacco consumption. This is because the demand for tobacco products is strongly influenced by changes in the price of these products, especially for consumers at the middle-low level. Several economic studies on the consistent increase in the price of tobacco products show that the price elasticity of demand for tobacco products falls between -0.25 and -0.50 in developed countries. Meanwhile, studies conducted in low- and middle-income countries also show similar findings. The study provides price elasticity values that vary between -0.50 to -0.70 in the Southeast Asian region; Consistent results also occur in Indonesia, which finds price elasticity between -0.29 to -0.67, or in other words, consumption of tobacco products will decrease.

Several studies have also examined the impact of an increase in tobacco excise tax on consumption and state revenues. The study shows that the demand for cigarettes is inelastic, or the percentage decrease in demand is smaller than the percentage increase in price. So an increase in tobacco excise will result in a net increase in total state revenue from excise because smokers will tend to continue smoking even though prices continue to rise.

Several of these studies simulate the impact of increasing excise duty on consumption and state revenues using Indonesian data. Studies using time series aggregate data and household surveys predict the same result, where a 10% increase in cigarette excise will reduce consumption by 0.9% to 3% and increase revenue from cigarette excise by 6.7% to 9%. Compared to other developing countries, Indonesia's significant addition to excise tax revenues is influenced by the weak consumer response to rising prices and the ease with which consumers obtain these product substitutes.

Tobacco use has harmful effects on health and can trigger dangerous diseases, such as heart disease, cancer, Chronic Obstructive Pulmonary Disease, and various other dangerous diseases. Meanwhile, the large contribution to government revenues in tobacco excise, taxes, and employment creates concern for the government that this participation will decrease if the excise tax is increased.

It is feared that increasing cigarette excise and taxes for tobacco companies will reduce the profitability of the cigarette industry so that the cigarette excise that will be deposited into government revenue will decrease due to a decrease in production. In addition, the increase in production costs caused by excise and taxes can cause tobacco companies to switch to mechanization in their production process because it will be relatively more expensive to hire workers. The decline in production and mechanization will eventually affect the tobacco companies' need for laborers and tobacco farmers, so they are prone to creating additional unemployment.

The ban on advertising will also have the same effect. Tobacco company advertisements, whether in the form of television, radio, internet advertisements, billboards, posters, sponsorship for sports and music events, as well as scholarships for outstanding students, are created to increase public awareness of the existence of cigarette products and evoke a positive

image of tobacco companies, so that if all forms of advertising are banned, consumption of cigarettes will tend to decrease, and again negatively affect the profitability and production of companies in the tobacco industry. It is also feared that the ban will reduce media revenue where cigarette advertisements are broadcast. The linkage of the cigarette industry with other industries, such as the paper, plastic, tobacco, and clove industries, can result in reduced government revenues due to decreased production.

2. Effect of Tax Increase on Health

The excise tax increase is expected to affect public health. An increase in excise rates will increase the price of cigarettes, which is expected to reduce the level of public consumption of cigarettes and will change consumer behavior towards cigarettes. Meanwhile, the increase in excise rates on tobacco products in Indonesia is planned to be increased by an average of 11%. With details for Group I, Machine White Cigarettes (SPM) with an excise of Rp. 425, Group II, Machine Clove Cigarettes (SKM) with an excise of Rp. 415. As for Group III.B Hand-Rolled Kretek Cigarettes (SKT) with a cheaper excise of IDR 80. For class III.B SKT, this determination of a cheaper excise rate is intended to protect the absorption or use of labor in the cigarette industry. The SKT cigarette industry players are in the position of Small and Medium Enterprises (UKM), of which there are 900. Meanwhile, six large cigarette industries control 86.8% of the cigarette market share: (1) PT.HM Sampoerna, 31.1%; (2) PT. Gudang Garam 20.7%; (3) PT. Djarum 20.2%; (4) PT. Boentol Internasional 8.0%; (5) PT. Nojorono 5.8% and (6) PT. Wismilak Inti Makmur 1%. With the planned increase in excise rates by an average of 11 percent, it is hoped that this will control cigarette consumption and its impact on health.

The excise tax increase is expected to have an impact on reducing the purchasing power of cigarette consumers. The reduction or reduction in public consumption of cigarettes is ultimately expected to improve public health as a result of smoking. As stated by the former Minister of Health of the Republic of Indonesia, Nafsiah Mboi, who conveyed the adverse effects of tobacco and smoking on public health in Indonesia. Data from the results of a study by the Health Research and Development Agency (Litbangkes), Ministry of Health of the Republic of Indonesia in 2013 showed that there had been an increase in premature deaths due to tobacco-related diseases from 190,260 people in 2010 to 240,618 people in 2013. Then there was an increase in sufferers of diseases due to tobacco consumption from 384,058 people in 2010 to 962,403 people in 2013. This number continues to have an increasing trend from year to year.

3. The Dilemma of Increasing Tobacco Excise

The presence of the cigarette industry poses a dilemma in Indonesia, on the one hand, the cigarette industry participates a lot, both in the form of the majority of excise donations and the provision of jobs. However, on the other hand, the tobacco industry also has a dangerous impact. According to WHO research, smoking causes 5,000,000 deaths per year worldwide, making smoking a local problem, no longer a health or economic problem. In the world, Indonesia is one of the five largest cigarette-consuming countries in the world. In response to this, the Indonesian government needs to take effective steps in maintaining and protecting public health, both smokers and non-smokers.

An increase in the number of new smokers also accompanies cigarette consumption in Indonesia. According to the Global Youth Tobacco Survey, in 1995, the number of smokers who started smoking at the age of 10-14 years was 8.39%, this figure increased to 9.46% in 2001. Likewise, with smokers who started smoking at the age of 15-19, the figure was 54.55% in 1995 and rose to 58.93% in 2001. This data shows that more and more smokers are starting to smoke at a very young age, even though cigarette products are prohibited from being sold to

children under 18.

Still related to smoking prevalence, nationally, the highest prevalence is found in groups with low income, and the lowest prevalence is found in groups with the highest income. This might happen because the higher a person's income, the easier it is for him to access information and health, and the higher his awareness of a healthy lifestyle. However, this also shows that overall (male and female), the highest prevalence of smokers is in the middle and lower-income groups. Then it can also be found that women smoke much less than men.

In addition to reviewing the income level, smoking prevalence can also be viewed from the level of education. According to Susenas data, the highest prevalence, if differentiated by sex, was in the group of men who did not attend a school or did not complete elementary school, namely 67.3% in 1995, then rose to 73% in 2001. Likewise, with women, the highest prevalence was in those who did not attend a school or did not complete elementary school, namely 2.8% in 1995, then decreased to 2.4% in 2001.

The dilemma of this problem positions the government through the Minister of Finance to formulate an appropriate policy, whether to increase tobacco excise, which will have implications for increasing state revenues, as well as one of the solution efforts to play a role in protecting public health. On the other hand, the policy choice not to increase excise tariff provisions will make the development of the cigarette industry even better but will also be followed by an increase in cigarette consumers and high health costs, which will be indirectly borne by the state, as well as an increased risk of disease.

4. The Dilemma of State Revenues Versus Public Health

On the other hand, for state revenue, cigarette excise or tobacco excise has contributed to state revenue which continues to increase. State revenue from tobacco excise is an important component in the state budget every year, thus making the instrument of hope of increasing state revenue, but also efforts to increase tobacco excise rates become a dilemma when faced with labor and public health problems.

According to Marisi Zainuddin Sihotang, former Director of Excise Supervision, Directorate General of Customs and Excise (DJBC), in addressing the policy of determining excise tariffs for tobacco products, the Director of Excise Supervision, every year always conducts a study and evaluation of tobacco excise rates comprehensively from all aspects. The process scheme is quite long, starting from April to August when the policy on determining tobacco product excise rates is decided by the Fiscal Policy Agency (BKF). Once known, the target set for the RAPBN is determined in the DPR RI. DGCE worked out the tariff proposal after accommodating the relevant agencies (Ministry of Health, Ministry of Manpower, Ministry of Industry), Cigarette Industry Actors, and other Stakeholders before being brought to BKF to be decided by the Minister of Finance of the Republic of Indonesia through PMK regarding Excise Tariffs for Tobacco Products. The PMK formulation process is between April and October. This PMK is decided around November each year to become the basis for collecting excise rates for the following year.

On the other hand, the government is trying to accommodate strategic health issues, which are the focus of world health (WHO). International conventions that have become the world's attention should not be taken lightly. This is also related to international public health awareness. Through the Framework Convention on Tobacco Control or FCTC since 2003. This Convention has the main objective of controlling world tobacco production to protect current and future generations from tobacco consumption's harmful health, social, environmental, and economic effects. Now is the time for Indonesia, a country with the third highest tobacco consumption after China and India and the highest production of 260 billion sticks, to look forward to its policy regarding the FCTC issue.

The conditions and facts above have created a dilemma for the Government of Indonesia, which on the one hand, continues to be under pressure from the international community for tobacco control through the FCTC scheme, which has been ratified by as many as 180 countries or 90% of the world's population. But on the other hand, tobacco has become a source of state revenue that is quite important and large in number. This is proven by the continued increase in state revenues reaching hundreds of trillions yearly from tobacco excise. Meanwhile, millions of tobacco and clove farmers still depend on the tobacco industry. The implications of the dilemma between state revenues and public health are, of course, still related to socio-economic and environmental aspects and community culture. Amid this dilemma, the government must choose and determine policies that can provide solutions. In the short or annual term, it seems that the government still relies on tobacco excise as state revenue while planning the possibility in the medium term to reduce the number of smokers or tobacco consumption by increasing tobacco excise rates.

Facing such a complicated dilemma, thinking carefully and sorting out the urgency for short-term, medium-term, and long-term strategies is necessary. In real terms, HT excise is still a source of revenue for the short and medium term, but for the long term, it is necessary to plan an alternative source of revenue design that will replace the source of HT excise revenue. Sources from DGCE and BKF acknowledged that there is still an opportunity to explore other sources of excise revenue apart from HT Excise. This is to anticipate the slow but sure long-term that health awareness will grow and cigarette consumption will decrease or decrease. For example, excise for bottled or packaged drinks and others.

Apart from the alternative excise dilemma, the government still has a big job to find job opportunities, which are decreasing in the tobacco industry. This is in line with the decreasing number of cigarette companies, mainly small or micro-scale and home-based companies that previously absorbed direct labor in their production. This phenomenon is also related to the fact that the large-scale tobacco industry is increasingly turning to machine tools and automation in tobacco production. Finally, a series of tobacco control dilemma issues must be found for a timely solution, which in the long run will save Indonesia's nation and state for the people's welfare.

Conclusion

The choice of the PMK policy to determine excise tariffs for tobacco products is very difficult. President Jokowi even advised that all parties carry out a comprehensive and comprehensive study. Even though until 2015, there were already 180 countries in the world that had signed the tobacco control framework, the FCTC. Indonesia must not sign the FCTC because it's a part of it but must consider all parties. Then the Government of Indonesia is expected to act fairly in this policy case by considering all aspects that are best and acceptable to all parties in the short and medium term. Meanwhile, alternative solutions must be considered in the long term in which state revenue does not rely too much on tobacco excise. In the long term, Indonesia needs to increase the health aspect to protect the community. This has been in line with the increasing public health education and awareness, accompanied by cultural changes and environmental improvements. The ultimate goal of tobacco control is still for the Indonesian people's welfare, not only because of international pressure. In the long term, the government is also required to find alternatives and innovations that do not only rely on tobacco excise as a source of state revenue but there are still other excise sources to be developed. Thus the dilemma in tobacco control will be given a solution.

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