TOBACCO BANDEROL SYSTEM APPLICATION IN TURKEY

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Outline

- Advantages
- Some difficulties
- System infrastructure
- Application process
- Auditing, Reports & Inspections
- Demos
- Tobacco Taxation System in Turkey
- Outcomes
Tracking & tracing system

• Stamp- Applied Tracking System for Tobacco Products and Alcoholic Beverages was initiated July 24, 2007

• November 5, 2007 tobacco products and alcoholic beverages sales without stamp were banned
Advantages

Standard stamp

Product security

Turkey’s Banderol system

Enhanced product security

Tax planning

Accounting control

Tobacco control policy

Tobacco Tracking & Tracing system in Turkey
Some difficulties

COMPANY LOBBIES

NECESSITY

DECISION

COST
Some difficulties

Authorization from the Law
* Banderol systems can be used by state for tax controlling
* State can publish documents (legislations and similars)
* State can decide and declare banderol price
* State can make the necessary arrangements
* State can issue new ruling penal sanctions
System infrastructure

MINISTRY OF FINANCE

BANDEROL COMPANY

PRODUCERS, IMPORTER, WAREHOUSE, MARKETING AND WHOLESALES COMPANY

DISTRIBUTOR

MARKET

Management

Procurement

Supply Chain

Tobacco Tracking & Tracing system in Turkey
System infrastructure

MINISTRY OF FINANCE

Tax Planning
Inventory Planning
Tobacco Control Planning

REPORTS

BANDROL COMPANY

PRODUCERS
IMPORTERS & IMPORTER WAREHOUSE

MARKETING COMPANY

WHOLE SALES COMPANY

Distributor 1
Distributor 2

Sample Data
Retail Sale

Tobacco Tracking & Tracing system in Turkey
Auditing & Reports

1ST AUDIT
PRODUCERS
IMPORTERS & IMPORTER WAREHOUSE

2ND AUDIT DOMAIN
MARKETING COMPANY
WHOLESALES COMPANY

3RD AUDIT DOMAIN
Distributor 1
Distributor 2

4TH AUDIT DOMAIN
Retail Market

SYSTEM REPORTS GENERATED BY INSTITUTE & USED BY AUDITER

MOBILE AUDIT SCANNER - FOR STATE ONLY DEDICATED DEVICES FOR STATE AGENTS

MARKET
PACK of CIGARETTE
10 PACKS of CIGARETTE CARTON
MASTER CASE
SHIPPING PALETTE

Tobacco Tracking & Tracing system in Turkey
The results of Turk Trace

- ENHANCED PRODUCT SECURITY
- TAX PLANING
- ACCOUNTING CONTROL
- TOBACCO CONTROL POLICY
- TURK TRACE
Demo 1– Local production for local consumption

1) Printing of banderoles

2) Coding of banderoles

3) Ordering of new banderoles

4) Order approval

5) Delivery of banderoles to the manufacturer

6) Banderoles put on the products and codes activated

7) Delivery of marked products to the wholesaler

8) Delivery of the marked products to the point of sale

9) Marked products for sale

10) Inspection

11) Reports and Business Intelligence

Government

Manufacturer

Wholesaler

Point of sale

Turkish Government Printer Office

Turk Trace Coding Center
Demo 2 – Local production for export

1) Printing of banderoles
   - Turkish Government Printer Office

2) Coding of banderoles
   - Turk Trace Coding Center

3) Ordering of new banderoles
4) Order approval
5) Banderoles put on the products and codes activated
6) Delivery of marked products to the wholesaler
7) Export of the marked products
8) Border Inspection
9) Reports and Business Intelligence

- Government
  - COUNTRY A

- Wholesaler
  - COUNTRY B

- Manufacturer
  - Customs
  - Foreign Point of sale

Tobacco Tracking & Tracing system in Turkey
Demo 3– Import

1) Printing of banderoles

2) Coding of banderoles

3) Ordering of new banderoles for import

4) Order approval

5) Delivery of banderoles to foreign manufacturer

6) Banderoles delivered to foreign manufacturer

7) Banderoles put on the products and codes activated

8) Delivery of marked products to the importer/wholesaler

9) Border Inspection

10) Imported marked products to points of sale

11) Marked products for sale

12) Query to Country A Government

13) Reports and Business Intelligence
Tobacco Taxation System in Turkey
Types of taxes on tobacco products

1. Value-Added Tax (VAT)
2. Excise Duty
# Tax burden on cigarettes (per pack)

<table>
<thead>
<tr>
<th>Year</th>
<th>Ad Valorem (%)</th>
<th>Minimum Specific Tax Per Pack</th>
<th>VAT Burden (%)</th>
<th>Total Tax Burden (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>49.5</td>
<td></td>
<td>15.25</td>
<td>64.8</td>
</tr>
<tr>
<td>2003</td>
<td>55.3</td>
<td></td>
<td>15.25</td>
<td>70.6</td>
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<tr>
<td>2004</td>
<td>28</td>
<td>Plus 0.35 – 1.00 TL</td>
<td>15.25</td>
<td>71.6</td>
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<tr>
<td>2005</td>
<td>58</td>
<td>or 1.20 TL</td>
<td>15.25</td>
<td>75.5</td>
</tr>
<tr>
<td>2006</td>
<td>58</td>
<td>or 1.20 TL</td>
<td>15.25</td>
<td>74.6</td>
</tr>
<tr>
<td>2007</td>
<td>58</td>
<td>or 1.55 TL</td>
<td>15.25</td>
<td>73.5</td>
</tr>
<tr>
<td>2008</td>
<td>58</td>
<td>or 1.55 TL</td>
<td>15.25</td>
<td>73.3</td>
</tr>
<tr>
<td>2009</td>
<td>58</td>
<td>or 2.05 TL</td>
<td>15.25</td>
<td>74.1</td>
</tr>
<tr>
<td>2010</td>
<td>63</td>
<td>or 2.65 TL</td>
<td>15.25</td>
<td>78.5</td>
</tr>
<tr>
<td>2011</td>
<td>65</td>
<td>or 2.90 TL</td>
<td>15.25</td>
<td>79.3</td>
</tr>
<tr>
<td>2012</td>
<td>65</td>
<td>or 2.90 TL</td>
<td>15.25</td>
<td>80.3</td>
</tr>
</tbody>
</table>

**Tax burden on cigarettes (per pack)**
Recent changes in tax policy

- Harmonization with the EU Acquis
  - Ad valorem excise with a specific tax floor
  - Mixed ad valorem and specific excise with a specific tax floor

- Periodic Increases
(Ad valorem + Specific tax with specific tax floor)

<table>
<thead>
<tr>
<th>Spesific Tax per Pack</th>
<th>Ad Valorem (%)</th>
<th>Minimum Specific Tax Per Pack</th>
<th>VAT / Retail Price (%)</th>
<th>Total Tax/ Retail Price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.09 TL</td>
<td>65.25</td>
<td>3.15 TL</td>
<td>15.25</td>
<td>81.79</td>
</tr>
</tbody>
</table>

Note: On average, a pack of cigarette costs 7 TL in Turkey
Tax burden on cigarettes (VAT + Excise Duty)

(%, Retail Price)


64.8 81.8

Tobacco Tracking & Tracing system in Turkey
Tax burden on cigarettes
(VAT + Excise Duty, 2013)

% of Retail Price

Source: Eurostat (1 January 2013)
Revenue: Tobacco excise duty collections

(%, GDP)

- 2003: 1.0%
- 2004: 1.1%
- 2005: 1.1%
- 2006: 1.2%
- 2007: 1.1%
- 2008: 1.1%
- 2009: 1.2%
- 2010: 1.3%
- 2011: 1.2%
- 2012: 1.4%

Tobacco Tracking & Tracing system in Turkey
Tobacco taxation: Limit grey market

Taxes may create financial incentives for those who engage in illegal activities, because of:

• Corruption
• Weak customs
• Slow judicial process
• Low penalties
• Lack of communication and collaboration between neighboring countries
Cigarette pricing in the region (per average pack)

NOTE: Price of a particular brand sold in the region

Tobacco smuggling-action plan

- Revenue Administration
- Responsible for the action plan
- Works in cooperation with relevant institutions (Ministry of Justice, Ministry of Foreign Affairs, Ministry of Economy, Ministry of Internal Affairs...)

Action plan to combat smuggling of tobacco and tobacco products (2011-2013)
Non-duty paid market

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<tr>
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<tr>
<td>Q2: 2010</td>
<td>12.7%</td>
<td>19.8%</td>
<td>19.1%</td>
<td>20.0%</td>
<td>17.1%</td>
<td>13.4%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Q4: 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q2: 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q4: 2011</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q2: 2012</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Q4: 2012</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2: 2013</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Empty Pack Survey by MS Intelligence
Outcome - Limit consumption of tobacco products

Increasing price of tobacco through higher taxes

Most effective way to incentive people quit smoking
Outcome - Tobacco consumption

% of population 15+ who are daily smokers

- TURKEY 2006: 33.4
- Greece
- Chile
- Hungary
- Spain
- Korea
- TURKEY 2010: 25.4
- Poland
- Japan
- Italy
- Netherlands
- Germany
- Norway
- Israel
- Slovak Republic
- Denmark
- Luxembourg
- Finland
- Canada
- United States
- Iceland
- Sweden

Source: OECD
Note: For all other countries data belong to 2009

Tobacco Tracking & Tracing system in Turkey
Thank you ...