

BR - EPAPER MAY 06, 2021 OPINION AND EDITORIAL PAGE 10

Revenue, health benefits of raising tobacco taxes

May 06, 2021

Facebook

Twitter

Whatsapp

Muhammad Sabir

Raising tax revenues during the third wave of Covid-19 is a daunting task for the policymakers in Pakistan. There are hardly any policy options available for the federal government to raise tax revenues during these challenging times. In this scenario, Social Policy and Development Centre's (SPDC) recently published a policy brief on "Modelling the Revenue and Health Implications of Tobacco Tax Policy in Pakistan" is a welcoming document, which provides a couple of policy choices for the Budget 2021-22 outlining positive implications on tax revenues and health outcomes.

As per the policy brief, Pakistan faces a high burden of tobacco use and its

implications for public health. With a prevalence rate of 19.1%, about 30 million adults (age 15 +) currently use tobacco in the country. The document quoted previous research that tobacco use killed an estimated 163,360 people in 2017 in Pakistan. The rest of this article is based on the findings of the policy brief.

Like other countries, tobacco taxation is used as a policy instrument for tobacco control in Pakistan. Federal Excise Duty (FED) on cigarettes is largely treated as the tobacco tax in the country. It has been serving a dual objective of public health promotion and revenue generation. However, FED structure and rates are prone to fluctuations. Changes in tax rates/structure are generally introduced when the federal budget is prepared for a new fiscal year.

At present, a system of specific excise tax on cigarettes is in place. FED rate is applied based on two price tiers: low-priced and premium brands. A brand is categorized as low-priced if the on-pack printed retail price does not exceed Rs5,960 per thousand cigarettes, whereas cigarettes with a retail price above this threshold are treated as a premium or high-priced brand. The FED rate on low-priced and premium brands is Rs 1,650 and Rs 5,200 per thousand cigarettes, respectively.

Given the prevailing retail prices, the excise tax rate on low-priced and premium brands is 42.6% and 59.8% of the retail price, respectively: demonstrating a large excise tax gap between the two tiers. Due to the large share of low-priced cigarettes in the total consumption, the average FED rate is 45.4%, much lower than the World Health Organization's (WHO's) recommendation that excise tax should be at least 70% of the retail price.

The recent trend in the effective excise tax rate (ETR) presents a peculiar trend (Figure 1). The ETR reached a reasonable rate of Rs1.93 per stick in 2016-17. However, it sharply declined in 2017-18 due to the introduction of a three-tier excise duty structure – with a new tier for the low-priced brands. The tax rate applicable to the new tier was reduced by 48%. While the third tier was withdrawn in 2018-19, the effective duty rate remained low compared to 2016-17.

Despite an increase in the excise tax rate in 2019-20, the ETR on cigarettes only bounced back to Rs1.94 per stick. Due to no change in the tax rate in 2020-21, the ETR is still almost the same as it was in 2016-17. As a result, cigarettes in Pakistan became more affordable in 2020-21 compared to 2016-17 due to a combination of

two factors: no change in excise tax rate and increases in nominal income and inflation in other goods.

A comparison of Pakistan with its neighbouring country indicates that the price of the most sold brand of a pack of 20 cigarettes was among the lowest in 2018 (Figure 2). The low rate of excise duty on cigarettes in Pakistan is one of the major factors contributing to the low cigarette prices.

Also, Pakistan is ranked among the worst-performing countries in the Tobacconomics Cigarette Tax Scorecard with a score of less than one on a five-point scale. Due to the availability of cigarettes at low prices, more than 400,000 people are estimated to start smoking in 2020-21.

For 2020-21, the policy note presents the result of two tax policy simulations, i.e., an increase of 30% and 40% in FED along with 6.8% inflation. The SPDC estimates show that a 30% increase in FED will result in an almost 29% increase in the average price of cigarettes. Similarly, a 40% increase in FED will result in more than a 37% increase in the price of cigarettes. In both scenarios, FED will cross Rs50 per pack while the price will cross the Rs100 mark. Moreover, the FED will increase to at least 47% of the final consumer price.

The analysis shows that a 30% increase in the FED rate will generate an additional revenue of more than Rs19 billion. This amount includes additional FED (Rs15.5 billion) and GST (Rs3.6 billion). It is interesting to note that an increase of 40% in the FED rate will yield slightly less additional revenue of Rs14 billion because of a sharper decline in the estimated consumption of cigarettes.

The increase in the FED rate has a mixed impact on the tax-to-GDP ratio. For instance, a 30% increase is expected to result in a marginal growth of 1.4% in the tax-to-GDP ratio, while a 40% increase would result in a marginal decline of 2%.

In contrast, both simulation results show an increase in per capita taxes from cigarettes. The increase in per capita tax revenues is relatively higher in simulation 1 – a 30% increase in the FED rate. However, it is important to consider that tobacco taxation serves the dual objectives of public health promotion and revenue generation. Earlier research has shown that the long-term benefits of a reduction in tobacco use outweigh short-term economic losses.

The estimates of simulated health implications of raising the FED rate by 30% and 40% indicate several public health benefits. For instance, a 30% increase in the FED rate will likely encourage more than 219,000 smokers to quit smoking. As the youth population is more sensitive to prices, the same increase in the FED rate will discourage almost 700,000 future smokers. Simultaneously, it will also reduce smoking intensity among adult smokers by more than 6%. Due to a reduction in the number of smokers, the increase in the FED rate will save more than 76,800 adult lives from smoking-attributable deaths. More importantly, 348,000 deaths can be averted among future young smokers.

A 40% increase in the FED rate has relatively higher public health benefits in reducing the number of smokers, smoking intensity, and smoking-attributable deaths. For instance, in the case of a 40% tax increase, the reduction in the number of adult smokers will be 158,000 more than a 30% increase. Similarly, the number of future smokers will decline by 9.5% and 7.6% due to a tax increase of 40% and 30%, respectively.

The analysis shows that raising the FED rate even by only 30% would result in 219,000 fewer smokers, a 3.8% reduction in smoking prevalence and 6.4% reduction in smoking intensity among adults, and aversion of 424,000 smoking-attributable deaths, including 78,000 current adult smokers and 348,000 future young smokers. Further, it will generate an additional revenue of Rs19 billion – an increase of 14.4% over the base year collection. A 40% increase in the tax rate would have relatively higher public health benefits.

The results demonstrate that the proposed tobacco tax reform will greatly help the Government of Pakistan achieve its commitment to reduce tobacco use and its goal to reduce deaths from non-communicable diseases (NCDs) as per its pledge to achieve the Sustainable Development Goals and align its tobacco tax policy with global best practices. This would not only help curb tobacco use in the country but would also contribute to generating more revenues that can be used for promoting public health.



- Contact Us
- Terms & Conditions
- Privacy Policy
- Disclaimer
- BR Markets
- Industries & Sectors
- Money & Banking
- Tenders & Inquiries
- Yarn Prices
- Paper
- Articles & Letters
- Market Rates
- Cotton & Textiles
- Taxation
- Fuel & Energy
- Grains
- Pakistan
- World
- Sports
- Technology

2021 © Business Recorder. All Rights Reserved.