

Tax Law Ordinance 2022: A Long-awaited Excise Tax Increase on Cigarettes

Introduction

Following the tax measures introduced in the Finance Act 2022 on June 30, 2022, the Government of Pakistan promulgated Tax Law (Amendment) Ordinance 2022 on August 23, 2022, to generate additional revenue from various sectors of the economy, including the tobacco sector. Under the Finance Act 2022, the average rate of Federal Excise Duty (FED) on cigarettes was increased by 12.5 percent, which was further enhanced, resulting in an overall increase of 24.5 percent. This is a commendable policy measure which is anticipated to have positive implications in terms of reducing cigarette consumption and improving public health. This fact sheet provides key messages from analysis conducted by SPDC on the revenue and health impacts of the tax rate increase. Comparison is made between the tax rate applicable in 2021-22 (before the Finance Act 2022) and the most recent change.

Key messages

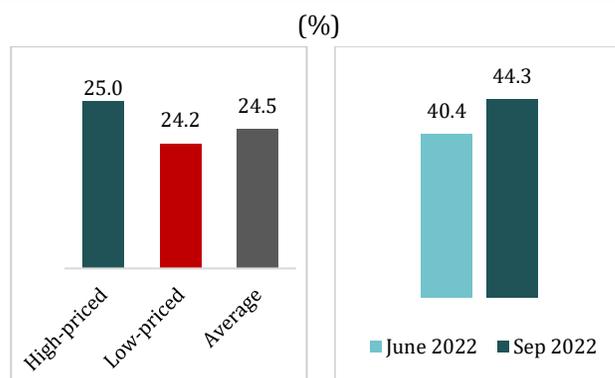
- The FED rate per 20-cigarette pack has increased from PKR 33 to PKR 41 for the low-priced tier and from PKR 104 to PKR 130 for the high-priced tier. The percentage change in both tiers is very close, with a weighted average increase of 24.5 percent (Figure 1).
- The weighted average **price of cigarettes is estimated to increase by 27.6 percent**, which includes the increase in producers' price and the tax rate effect. The retail price of high-priced and low-priced cigarettes is expected to increase by 35.5 percent and 25.3 percent, respectively.
- The impact on tax share in retail price is not expected to be substantial since the producers' prices have also increased along with the FED rate. **The average excise tax share is estimated to rise from 40.4 percent to 44.3 percent**, but this tax share remains significantly lower than the widely-accepted benchmark of 70 percent. Notably, the estimated increase in excise tax share is expected to be higher in low-priced brands (4.4 percent) than high-priced brands (1.0 percent).
- Due to the price increase, **consumption of cigarettes is expected to decline by 4.7 percent**. The estimates

show that total consumption of cigarettes will decrease from 3,511 million packs to 3,346 million packs (Figure 2).

- The tax increase is expected to generate **additional revenue of PKR 25.2 billion**, which includes PKR 19.1 billion increase in FED and PKR 6.1 billion in General Sales Tax.
- **The tax increase will likely encourage more than 400,000 smokers to quit smoking and discourage over 435,000 future smokers from initiating.**

Figure 1: Structure of FED on cigarettes

2021-22		2022-23	
Tier/price*	FED Rate*	Tier/price*	FED Rate*
≤ PKR 5,960	PKR 1,650	≤ PKR 6,660	PKR 2,050
> PKR 5,960	PKR 5,200	> PKR 6,660	PKR 6,500
Increase in FED Rates		FED share in retail price	



* PKR per thousand sticks.

Source: Tax Law (Second Amendment) Ordinance, 2022

Figure 2: Simulated impacts on revenue and public health due to changes in cigarette prices

Change in consumption (million packs)	-166
Percent change in consumption	-4.7
Additional FED (Rs billion)	19.1
Additional GST (Rs billion)	6.1
Total Additional Revenue (Rs billion)	25.2
Change in the number of adult smokers	-400,701
Change in the number of future smokers	-435,277