

Cigarette Tax Scorecard: Spotlight on Pakistan

Key Messages

- In 2020, in the Tobacconomics Cigarette Tax Scorecard, Pakistan scored only 1.13 points out of 5. This is significantly lower than the average score of countries in its region and income group, as well as the global average score.
- Of the four components used to calculate the overall score, Pakistan performed moderately better in tax share, with a score of 2.50 points. The total tax share of price was 60.78 percent, while the excise tax share of price was 41.25 percent. This is only half of the possible points and a decrease from the 3 points it received in 2016.
- In contrast, Pakistan received zero points in the affordability change component. A pack of the most-sold cigarettes was 80.00 Pakistani Rupees (\$Intl 2.06) in 2020 and there has not been a reduction in affordability. Pakistan scored only 1 point for its tiered specific excise tax structure.
- The overall score in Pakistan more than doubled between 2014 and 2016, before dropping down in 2018 and improving only moderately in 2020.

Introduction

The Tobacconomics Cigarette Tax Scorecard evaluates countries' cigarette tax systems based on a five-point rating system that incorporates international guidance and best practices in tobacco taxation. The five-point index uses data to score countries on the following four components: cigarette price, changes in the affordability of cigarettes over time, the share of

taxes in retail cigarette prices, and the structure of cigarette taxes. The total score reflects an average of the four component scores.

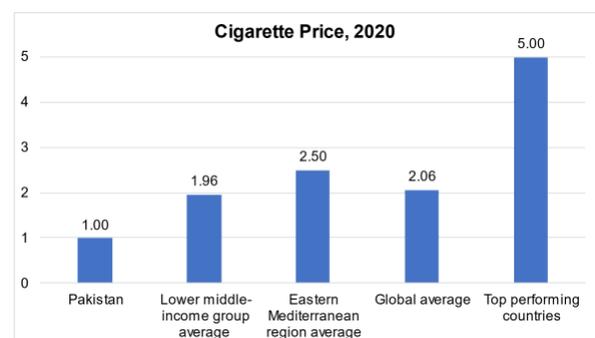
By implementing more effective cigarette tax policies, Pakistan would improve the health of its population, while raising additional tax revenue for the government.

Country Findings

Cigarette Price

Price is a key determinant of cigarette use— as the price increases, demand decreases.

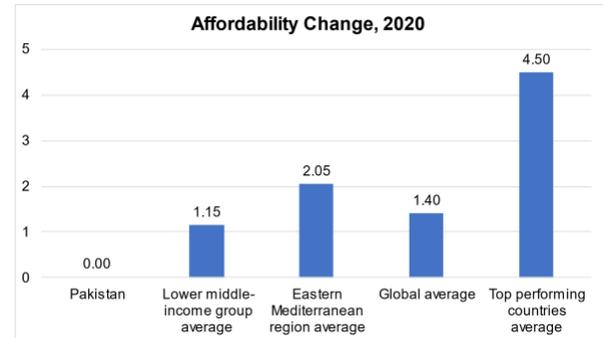
In 2020, Pakistan received just 1 point out of 5. A 20-pack of the most-sold brand was 80.00 Pakistani Rupees (\$Intl 2.06)—much lower than the recommended minimum of 399.37 Rupees (\$Intl 10.31).



Change in Cigarette Affordability

To reduce demand, cigarettes must become less affordable. As cigarettes become less affordable, consumers buy fewer and many will stop buying them altogether. As part of this effort, at a minimum, cigarette prices should be updated regularly for inflation and income growth.

Pakistan did not receive any points in this component in 2020 as there was no significant reduction in the affordability of cigarettes between 2014 and 2020.

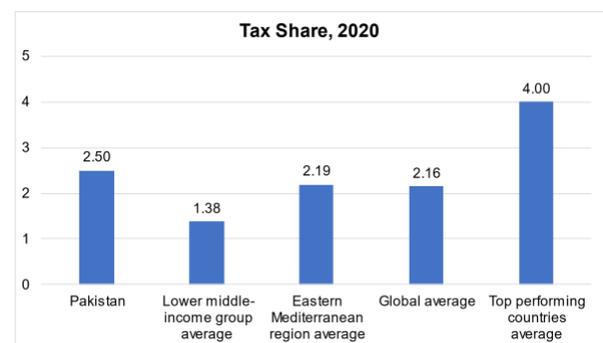


Tax Share

A high tax share of price is generally a good indicator of cigarette tax effectiveness and is essential to raise government tax revenues from cigarettes.

Pakistan scored 2.50 points out of 5 in 2020. The total tax share of price was 60.78 percent and the excise tax share was 41.25 percent. This is higher than other countries in its region and income group, but still lower than the

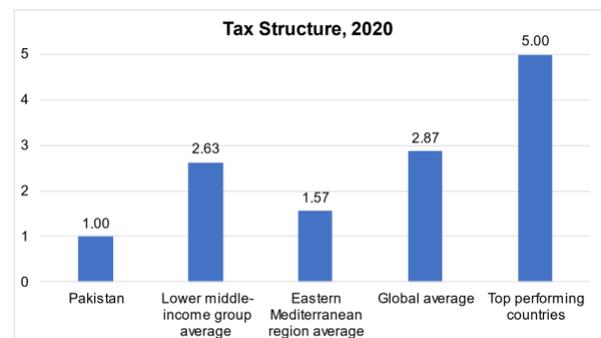
recommended levels of 75% and 70%, respectively.



Tax Structure

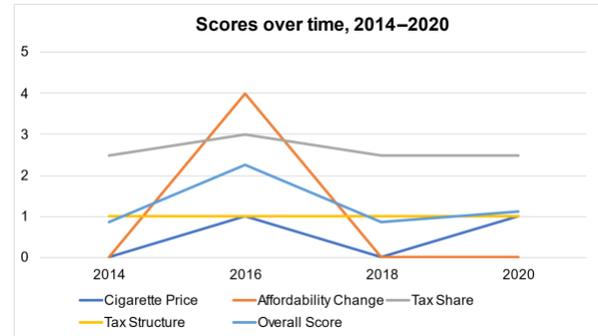
Tax structures vary in their effectiveness when it comes to reducing tobacco use and collecting tax revenues. Uniform specific excise tax systems that at least adjust annually for inflation are generally the most effective and easiest to administer.

Pakistan's score in this component was just 1 point out of 5 in 2020 due to its use of a problematic tiered specific excise tax, which is not automatically adjusted for inflation.



Scores Over Time

Comparing its scores between 2014 and 2020, Pakistan's cigarettes tax policies were most effective overall in 2016. Between 2010 and 2016, the average annual reduction in affordability was 5.6 percent, compared to no change between 2014 and 2020. However, the price of a pack of 20 cigarettes was higher in 2020 than its previous peak in 2016, at 80.00 Pakistani Rupees (\$Intl 2.06). Tax share of price has improved slightly since 2018 but has not returned to its 2016 level, highlighting the potential for further improvement in Pakistan's cigarette tax policies.



Policy Implications and Recommendations

In summary, the following cigarette tax policy improvements are recommended as concrete next steps to reduce smoking prevalence in Pakistan and improve the health of its citizens, while increasing the tax revenue collected by the government:

- Pakistan should use significant tax increases to substantially **raise the price of cigarettes**.
- To reduce the affordability of cigarettes, Pakistan should **significantly increase excise taxes on cigarettes** and continue to update them automatically to outpace inflation and income growth.
- The total tax share of the retail price of cigarettes should be increased from 60.78 percent to at least 75 percent. The **excise tax share should be increased from 41.25 percent to at least 70 percent of the retail price**.
- Pakistan should replace the tiered specific excise tax structure with a more optimal **uniform specific excise tax structure** that automatically adjusts at very least for inflation.