

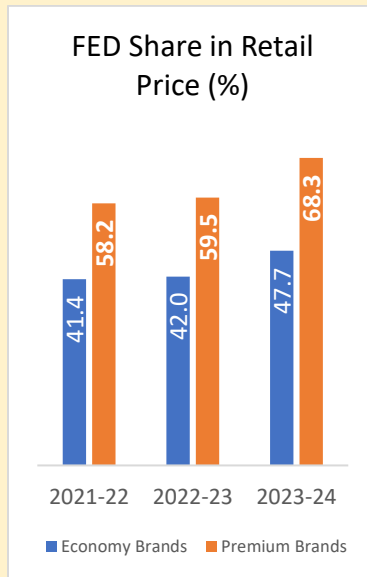
Recovering Healthcare Costs and Saving Lives: An Urgent Call for a Tobacco Tax Increase in the Budget 2024-25

DEADLY BURDEN AND HIGH COSTS

- 31.6 million adults (age 15 years and above) or about 19.9% of adults currently use tobacco in Pakistan.¹
- Tobacco use is associated with more than **160,000 deaths** every year in Pakistan.²
- Smoking-related illnesses and deaths cost Pakistan at least **1.4% of its GDP** annually.³

FROM PROGRESS TO PAUSE: THE NEED TO RE-IGNITE PAKISTAN'S CIGARETTE TAX ENGINE

- Pakistan has a two-tiered system for Federal Excise Duty (FED) on cigarettes based on price: low and high tiers.
- After a three-year gap, the FED increased significantly in 2022-23, pushing the FED share in retail price to 48% and 68% for the low and high tiers, respectively.
- Following a sharp upward trend in 2022-23, the FED share plateaued slightly in 2023-24 due to no rate increases. This downward trend could negatively affect both revenue and public health efforts.
- Further FED adjustments hold the potential to push the tax share of retail price towards 70%.**



A **37% FED hike** triggers a triple win: **757,000** fewer smokers, **12.1%** more tax revenue, and **17.8%** health cost recovery.

A WIN-WIN FOR PAKISTAN: TOBACCO TAX REFORMS GENERATE NEARLY 50%

- The 2022-23 FED reforms on tobacco have generated impressive year-to-date revenue. Collections from July 2023 to January 2024 have already reached PKR 122 billion, with full-year estimates exceeding PKR 200 billion. This signifies a substantial increase compared to previous fiscal years.
- Not only did the FED increase revenue, but the reforms are also expected to generate an additional PKR 60 billion in GST from cigarettes for 2023-24.
- Combining FED and GST, the total net revenue impact is estimated to be around PKR 88 billion, reflecting a remarkable relative growth of nearly 49% compared to the previous year.
- Beyond Revenue:** These reforms not only benefit government finances but also contribute to public health by reducing consumption and potentially recovering 17.8% of the total healthcare costs associated with smoking in Pakistan.

RAISING TAXES SAVES LIVES WHILE INCREASING GOVERNMENT REVENUE

Maintaining the current rate could result in a decrease in health recovery from 17.8% to 15.6%. To achieve similar health cost recovery levels observed in 2023-24, a 37% increase in the FED rate for the upcoming year is suggested.

Proposed tax rates for the Budget 2024-25				
Price Tiers	FED (PKR) per 20-cigarette pack		Increase	FED Share
	Current	Proposed	%	%
Economy	101.0	138.4	37	54.0
Premium	330.0	452.1	37	72.1
Weighted average	153.5	186.2	37	65.11

THE PROPOSED INCREASE IN FED WOULD RESULT IN⁶

757,000	fewer smokers
8.8%	reduction in cigarette consumption
0.48%	reduction in adult smoking prevalence
4.6%	reduction in smoking intensity among adults
265,000	adult lives saved
PKR 37.7 billion	in additional revenue including PKR 20.4 billion in FED and PKR 17.3 billion in GST—a total increase of 12.1%

THE WAY FORWARD

The tax proposal is a clear 'win-win' in terms of health and revenue for the government and the people of Pakistan. A general argument that a tax increase may promote illicit trade has been strongly refuted by research evidence showing that tobacco firms manipulate their reported production to influence tax policy and evade taxes.⁴ Moreover, the recently initiated track & trace system is expected to reduce counterfeiting, curb illicit trade, and keep a check on front-loading.⁵

Beyond 2024-25, the Government should strongly consider:

- Embedding cost recovery in tobacco tax policy through automatic adjustments to excise taxes, ensuring they cover a certain percentage of total health costs attributable to smoking;
- Gradually implementing a uniform FED rate across all cigarette brands, creating a level playing field for fair competition; and
- Prescribing more ambitious tax increases for the next three years.

¹ SPDC estimates based on population projection for 2023 and tobacco prevalence rate estimated by Global Adult Tobacco Survey, Pakistan 2014; Pakistan Health Research Council.

² Institute of Health Metrics and Evaluation estimated that tobacco use killed an estimated 163,360 people in Pakistan in 2017.

³ The Huge Economic Cost of Tobacco-Induced Diseases in Pakistan, Policy Brief, Pakistan Institute of Development Economics, 2021

⁴ Sabir, M., Saleem, W., & Iqbal, M.M. (2022). Estimating the Under-reporting of Cigarette Production in Pakistan (Tobacconomics Working Paper No.22/9/2). SPDC. <https://tobacconomics.org/research/estimating-the-underreporting-of-cigarette-production-in-pakistan-working-paper-series>

⁵ Front-loading refers to stockpiling by the cigarette industry before an expected tax increase to pay the pre-tax-increase rate.

⁶ Estimates based on SPDC's cigarette tax simulation model, 2023-24.