

Cigarette Tax Scorecard: Spotlight on Pakistan

Key Messages

- In 2022, in the Tobacconomics Cigarette Tax Scorecard, 3rd Ed., Pakistan scored 0.88 out of 5 points. This is lower than the average score in its region and country income group.
- Among the four components used to calculate the overall score, Pakistan received the most points in the tax share component with a score of 1.5 out of 5 points.
- Pakistan scored zero points for change in affordability – the annual average percentage change in affordability between 2016 and 2022 was 0.37%.
- The price score was 1 point because cigarettes cost only 110 PKR (\$Intl 2.49).
- The current tax structure is a problematic tiered specific excise tax that generates opportunities for smokers to switch to cheaper alternatives.
- Pakistan's overall score remained relatively constant over time, though the score of the tax share component reduced from 2014 to 2022. There was also a consistent failure to reduce cigarette affordability over time.
- NOTE: Pakistan improved its tax rates—though not its structure—in 2023 and will likely score better in the next Scorecard (released when data become available).

Introduction

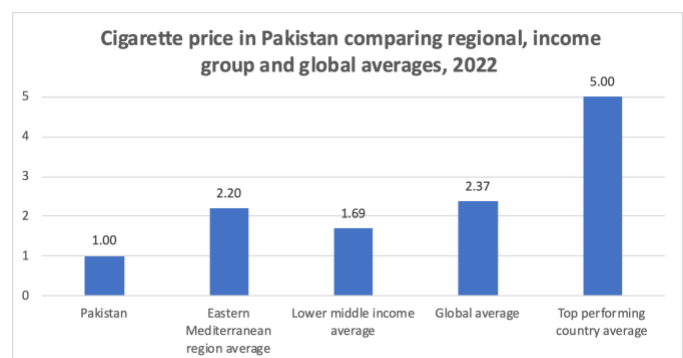
The Tobacconomics Cigarette Tax Scorecard evaluates countries' cigarette tax systems based on a five-point rating system that incorporates international guidance and best practices in tobacco taxation. The five-point index uses data to score countries on the following four components: cigarette price,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

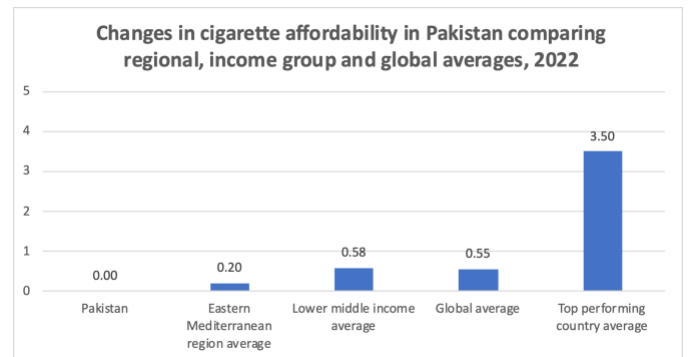
Cigarette prices remain low in Pakistan, which scored only 1 point out of 5 in this component, as the price of a 20-pack of the most-sold brand is 110 PKR (\$Intl 2.89) in 2022.



Change in Cigarette Affordability

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

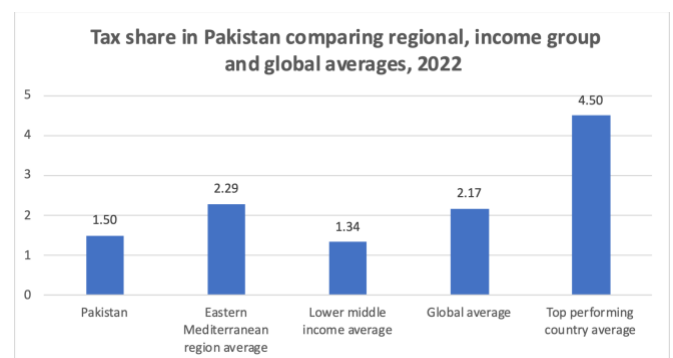
Pakistan scored zero in this component in 2022, lower than the regional, income group, and global averages. The affordability score, together with the price score discussed above, suggests that cigarettes are affordable.



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.

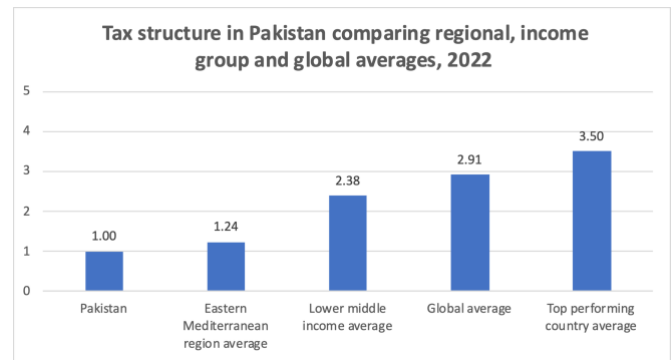
Pakistan scored 1.50 points out of 5 in 2022. The excise tax share is only 33.64% of price, leaving significant room for improvement to reach the 70% recommendation. Also, because tax share is greatly affected by price, the low prices mean that a higher tax share score overstates the effect.



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.

In this component, Pakistan received only 1 point out of 5. The country scored lower than the income group, regional, and global averages as a result of its tiered specific excise tax structure. Tiered structures generally mean large price ranges that provide opportunities for smokers to switch to a cheaper cigarette when prices increase. Tiered structures also give tobacco companies more opportunities to avoid taxes.



Scores Over Time

Pakistan's overall score remained relatively constant over time. During the 2014 to 2022 period, the score of the tax share component decreased. There was a failure to reduce cigarette affordability over time. Pakistan would greatly benefit from higher cigarette taxes and improved structure, thereby reducing cigarette affordability and increasing the tax share of price.

Score Component	2014	2016	2018	2020	2022
Cigarette Price	0.00	1.00	0.00	0.00	1.00
Changes in cigarette affordability	0.00	0.00	0.00	0.00	0.00
Tax share	2.50	2.50	2.00	2.50	1.50
Tax structure	1.00	1.00	1.00	1.00	1.00
Overall score	0.88	1.13	0.75	0.88	0.88

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:

- To improve its tax structure, Pakistan should replace its tiered specific tax with a **uniform specific excise tax on cigarettes** or a hybrid structure (both ad valorem and specific taxes) that relies more on the specific tax. These specific taxes must be adjusted annually to outpace inflation and economic growth.
- Pakistan should further increase the tax on cigarettes to **increase cigarette prices**. The significant increases in 2023 were definitely an important step in the right direction and will likely reflect in the next edition of the Scorecard.
- At a minimum, the government should strive for excise taxes to account for at least 70% of retail prices.