

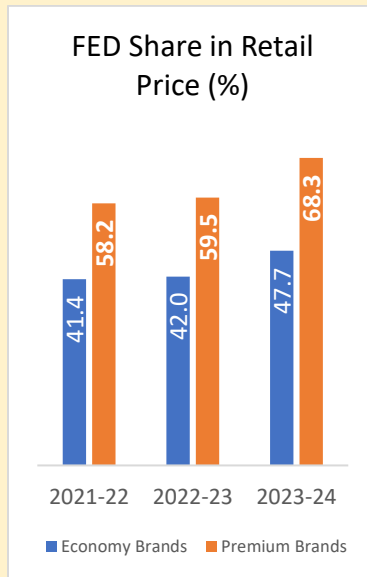
# Recovering Healthcare Costs and Saving Lives: An Urgent Call for a Tobacco Tax Increase in the Budget 2024-25

### 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.<sup>1</sup>
- Tobacco use is associated with more than **160,000 deaths** every year in Pakistan.<sup>2</sup>
- Smoking-related illnesses and deaths cost Pakistan at least **1.4% of its GDP** annually.<sup>3</sup>

### 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 IN<sup>6</sup>

<b>757,000</b>	fewer smokers
<b>8.8%</b>	reduction in cigarette consumption
<b>0.48%</b>	reduction in adult smoking prevalence
<b>4.6%</b>	reduction in smoking intensity among adults
<b>265,000</b>	adult lives saved
<b>PKR 37.7 billion</b>	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.<sup>4</sup> Moreover, the recently initiated track & trace system is expected to reduce counterfeiting, curb illicit trade, and keep a check on front-loading.<sup>5</sup>

### 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.

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

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

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

<sup>4</sup> 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>

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

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