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## Proposed tobacco tax structure: what could be achieved?



Tobacco taxation plays key determining roles in reducing the demand for tobacco products and bringing down the economic cost of tobacco use. Photo: Reuters/file

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Bangladesh aspires to become a tobacco-free country by 2040. In order to achieve this goal, it is important to explore the tobacco economy of Bangladesh, which comprises both demand for and supply of tobacco products, tobacco taxation and the economic cost of tobacco use.

Of these, tobacco taxation plays key determining roles in reducing the demand for and supply of tobacco products as well as in reducing economic cost of tobacco use. So, it is urgent to better understand the existing tobacco structure of Bangladesh and its effectiveness.

And what is the importance of introducing new tobacco tax structure for Bangladesh? All queries are answered from the recent study titled 'Economics of tobacco and tobacco taxation in Bangladesh' conducted by Brac Institute of Governance and Development (BIGD) in close collaboration with the University of Illinois at Chicago (UIC).

The sequence followed in this article allows us to discuss the prevailing tobacco tax structure of Bangladesh, effectiveness of tobacco taxation and finally, the importance of introducing new tobacco tax structure for Bangladesh.

Bangladesh has developed a complex multi-tier ad valorem excise tax (i.e., the amount of tax is proportional to the price per unit of tobacco) for tobacco products.

Due to ad valorem nature of taxation, government gets only a portion of increased price and the rest is enjoyed by the tobacco industry. This encourages tobacco industry to expand their business and increase the risk to public health.

Such tax system results in large variations in tobacco tax bases and tax rates depending on the type of tobacco products like cigarette, biri and smokeless tobacco (SLT), product characteristics (i.e., filter or without filter) and cigarette brands (i.e., low, medium, high and premium).

Four tiers of market retail price (MRP) of cigarettes create wider gaps between tiers and create opportunities for smokers to switch to low priced brand rather quitting. The government is also deprived of revenue due to such behavioural change.

In Bangladesh the lowest tier of cigarette contributes only 31 percent of revenue though it captures 53 percent of market share. This is due to disproportionately low tax base compared to other tiers.

Biri and SLT products are extremely cheap and much affordable to the low-income class of consumers and also relative to their growing per capita income. Informal manufacturing of SLT products (zarda and gul) help to evade taxes at a large scale. Finally, tax base for cigarette, biri and SLT are different and thus makes the system more complicated and unfair.

Availability of extremely cheap and affordable Cigarette brands compared to other neighbouring countries like India, Nepal, Sri Lanka, Thailand and Indonesia is also the resultant outcome of the current cigarette tax system.

Therefore, cigarette users are not discouraged and this makes the demand side of tobacco consumption worrisome and ineffective. Moreover, biri and SLT prices are relatively low, which make these products more affordable to the low income-class of tobacco users. Last but not least, lack of data on SLT products makes the enforcement of law and monitoring difficult and thus, the loss of revenue for the government exchequer.

Findings from the supply side reveal that cigarette and raw tobacco product sales in Bangladesh have increased in recent years. Moreover, prevalence of cigarette smoking is almost constant despite the 1 percent population growth over the last one decade.

Therefore, recent increase in price through existing tax system work as an incentive for tobacco growers as well as manufacturers to produce and supply more raw tobacco and tobacco products respectively.

In addition, tobacco use is deadly and costly as it is treated as one of the major risk factors for morbidity and mortality and it has severe economic consequences for the households with at least one smoker.

For example, tobacco use in Bangladesh comprises 26 percent of deaths among men and 10 percent among women in 2016. The economic consequences of tobacco use arising from lost productivity and healthcare costs amount to Tk 15,860 crore or 1.4 percent of GDP in Bangladesh.

Therefore, it is very essential for Bangladesh to introduce new tobacco tax structure with a view to reducing the demand for tobacco use effectively, the supply of tobacco products and the economic cost of tobacco use.

The most effective way to reduce tobacco use is to raise the prices of tobacco products in such a way that help lowering the affordability of the tobacco users. This would, in turn, encourage current adult smokers to quit, effectively reduce the prevalence of smoking, reduce premature deaths and generate additional tax revenue.

The proposed measures to tackle tobacco use have been done following the problems in the existing tobacco prices and tax system.

A policy reform of gradual price increase and reducing the price tiers of cigarettes from four to two and raising excise tax rates from 55 percent and 65 percent to 65 percent and 68 percent

respectively for the low and high tier over the next five years is expected to result in a significant increase in excise tax revenue while reducing consumption at an impressive rate.

Such measures would help in reducing the price gaps between tobacco products and brands to limit the ability of tobacco users to substitute between products. As an alternative avenue, this study proposes specific taxes on cigarette as it is likely to generate more stable and predictable revenue than existing ad valorem tax.

Moreover, specific excise taxes tend to be easier to administer and more effective in reducing tobacco use and increasing tax revenue.

Moreover, introduction of a specific excise tax by the government of Bangladesh should be regularly increased over time beyond inflation and income growth to ensure that the affordability of tobacco products continues to decline.

In case of specific excise tax, no portion of this would be enjoyed by the tobacco industry. Finally, harmonisation of the tax base across the tobacco products is required. To control the supply side, alternative livelihood measures for the tobacco growers could be introduced.

In addition, any kind of cash or in-kind incentives for the tobacco producers by the tobacco industry should be stopped as all these work as cost advantages.

By rising prices through specific excise tax and lowering the tiers (or harmonisation of the tax base) would help to prevent cigarette smoking initiation, promote cessation, lower consumption among the continuing smokers, and reduce the death and disease and economic cost of smoking.

Finally, effective implementation of the proposed policies might help to bring the goal of tobacco-free Bangladesh into reality.