

Raising Tobacco Taxes in FY 2022-2023

A crucial step towards a tobacco-free Bangladesh by 2040

Raising tobacco taxes would:

Encourage nearly **1.3 million adults** not to smoke and deter more than **895,000 youth** from smoking initiation

Save the lives of more than **445,000 current adults** and nearly **448,000 youth** from premature deaths

Generate nearly **BDT 396 billion** in tax revenue adding **BDT 92 billion** over the previous fiscal year



International Union Against
Tuberculosis and Lung Disease
Health solutions for the poor



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A crucial step towards a tobacco-free Bangladesh by 2040

Bangladesh is one of the largest tobacco consuming countries in the world.ⁱ

- 35.5% of people 15 years and older in Bangladesh consume tobacco. This is the 9th largest prevalence of smoking out of 109 countries with available comparable prevalence data.

Tobacco use in Bangladesh is deadly and costly.^{ii, iii}

- In 2018, tobacco use killed almost 126,000 people.
- The total economic cost of tobacco use from lost productivity and direct healthcare costs of smoking related illnesses was estimated at BDT 305.6 billion in 2017-18, while tobacco tax revenues from the Supplementary Duty and VAT were BDT 228.1 billion in 2017-18.
- The adverse effects of tobacco cultivation on the environment and the livelihoods of farmers are enormous.

The current tobacco tax structure in Bangladesh is complex^{iv} and is not adequate to discourage tobacco use^v:

- It is a complex multi-tiered ad-valorem excise tax which includes large variations in tax rates depending on:
 - the type of tobacco product (cigarettes, biris, and smokeless tobacco);
 - the product characteristics (filter or without filter); and
 - the cigarette price band (low, medium, high and premium priced brands);
- The multi-tiered tax system for cigarettes has resulted in:
 - cigarettes remaining cheap and affordable;
 - smokers switching to cheaper cigarettes instead of quitting;
 - stable cigarette sales per adult in recent years;
 - a relatively constant cigarette smoking prevalence in recent years.
- Low taxes and prices on biris and smokeless tobacco keep these products highly affordable and their prevalence high.

Raising taxes in Bangladesh would save lives while increasing government revenue.

- The most effective way to reduce tobacco use is to raise the prices of all tobacco products through tax increases that lower their affordability.
- Higher prices discourage youth from initiating tobacco use and encourage current users to quit.

Focusing on the following actions will likely have the most impact in decreasing tobacco use prevalence in Bangladesh:

- Shifting from an *ad valorem* to a specific tax system that would be periodically adjusted for inflation and income growth to achieve health goals and predict revenue more effectively.
- Substantially increasing the tax and price of cigarettes in the lowest tier, which captures the bulk of the market with a market share sharply increasing from 25% in 2006-07, to 75% in 2020-21.
- Substantially increasing the tax and price of biris to reduce the gap with the cheapest cigarettes and to discourage switching between products.
- Improving the enforcement of tax policy on smokeless tobacco and exploring other non-tax measures that can amplify its impact, such as standardized packaging.

Recommendations for cigarette tax system

2022-2023: Introduce a tiered specific excise with uniform tax burden (excise share of 65% of final retail price) across all cigarette brands (Table 1).

| CURRENT Tax Structure 2021-2022 | | | CURRENT Indicators | | PROPOSED Tax Structure 2022-2023 | | | PROJECTED Indicators | |
|---------------------------------|--------------------|-----------------------------------|--------------------------|-----------------|----------------------------------|--------------------|---------------------|--------------------------|-----------------|
| Tier | Retail Price (BDT) | SD (Ad Valorem-% of Retail Price) | SD Share in Retail Price | SD Amount (BDT) | Tier | Retail Price (BDT) | SD (Specific - BDT) | SD Share in Retail Price | SD Amount (BDT) |
| Low | 39+ | 57% | 57% | 22.23 | Low | 50+ | 32.50 | 65% | 32.50 |
| Medium | 63+ | 65% | 65% | 40.95 | Medium | 75+ | 48.75 | 65% | 48.75 |
| High | 102+ | 65% | 65% | 66.30 | High | 120+ | 78.00 | 65% | 78.00 |
| Premium | 135+ | 65% | 65% | 87.75 | Premium | 150+ | 97.50 | 65% | 97.50 |

Note: SD stands for Supplementary Duty. 15% VAT and 1% Health Development Surcharge (already included in the price) are applied to the final retail price of cigarettes in addition to the SD.

2022-23 to 2027-28: Reduce price tiers from four to two in the medium-term, which will help reduce the gaps in final prices and specific tax rates between cigarette price bands.

If the Government of Bangladesh reforms the current cigarette tax system following the recommendations in FY 2022-2023, it would achieve the following:

- Reduce the prevalence of cigarette smoking from 15.1% to 14.0%;
- Encourage nearly 1.3 million adults to refrain from smoking and deter more than 895,000 youth from smoking initiation;
- Save the lives of more than 445,000 current adults and nearly 448,000 current youth from premature deaths in the long term;
- Generate nearly BDT 396 billion in tax revenue adding about BDT 92 billion in *additional* tax revenues from the Supplementary Duty, Health Development Surcharge and VAT on top of the expected collection for FY 2021-2022, which is an increase by 30% of current tax revenue from cigarettes in the first year.
- Increasing cigarette prices more at the LOW tier will help relatively lower income smokers who are more likely to smoke brands from the LOW tier to quit and at the same time limit the ability of smokers to substitute to cheaper brands when prices increase in the higher price tiers.

Way forward

The tax recommendations highlighted below, once implemented, would greatly advance the cause of economic development, and align tobacco tax policy in Bangladesh with global best practices:

- **Shifting from an *ad valorem* tax system to a specific tax system that would be periodically adjusted for inflation and income growth.**
- **Substantially increasing the tax and price of cigarettes in the lowest tier.**
- **Substantially increasing the tax and price of biris to reduce the gap with the cheapest cigarettes.**
- **Improving the enforcement of tax policy on smokeless tobacco and exploring other non-tax measures that can amplify its impact, such as standardized packaging.**

Bangladesh has committed to achieve tobacco-related targets under the Global Action Plan for the Prevention and Control of NCDs and the Sustainable Development Goals (SDGs)^{vi viii}. Raising taxes on tobacco is a cost-effective way to reach those targets. It is also a major step towards achieving the vision of a tobacco-free Bangladesh by 2040.

At the same time, tobacco tax reform will generate significant additional revenue to help finance Bangladesh health and development priorities. This is a clear ‘win-win’ for the Government and people of Bangladesh.

ⁱ World Health Organization. WHO Report on the Global Tobacco Epidemic, 2021.

ⁱⁱ Nargis N, Faruque GM, Ahmed M, Huq I, Parven R, Wadood SN, Hussain AG, Drope J. A comprehensive economic assessment of the health effects of tobacco use and implications for tobacco control in Bangladesh. *Tobacco Control*. Published Online First: 02 March 2021. doi: 10.1136/tobaccocontrol-2020-056175.

ⁱⁱⁱ Hussain AKM Ghulam, Rouf ASS, Shimul SN, Nargis N, Kessaram TM, Huq SM, Kaur J, Sheikh MKA, Drope J. The economic cost of tobacco farming in Bangladesh. *International Journal of Environmental Research and Public Health*. 2020, 17, 9447; doi:10.3390/ijerph17249447.

^{iv} Budget documents of Government of Bangladesh 2011-2021.

^v Nargis N, Hussain AKMG, Goodchild M, Quah ACK, Fong GT. A decade of cigarette taxation in Bangladesh: lessons learnt for tobacco control. *Bulletin of the World Health Organization*. Available online at: https://www.who.int/bulletin/online_first/18-216135.pdf?ua=1.

^{vi} United Nations. *Transforming Our World: the 2030 Agenda for Sustainable Development*. New York, United National General Assembly; 2015.

^{viii} World Health Organization. *Health in 2015: From MDGs, Millennium Development Goals to SDGs, Sustainable Development Goals*. Geneva, World Health Organization; 2015.

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