

# Tobacco Taxes in Pakistan

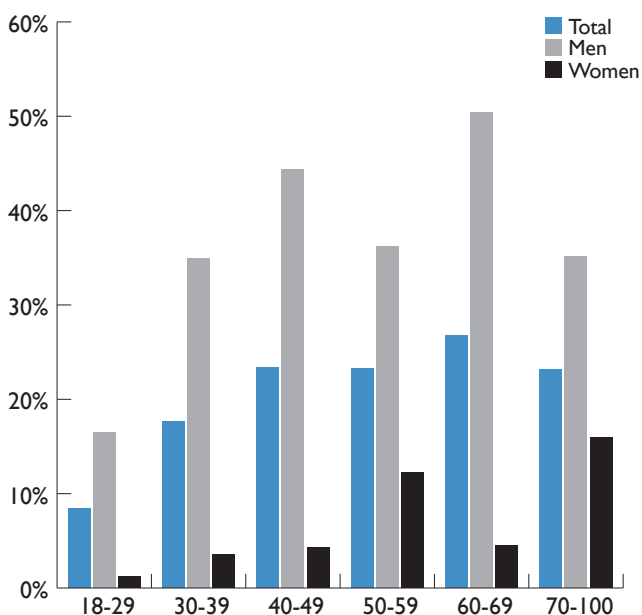
Based on *The Economics of Tobacco and Tobacco Taxation in Pakistan*. Shahid Javed Burki, Aisha G. Pasha, Hafiz A. Pasha, Rijo John, Prabhat Jha, Aftab Anwar Baloch, Ghulam Nabi Kamboh, Rajeev Cherukupalli, Frank J. Chaloupka. 2013.

**High rates of tobacco use impose a large health and economic burden in Pakistan. One of the most effective ways to reduce tobacco use in Pakistan is to raise the price of tobacco products through excise tax increases.**

## Tobacco Use in Pakistan

- Over 22 million (19%) Pakistani adults (18+) currently use some form of tobacco.
- Almost one third of Pakistani men (32.4%) and 5.7% of women smoke tobacco.
- Smokeless tobacco product use is widespread, with smokeless users consuming gutka, naswar, and paan.
- Youth tobacco use is an emerging problem in Pakistan: over 14% of surveyed youth (age 13–15) in Karachi used some form of tobacco product.

## SMOKING PREVALENCE, BY AGE AND GENDER, PAKISTAN, 2013



Source: WHO, 2003.

## Impact of Tobacco Use in Pakistan

High smoking rates contribute to a significant number of early deaths, high healthcare costs and lost productivity.

- Over 100,000 Pakistanis die each year from tobacco-related diseases. The majority of these deaths result from lung and other cancers, strokes, ischemic heart and other cardiovascular diseases, and respiratory diseases.
- The high rates of oral cancer are of particular concern: 1.5 million cases were reported by Pakistan Medical Association resulting from gutka and other smokeless tobacco use, many among children under the age of 12 years.

## Higher Taxes Saves Lives

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases and ensure that the tax increases are reflected in prices. Higher prices discourage youth from initiating cigarette smoking and encourage current smokers to quit.

## Tobacco Tax Structure in Pakistan

Pakistan modified its tobacco excise tax system in 2013. It now has a two-tiered specific excise tax for cigarettes. The two tiers are:

- Rupees 880 per 1000 cigarettes for cigarettes with a retail price (price before VAT) less than or equal to 2286 per 1000 sticks
- Rupees 2325 per 1000 cigarettes for cigarettes with a retail price (price before VAT) greater than 2286 per 1000 sticks

For a pack of 20 cigarettes, the lower tier amounts to Rupees 17.6 per pack, while the higher tier amounts to Rs 46.50 per pack.

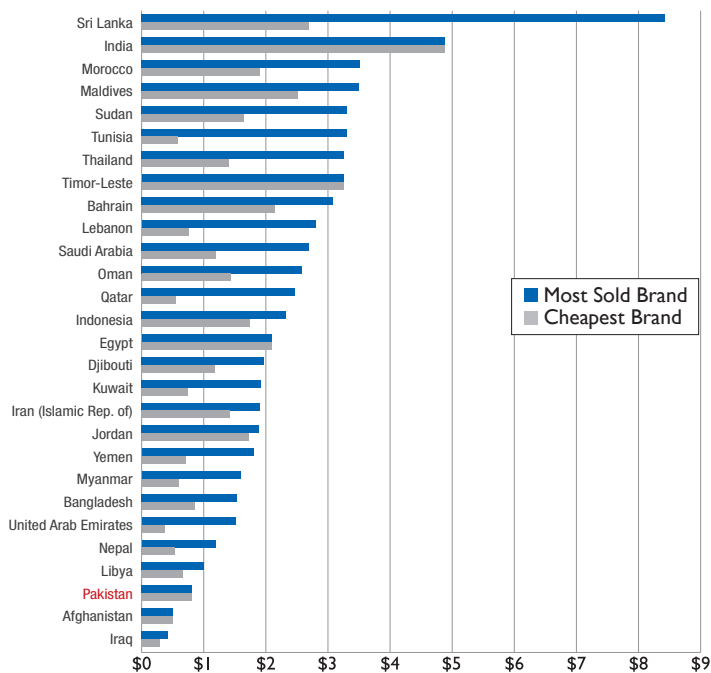
The tax simplifies a more complex, mixed, three-tiered system. A large price gap however remains between economy and mid price segments as a group versus premium cigarettes.

# Tobacco Taxes in Pakistan

## Cigarette Prices in Pakistan are Among the Lowest in the World

Cigarette excise taxes in Pakistan account for just over half of the price paid by users. This is below the level in countries that have taken a comprehensive approach to reducing tobacco use, where excise taxes account for 70% or more of the retail price.

**PAKISTAN IN COMPARISON TO OTHER COUNTRIES: PRICE OF PACK\* OF MOST SOLD AND CHEAPEST BRAND OF CIGARETTES IN INTERNATIONAL DOLLARS, 2012**



Source: WHO, 2013. Notes: \*20 pieces

## Tobacco Sector in Pakistan

- The cigarette market in Pakistan is highly concentrated with two companies controlling 98% of the market: Pakistan Tobacco Company, a subsidiary of British American Tobacco and Philip Morris Pakistan Ltd.
- Very few Pakistanis are involved in cigarette manufacturing. Employment in cigarette manufacturing accounts for less than 0.1% of overall manufacturing employment in Pakistan
- Employment in tobacco farming accounts for only 0.4-0.5% of agricultural employment in Pakistan.

## Tobacco Taxes Save Lives and Increase Government Revenue

The 2013 tax structure change is a first step to simplifying Pakistan's tobacco excises. Adopting a uniform specific excise tax of 31.2 rupees per pack will lead over half a million current Pakistani cigarette smokers to quit smoking and prevent almost 725,000 Pakistani youth from taking up cigarette smoking. These reductions in smoking will prevent over 550,000 premature deaths caused by tobacco use. At the same time, the tax increase will generate over 27 billion rupees (277 million USD) in new cigarette tax revenues.

### IMPACT OF INCREASING CIGARETTE EXCISE TAXES

Specific excise tax per 20 cigarettes	Specific tax: 31.2 rupees	Specific tax: 44 rupees
Resulting share of excise tax in price	70%	74%
Total reduction in number of smokers	1.25 million	4.4 million
Lives saved (current and future smokers)	0.55 million	1.92 million
Additional excise tax revenue	27.2 billion PKR 277 million USD	39.5 billion PKR 403 million USD

## Recommendations

- Adopt a high uniform cigarette excise tax that significantly raises cigarette prices and reduces tobacco use.
- Implement annual adjustments to tobacco tax rates so that they retain their real value over time and are not eroded by inflation and so that they result in increases in tobacco product prices that are at least as large as increases in per capita incomes.
- Increase taxes on other tobacco products to be equivalent to cigarette taxes and to reduce the use of these products.
- Strengthen tobacco tax administration, increase enforcement, and tax duty free sales of tobacco products in order to reduce tax evasion and avoidance.
- Earmark tobacco tax revenues for health purposes, including health promotion and tobacco control.