

Raising Tobacco Taxes in FY 2020-2021

A crucial step towards a tobacco-free Bangladesh by 2040

Raising tobacco taxes would:

Encourage nearly **2 million** current smokers to quit

Save the lives of at least **600,000** current smokers

Generate more than **BDT 340 billion** in Supplementary Duty and VAT revenue



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Bangladesh is one of the largest tobacco consuming countries in the world. ^{i, ii}

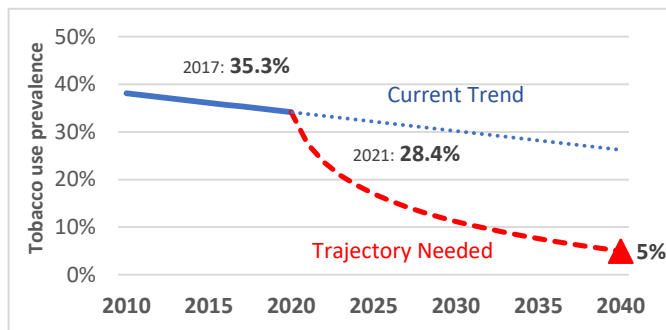
- 35% of people 15 years and older in Bangladesh consume tobacco.
- Smokeless tobacco use is highly prevalent among adults; over 22 million people use smokeless tobacco and the rate of use (21%) is among the highest in the world.

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

- It is a leading risk factor for disease and premature deaths.
- 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, meanwhile tobacco tax revenues from Supplementary Duty and VAT were BDT 228.1 billion in 2017-18.

To reach a tobacco-free* Bangladesh by 2040, tobacco use prevalence must drop dramatically.

- Tobacco use prevalence needs to decrease by an average of 1.5% each year.
- The likelihood of reaching the 2040 target increases if steep prevalence declines are achieved earlier.
- This means aiming for a tobacco use prevalence of 28.4% by 2021.



*Being "tobacco-free" was defined as having a tobacco use prevalence of 5% or less.

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

- 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 brand type (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.

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 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:

- Drastically increasing the price of cigarettes in the lowest tier, which comprises the bulk of the market.
- Substantially increasing the 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.

If the Government of Bangladesh reforms the current tobacco tax system following the recommendations for FY 2020-2021 proposed in Table 1 to 3 below, it would:

- Encourage nearly 2 million current adult smokers to quit (1 million cigarette smokers & 1 million biri smokers);
- Reduce the prevalence of cigarette smoking from around 13.6% to approximately 11.9%, and the prevalence of biri smoking from 5.0% to 3.3%, putting Bangladesh on track towards a tobacco-free 2040;
- Reduce premature deaths by 600,000 among current smokers in the long term (350,000 cigarette smokers and 290,000 biri smokers);
- Generate between BDT 41 billion and BDT 98 billion in *additional* tax revenues from Supplementary Duty and VAT on top of the collection for FY 2019-2020, that is an increase by at least 14% of current tax revenue from cigarettes and biris in the first year.

**TABLES 1 to 3: Taxation and Maximum Retail Price (MRP) of Tobacco Products
Current FY 2019-2020 and Proposal for FY 2020-2021**

Table 1: Cigarettes (per pack of 10 sticks)																
CURRENT Tax Structure 2019-2020			CURRENT Indicators of excise tax		VAT and Health Development Surcharge		CURRENT Indicator of total tax	PROPOSED Tax Structure 2020-2021				PROJECTED Indicators of excise tax		VAT and Health Development Surcharge		PROJECTED Indicator of total tax
Tier	Retail Price (BDT)	SD*	Excise Tax Share in Retail Price	SD Amount (BDT)	VAT*	Health Development Surcharge*	Total tax share on Retail Price (%)	Tier	Retail Price (BDT)	SD Specific (BDT)	SD* Ad Valorem	Maximum Excise Tax Share in Retail Price	SD Amount (BDT)	VAT*	Health Development Surcharge*	Maximum Total Tax Share on Retail Price (%)
Low	37+	55%	55%	20.35	15%	1%	71%	Low	65 +	10	50%	65.40%	42.5 to 72.0	15%	1%	81.4%
Medium	63+	65%	65%	40.95			81%									
High	93+	65%	65%	60.45			81%									
Premium	123+	65%	65%	79.95			Premium	125 +	19	50%	65.20%	81.5 +	81.2%			

*Tax base: Maximum Retail Price

CURRENT Tax Structure 2019-2020							PROPOSED Tax Structure 2020-2021							
Tier	Retail price (BDT)	SD*	Excise Tax Share in Retail Price	VAT*	Health Development Surcharge*	Total tax share on Retail Price (%)	Tier	Retail price (BDT)	SD Specific (BDT)	SD* Ad valorem	Maximum Excise Tax Share in Retail Price	VAT*	Health Development Surcharge*	Maximum Total tax share on Retail Price (%)
Without filter, 25 stick pack	14	30%	30%	15%	1%	46%	Without filter, 25 stick pack	40 +	6.85	45%	62.10%	15%	1%	78.10%
Without filter, 12 stick pack	6.72													
Without filter, 8 stick pack	4.48													
With filter, 20 stick pack	17	40%	40%	15%	1%	56%	With filter, 20 stick pack	32 +	5.48	62.10%	15%	1%	78.10%	
With filter, 10 stick pack	8.50													

*Tax base: Maximum Retail Price

CURRENT Tax Structure 2019-2020							PROPOSED Tax Structure 2020-2021							
Product	Retail Price (Taka/10g)	SD*	Excise Tax Share in Retail Price	VAT*	Health Development Surcharge*	Total tax share on Retail Price (%)	Product	Retail Price (Taka/10g)	SD Specific (Taka/10g)	SD* Ad valorem	Maximum Excise Tax Share in Retail Price	VAT*	Health Development Surcharge*	Maximum Total tax share on Retail Price (%)
Zarda	30	50%	50%	15%	1%	66%	Zarda	40 +	5.71	45%	59.30%	15%	1%	75.3%
Gul	15	50%					Gul	23 +	3.45		60.00%			76.0%

*Tax base: Maximum Retail Price

Following these tax recommendations would greatly further economic development and align tobacco tax policy in Bangladesh with global best practices. The main characteristics of the proposed recommendations are:

- Introduction of a specific Supplementary Duty (SD) across all tobacco products that should be regularly increased over time beyond inflation and income growth to ensure that the affordability of tobacco products continues to decline.
- Reduction of the gaps in final prices between cigarettes brands and between other tobacco products to limit the ability of tobacco users to substitute between products.
- Simplification of the tax system by reducing the number of cigarette price slabs from four to two and eliminating distinctions between product characteristics for biris and cigarettes.

Way forward

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)^{vii} ^{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 finance Bangladesh health and development priorities. This is a clear ‘win-win’ for the Government and people of Bangladesh.

ⁱ World Health Organization. Report on the Global Tobacco Epidemic 2017. Country profile Bangladesh. Available at: http://www.who.int/tobacco/surveillance/policy/country_profile/bgd.pdf?ua=1

ⁱⁱ Global Adult Tobacco Survey, Bangladesh, 2017.

ⁱⁱⁱ Global Burden of Disease Study. Country profile Bangladesh 2018. Available at <http://www.healthdata.org/bangladesh>

^{iv} Faruque GM, Wadood SN, Ahmed M, Parven R, Huq I, Chowdhury SR. The economic cost of tobacco use in Bangladesh: A health cost approach. Bangladesh Cancer Society. February 23, 2019.

^v Budget documents of Government of Bangladesh 2011-2018.

^{vi} 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.

^{vii} 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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