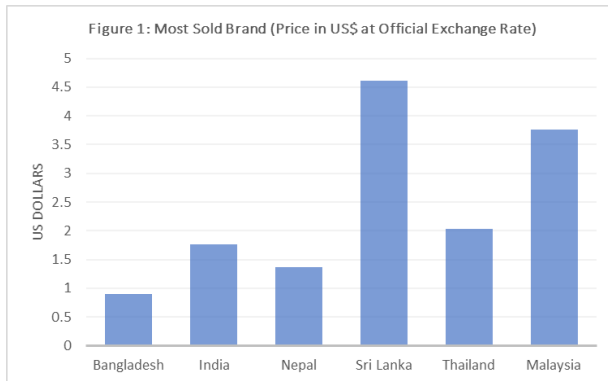


# Preliminary Recommendations for Effective Tobacco Tax Design in Bangladesh

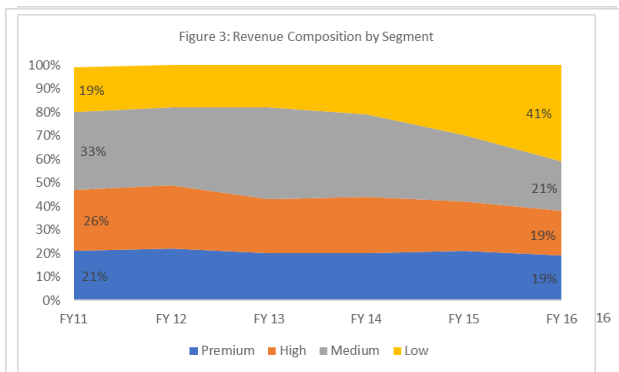
## Key Issues and Challenges:

**Tobacco control poses a major public policy concern and challenge in Bangladesh, which has one of the world’s highest rates of tobacco use.** Over 46 million adults (43% of all adults) consume some form of tobacco, whether smoked or smokeless. Alarming, youth tobacco use has also been on the rise in Bangladesh with an estimated 9.2% of all youth using tobacco products in 2016 from 7% in 2010<sup>1</sup>. Smoking has significant health impacts in Bangladesh, causing an estimated 25% of all deaths among men aged 25 to 69, with an average loss of life of 7 years per smoker.<sup>2</sup>

**Low cigarette taxes and prices have contributed to an alarming expansion in consumption.** As per the WHO’s Global Health Observatory Data Repository,<sup>3</sup> the price for the most sold brand of cigarette in Bangladesh is the lowest amongst its peer countries (Figure 1). Prices are nearly half the level in India and Nepal and close to one-fourth the level of Sri Lanka. The quantity of cigarettes for local consumption increased by nearly 80% from 48.2 billion to 87.1 billion sticks between 2007 to 2016. Furthermore, the use of other tobacco products such as bidi and smokeless tobacco products remains very high in Bangladesh. Tobacco spending as a share of total household expenditures increased among all socioeconomic groups between 2010 and 2016, with the largest increase among the poor.



**A complex tax structure assists in keeping cigarette prices low in Bangladesh.** In a strange paradox, cigarette prices in Bangladesh are among the lowest in the world despite having tax rates higher than Norway, which is the most expensive country for cigarettes in the World. Bangladesh operates a tiered ad valorem tax structure which not only increases the administrative cost, but also reduces the efficiency of the taxation policy as consumers can easily switch between brands and products when tax increases in a certain segment.



**Current taxation policy does not achieve the dual objective of discouraging consumption and maximizing revenue.** The growth in cigarette consumption over the last decade has been primarily led by the low segment. Since FY 2010-2011, the volume in the low segment has grown by an average of 26% causing the market share to increase. Market share of the low segment currently accounts for nearly 77% of total volume from 51% in FY 2010-2011 (Figure 2). While the low segment

accounts for nearly 80% of the market, it only contributes 40% of total revenue from cigarettes (Figure 3). Every stick of down trading leads to a revenue loss of approximately Tk. 2.30 to Tk. 6.80. Had the market share for each segment that prevailed in FY 2010-2011 had been maintained, it can be estimated that the government revenue would have been 50% higher than estimated in FY 2016-2017. By maintaining this complex tiered structure, cigarette prices will continue to be kept artificially low, which will continue to

increase cigarette consumption and at the same time not help achieve the government's revenue mobilization efforts. A growing number of low- and middle-income countries have increased tobacco taxation in recent years, leading to significant increases in revenues.

*Recommendations:*

**Extensive evidence from across the world clearly shows that tax-induced price increases of cigarettes and other tobacco products are highly effective in curbing tobacco use.** A tax policy reform that shifts cigarette taxation from the current ad valorem to specific (per unit of production) would increase revenues and simplify administration. Tobacco taxation has also been called “the single most effective health policy in the world”.<sup>4</sup> Higher taxes induce some smokers to quit, while preventing many others from starting. They also reduce the number of ex-smokers who return to cigarettes and reduce consumption among continuing users. Moreover, a survey in 2009 found that 70% of smokers in Bangladesh would like to quit, and 47% attempted to do so in the previous 12 months.<sup>5</sup>

**It is recommended that Bangladesh implement a unitary specific rate for cigarettes in the long run.** This recommendation is fully consistent with the guidelines for implementation of article 6 (tax and price measures) of the WHO Framework Convention for Tobacco Control (FCTC), which Bangladesh ratified 2004. Preliminary analysis suggests that a unitary rate of Tk. 38.75 per pack of 20 cigarettes, can help reduce cigarette volume by 23% while at the same time increase revenue by nearly 30%.

**In the short run, it is recommended that Bangladesh looks to rationalize the tax tiers and price slabs.** Multiple tiers should only be used as a temporary measure to smooth the transition to a unitary specific rate. Below is a 3-year plan that the government can undertake to transition to a unitary tax structure<sup>6</sup>:

- FY 2018-2019: (i) Increase the tax rate (SD and VAT combined) to for the High segment to 79% (ii) Increase tax rate of Medium and Low segment to 78% and 70% respectively. (iii) Increase the floor price of Medium and Low segments to Tk. 6.0 and Tk. 3.5 per stick respectively;
- FY 2019-2020: (i) Merge the Premium and High segment, with a minimum floor price of Tk. 11 per stick and a tax rate of 80%. (ii) Increase the floor price of the low segment to Tk. 4 per stick and increase the tax rate to 75%;
- FY 2020-2021: (i) Merge the Medium and Low segment, with a minimum floor price of Tk. 7 per stick and a tax rate of 78%.

**Initial estimate points towards reduced consumption and increased revenue<sup>7</sup>.** By FY 2020-2021, it is estimated that cigarette consumption will fall by 36% from FY 2016-2017 levels, while cigarette tax revenues will increase by nearly 117%. It is also expected to double the average price of cigarettes. A country such as the Philippines experienced similar results as it transformed from a multi-tier structure to a unitary specific tax structure.

## Annex-1: Illustration of a transitional ad-valorem tier structure reform

	FY 2018-2019	FY 2019-2020	FY 2020-2021
<b>Volume (Billion sticks)</b>	75	61	53
<b>Cigarette Tax Revenue (BDT Billion)</b>	263	331	413
<b>Y-o-Y Volume Growth (%)</b>	-13%	-17%	-14%
<b>Y-o-Y Revenue Growth (%)</b>	28%	26%	25%
<b>Average Price (Tk. Per Stick across segments)</b>	4.7	7.1	9.6
<b>Average Tax Rate (% across segments)</b>	74%	77%	80%
<b>Percentage of Total Tax Revenue</b>	10%	10%	10%

<sup>1</sup> [http://www.who.int/tobacco/surveillance/policy/country\\_profile/bgd.pdf?ua=1](http://www.who.int/tobacco/surveillance/policy/country_profile/bgd.pdf?ua=1); [http://www.hdc-bd.com/admin\\_panel/images/notice/1390213219.tobacco%20taxation%20presentation%20%20april%202013%20\(final\).pdf](http://www.hdc-bd.com/admin_panel/images/notice/1390213219.tobacco%20taxation%20presentation%20%20april%202013%20(final).pdf)

<sup>2</sup> Alam et al. (2013), "Smoking-attributable mortality in Bangladesh". Bulletin of the World Health Organization.

<sup>3</sup> <http://apps.who.int/gho/data/node.main.TOB1299?lang=en>

<sup>4</sup> <https://www.cgdev.org/publication/single-best-health-policy-world-tobacco-taxes>

<sup>5</sup> [http://www.who.int/tobacco/surveillance/fact\\_sheet\\_of\\_gats\\_bangladesh\\_2009.pdf?ua=1](http://www.who.int/tobacco/surveillance/fact_sheet_of_gats_bangladesh_2009.pdf?ua=1)

<sup>6</sup> (i) Simulations carried out on WHO's Tobacco Taxation model (TaXSiM: <http://www.who.int/tobacco/economics/taxsim/en/>) and staff estimates on tobacco volume data for FY 2017-2018. (ii) Price elasticity assumed at -0.54 across all sectors ([http://global.tobaccofreekids.org/files/pdfs/en/Bangladesh\\_tobacco\\_taxes\\_summary.pdf](http://global.tobaccofreekids.org/files/pdfs/en/Bangladesh_tobacco_taxes_summary.pdf)).

<sup>7</sup> Impact on volume and revenue can be found in Annex 1.