

Existing Tobacco Tax Policy and Tax Administration in Bangladesh

A Qualitative Study October 2022



Existing Tobacco Tax Policy and Tax Administration in Bangladesh: A Qualitative Study

Prof. Dr. Rumana Huque

Fatema Kashfi

Prof. Dr. Nasiruddin Ahmed

Research Associate

Md. Ibrahim Khalil

Research Coordinator

Hamidul Islam Hillol



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www.bnttp.net

Dr. Rumana Huque joined the University of Dhaka in 2000 as a lecturer. Currently, she is employed as a Professor in the Department of Economics, University of Dhaka. She specialises in the health system and health economics with special focus on health care financing, resource allocation and budgeting, and economic evaluation.

She is particularly interested in research and advocacy in the field of tobacco control. She has conducted studies on tobacco taxation, second-hand smoking, smokeless tobacco and tobacco cessation in Bangladesh.

She got her PhD in Health Economics from University of Leeds, UK, in 2010. After completing BSS (Honours) and MSS in Economics from University of Dhaka, Bangladesh, she did MA in Health Economics from University of Leeds, UK in 2002. She has wide experience in working with the Ministry of Health and Family Welfare of Bangladesh, local NGOs and international donor agencies since 2002.

Fatema Kashfi has been working in Bangladesh's development and public health sector from the beginning of her career. Prior to starting her professional life, she completed her graduation in Economics and post-graduation in Development Studies, both from the University of Dhaka. She is particularly skilled in qualitative research, data analysis, and developing various project reports. She has been part of many research projects in areas like Bangladesh's tobacco control and tobacco taxation system, social cohesion in Cox's Bazar's refugee crisis area, urban primary health care, primary education, and children's foundational learning, etc. Apart from these, her fields of interest also include public policy, social equity and gender issues, climate change, and sustainability.

Dr. Nasiruddin Ahmed is a Professor in Economics at the North South University. Prior to joining the North South University, he worked as a Commissioner, Anti-Corruption Commission. He was Secretary, Internal Resources Division, Ministry of Finance and Chairman, National Board of Revenue. He also worked for the Government in Ministry of Housing and Public Works, Rural Electrification Board, Economic Relations Division, Prime Minister's Office, and Bangladesh Public Administration Training Centre. He has consultancy experiences in a number of places such as the World Bank, Asian Development Bank, World Health Organization, UNDP, USAID, UNICEF and UNESCO.

Dr. Ahmed's contributions towards improving government revenue and governance include (1) introducing income tax fair in 2010, (2) incorporating Alternative Dispute Resolution Mechanism in tax laws in 2011, (3) drafting Value Added Tax and Supplementary Duty Act in 2012, (4) introducing transfer pricing law in 2012, (5) introduced public hearing for preventing corruption in public service delivery, and (6) introducing integrity stores in high schools for infusing integrity among students.

Dr. Ahmed holds PhD in Economics from the University of Sydney, Australia and Masters in Public Sector Management Training and Development Economics from the American University, Washington, D.C. USA. He was trained at the Harvard University as well. He has authored a number of papers in Economics published in international journals like Applied Economics, Applied Economics Letters, Public Administration and Development, Indian Economic Review, Tobacco Control and Tobacco Induced Diseases.

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List of Abbreviations

ARO	Assistant Revenue Officer
BAT	British American Tobacco
BER	Bureau of Economic Research
DALY	Disability Adjusted Life Years
FCTC	Framework Convention on Tobacco Control
GATS	Global Adult Tobacco Survey
GDP	Gross Domestic Product
HDS	Health Development Surcharge
JTI	Japan Tobacco International
KII	Key Informant Interview
LTU	Large Taxpayers Unit
MRP	Maximum Retail Price
NBR	National Board of Revenue
RO	Revenue Officer
RRP	Recommended Retail Price
SD	Supplementary Duty
SLT	Smokeless Tobacco
SRO	Statutory Regulatory Order
VAT	Value Added Tax
WHO	World Health Organization

Executive Summary

This report has been developed as part of a research conducted by the Bureau of Economic Research (BER), University of Dhaka with the aim to generate evidence to identify the gaps in Bangladesh's current tobacco tax policy and tax administration. A qualitative study was undertaken where a series of Key Informant Interviews (KII) of the officials of the National Board of Revenue (NBR) both at central and local levels were conducted to identify these gaps. This report presents the findings of this study based on the information extracted from these interviews.

The findings shed light on the process of tax collection as well as various issues that affect the tobacco tax administration of Bangladesh. These issues include a lack of supply chain monitoring, lack of market monitoring and absence of automation and digitization in the tax collection process. Additionally, the NBR officials also expressed their perceptions regarding many matters of tobacco tax administration, the challenges they faced during tax collection of tobacco products and also recommended some measures that they think should be undertaken to improve the overall tobacco tax collection scenario. The major challenges the officials cited is shortage of manpower that creates obstacles in round-the-clock monitoring which is crucial in the taxation of tobacco products. Many of the responders brought up the problem of counterfeit banderoles and the propensity to avoid taxes by using them. Several respondents talked about the unregulated bidi and SLT (Smokeless tobacco) manufacturing units operating from small rooms and people's room, especially the recent rise in this kind of bidi factories due to the opportunity of online VAT registration.

To protect the public health and increase the government's revenue stream, these shortcomings in tax administration and the several concerns in tax management must be urgently addressed and initiatives should be taken to do that. Further research in this sector is needed to build clear understanding of these problems and explore possible best solutions. Digital tax stamps and banderoles should be introduced to better monitor the supply, distribution and sale of tobacco products. The tax collection process needs to be automated and capacity building programs and trainings should be conducted to enhance the overall aptitude of NBR officials.

1. Introduction

1.1 Background

The usage of tobacco and tobacco products is the dominant cause of preventable deaths worldwide. Consumption of tobacco products is a great threat to not only its users but also to the people around them and the overall public health of any community. More than 8 million lives and 213 million Disability Adjusted Life Years (DALYs) were lost worldwide in 2017 as a result of smoking, chewing tobacco, and exposure to secondhand smoke (Faruque, et al., 2020). In Bangladesh, there were about 126,000 tobacco-related death representing 13.5% of all deaths in 2018. Additionally, nearly 61,000 children had illnesses brought on by exposure to secondhand smoke, and almost 1.5 million adults had illnesses linked to tobacco use.

In 2017–18, the economic cost of tobacco-related illnesses and deaths in Bangladesh was estimated to be BDT 305.6 billion (\$3.61 billion), or 1.4% of the country's gross domestic products (GDP) (Ibid).

While the consumption of tobacco harms human lives, the cultivation of tobacco harms the physical environment around us. Every year, tens of thousands of mounds of wood are burned to burn tobacco leaves in tobacco furnaces. Deforestation is taking place across the country to make fuel for the furnaces (Progga, 2014). A study undertaken to measure the economic cost of tobacco use in Bangladesh converted the total wood consumption for curing tobacco leaves to carbon emissions and consequent environmental cost and determined it to be BDT 26,199.87 (equivalent to USD 310.06) per acre of land used for tobacco cultivation based on the use of fuelwood to cure tobacco leaves and the average price of fuelwood sold in the market (Faruque, et al., 2020). Considering all of the above-mentioned information, we can infer that the harmful effects of tobacco transcend to economic, environmental, and mortality aspects of the country and the overall human life. Therefore, it is critical to take immediate action to mitigate the negative effects of tobacco smoking on people's health, the environment, and society as a whole.

Tobacco control initiatives can be broadly divided into two categories: tax measures and non-tax measures. Between these two, tax measures have been found to be more effective and yield better results in controlling the use of tobacco. Administering an efficient taxation system is considered to be one of the most cost-effective methods of controlling the use of tobacco throughout the world. Tobacco tax structures, or the type of taxes levied on

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tobacco products, have a significant impact on how effective taxation is at accomplishing government health and revenue goals (Chaloupka, et al., 2021). The most substantial international treaty on tobacco control, widely known as Framework Convention on Tobacco Control (FCTC) developed by the World Health Organization (WHO), also puts importance on tax measures to reduce the demand for tobacco products. Article 6 of FCTC states that “price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular, young persons” (WHO, 2003). Higher tobacco taxes lead to higher prices of tobacco products. Evidence shows that a 10% increase in prices will result in a 2.5%-5% reduction in tobacco use in high-income countries, and a similar increase in prices will result in a 2%-8% reduction in tobacco use in low-and middle-income countries (WHO, 2015). Research conducted specifically in Bangladesh also exhibits substantial decrease in consumption due to increased prices. Study showed that 10% increase in the price of cigarettes would reduce overall cigarette smoking among people by 7.1%. At the same time, considering from the point of different wealth groups, this 10% increase of cigarette prices would lead to a 9% decrease of cigarette demand among poorer people compared to 3.9% among wealthier people in Bangladesh (Huque, Abdullah, & Hossain, 2022). The advantages of tax increases are guaranteed to be achieved with efficient tax management. An effective tax administration reduces tax evasion and avoidance to ensure that tobacco tax rises result in increased tobacco product prices and tax revenues as well as decreases in tobacco usage and its negative effects. A wide and expanding body of research reveals unequivocally that changes, that is, increases in tobacco product taxes and pricing have a considerable impact on total demand for tobacco products, with tobacco use among young people and people with lower incomes being most negatively impacted.

Evidence shows that a 10% increase in prices will result in a 2.5%-5% reduction in tobacco use in high-income countries, and a similar increase in prices will result in a 2%-8% reduction in tobacco use in low-and middle-income countries.

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Excise taxes are the most significant tax on tobacco products among all the other types of taxes because they increase both absolute and relative prices and lead to a subsequent reduction in consumption. Excise tax on tobacco products is basically imposed following either of the two methods: Ad-valorem taxes or Specific taxes. Some countries also follow a mixed method which consists of a combination of both methods. Ad-valorem taxes are levied as a percentage of the value (e.g., retail price, or the producer/ex-factory price or the cost) of the product, in the case of Bangladesh, it is a percentage of the maximum retail

price (MRP). Whereas specific taxes are levied as a monetary value per quantity (e.g., 1000 cigarettes, a pack of 20 sticks, a kilogram of tobacco) of the product. These taxes can be imposed with rates set uniformly or in different tiers (WHO, 2021). Between these two taxation systems, experts recommend enforcing the specific taxation system since tobacco prices are typically higher under tax systems that are dependent more on specific excises than under those that depend more on ad valorem taxes. Besides, ad valorem taxes are more difficult to administer than specific taxes since it is simpler to count the actual quantity of a product than to calculate its value (Rodriguez-Iglesias & Blecher, 2018). Additionally, ad valorem tobacco excise taxes widen the price differences between expensive and less expensive brands in the context of a tiered tax structure and raise opportunities for tax evasion and avoidance (Chaloupka, Yurekli, & Fong, 2012). By shrinking the price difference between expensive and cheaper alternatives, greater dependence on specific excise taxes enhances the effect of tobacco taxes on public health and reduces the likelihood that users will switch to less expensive products in response to tax hikes. Also, when one specific tax is imposed on all tobacco product brands, it is made abundantly evident that all tobacco products are equally dangerous (Ibid).

The use of specific tobacco taxes is on the rise, according to recent global trends. However, unfortunately, despite having some of the highest tax rates (total tax burden including supplementary duty, VAT and health development surcharge) in the world, Bangladesh's cigarette pricing is among the lowest in the world and in the region due to its flawed taxation system.

Bangladesh has a complex multi-tiered ad valorem taxation system for tobacco products. Smokers are motivated to switch to less expensive brands in reaction

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to price rises by the gaps between brands in the various tier categories, while producers are enticed to place their brands between pricing slabs to avoid paying higher taxes. Bangladesh's existing tax structure neither discourages consumption nor maximizes revenue (Carmen, Fuchs, & Genoni, 2018).

1.2 Rationale of the Study

As mentioned earlier, the complex tobacco tax structure of Bangladesh makes it difficult to impose tax in a way that would substantially reduce the number of tobacco users in the country. At the same time, limitations in the tax management process and tax administration inhibit reaching the maximum potential of the revenue stream. Since having multiple price tiers presents the potential for tax fraud and avoidance, a tiered tax structure like the one in Bangladesh requires a robust tax administration (Barkat, et al., 2012). Therefore, it is imperative to identify the shortcomings and flaws of the existing tax structure in order to develop and adopt a comprehensive tobacco tax policy. The gaps in the current tax management process

and tax administration need to be recognized and appropriately addressed to ensure the effectiveness of the tobacco tax policy.

The National Board of Revenue (NBR) in Bangladesh is in charge of overseeing and carrying out of tax administration practices for all types of industries. It is also in charge of creating and enforcing tobacco tax regulations and laws across the nation. The NBR creates the rules and guidelines for all direct and indirect tax collection and oversees the process. In addition, it assists in determining the rules and jurisdictions for direct and indirect tax waivers and exemptions, as well as works in eliminating tax evasion and smuggling. As the principal tax administering agency NBR can provide valuable information regarding the various issues and hindrances in the current procedures. This is why stakeholders such as NBR officials, including the ones working at regional levels, should be incorporated into research and studies as they are the ones directly working at the grassroots level to administer and collect taxes and have a greater understanding of the application mechanism of the tax system. Bringing in any policy change or reforms in the current regulations requires the assertion and involvement of the NBR. Therefore, learning their perspectives and views is crucial to this end.

Moreover, this is a less researched area in the case of Bangladesh's tobacco taxation sector and previous studies did not particularly focused on the issues and gaps in the tax administration and tax policies. Hence, this study can provide policymakers, tobacco control experts, and activists with valuable insight into the overall limitations of the existing system and lead the way to generate solutions and recommendations to address these issues and help authorities bring in necessary reforms. On the whole, it can act as a source of information and reference for future research and be a resource for anyone who would like to know more about tobacco tax administration in low-and middle-income countries.

1.3 Research Objectives

This study mainly focused on generating evidence regarding the limitations of the current tobacco tax structure and tax administration system. It aimed to understand the perception of the NBR officials regarding the various issues that exist in the administration of tobacco taxation as well as potential reforms to consider. It also gave attention to their views about the specific taxation of tobacco products. Keeping all these in mind, the main research objectives of this study were to:

- i) understand the tax management procedure of tobacco products and how the tax administration is done,
- ii) identify the gaps in Bangladesh's existing tax policy, procedure, and administration,
- iii) explore the challenges for introducing specific taxation and recommendations.

1.4. Organization of the report

The report has five chapters.

Chapter 1 of the report gives an introduction to the study. It provides a background to the research and lays out the general setting of tobacco taxation. Additionally, the chapter contains the rationale behind conducting this study as well as the objectives of the research.

In **Chapter 2**, the focus is on the existing literature on the tobacco taxation structure of Bangladesh. Relevant literature on topics such as tobacco taxation in Bangladesh, the economics of tobacco taxation, features of the present tobacco tax system, etc. were reviewed in this chapter.

The methodology of the research is depicted in **Chapter 3**. This chapter explains the research design of the study, the sampling, and as well as the data collection method. It describes how respondents were chosen, how the data was collected and documented, and how it was analyzed. This section also contains the research ethics that were followed during and after the study.

The findings of the study are presented in **Chapter 4**. The data collected from the KIIs were analyzed to identify the emerging themes in the information provided by the respondents. The information is organized in sections based on the concepts that came up most during the interviews, such as proper use of banderoles, tax calculation and tax collection, documentation and reporting, problems in tax collection, and so on.

At the end of the report, **Chapter 5** includes the conclusion part of the report. After that, a set of recommendations were also made that can be adopted to eliminate the issues affecting the current tax structure and to improve the overall tax management and administration of tobacco products in Bangladesh.

2. Literature Review

2.1 Issues in Tobacco Tax Policy and Improving Tax Administration

In their study of the economics of tobacco taxation in Bangladesh, Ahmed et al. (2019) have examined both the administration of taxes and the tax policy in Bangladesh to establish and implement policies that are effective. The researchers remarked that there are a variety of political, social, and economic factors that give context to developing a goal for an appropriate tobacco tax policy. These include the probability of tax evasion and smuggling, the tax units' capacity for administration, the negative impact of tobacco products on health, people's income levels, and taxes in neighboring nations. They also identified some major issues in the country's current tobacco prices and tax system. According to them, Bangladesh has one of the lowest tobacco prices in the world. As a result, the existing ad valorem system where the tax base is retail price yields low revenue. Increasing the tax base (MRP)

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each year without increasing tax rates enables the tobacco companies to profit more as their retention rises without a rise in production costs. Additionally, the four price tiers in cigarettes encourage the consumer to switch to cheaper cigarettes rather than quit when price hikes. Besides, unregistered and unregulated bidi and smokeless tobacco companies increase the incidence of tax evasion as these products are already cheaper than cigarettes. On top of that, the lack of skilled employees and the absence of modern technology, and digital tracking and tracing systems limit NBR's ability to administer a tax on tobacco goods. Furthermore, the researchers recommended some measures that can strengthen the tobacco tax

They remarked that Bangladesh has a complex and difficult to administer tax structure and it needs a strong and robust administration system to keep the various previously stated problems in check.

administration, such as redefining the status and regulatory power of NBR, restructuring NBR and its field formations by function and size, integrating revenue management programs, digitalizing the system, litigation management through alternative dispute resolution, human

resources and institutional development, and lastly, activating the tobacco tax cell of NBR.

In another research regarding the economics of tobacco taxation in Bangladesh, researchers Barkat, et al.(2012) recommended some measures to improve tobacco tax administration in order to decrease the incidence of tax evasion and avoidance. They remarked that Bangladesh has a complex and difficult to administer tax structure and it needs a strong and robust administration system to keep the various

previously stated problems in check. The researchers suggested that to monitor the manufacture and distribution of tobacco products, a well-established monitoring system should be implemented that makes use of modern technology. These modern technologies can include the use of a cutting-edge manufacturing monitoring system, a new generation of more complex, difficult-to-counterfeit tax stamps, and a tracking-and-tracing system that can follow tobacco goods along the distribution chain. They also suggested that by initiating licensing to everyone involved in the manufacture and distribution of tobacco, Bangladeshi tax administrators' ability to track and trace should be further improved. Additionally, funding should be set aside for the enforcement of tax laws. Serious administrative sanctions should be enforced on anyone discovered engaged in tax evasion in order to greatly improve the speed and severity of these sanctions, making them a more effective deterrence.

2.2 Multi-tiered Tax System Encouraging Brand Substitution

Though Bangladesh has reached a high percentage of tax on cigarette prices (higher than the standard of 75%), but it has not produced the anticipated health advantages in terms of decreasing cigarette consumption. To find the cause behind this, Nargis et al. (2019) conducted a study exploring the tobacco taxation scenario in Bangladesh from 2006 to 2017. To do that they analyzed government data from 2006-2017 on the sale of cigarettes, excise structure, and the change in price and tax rates; the data from the Global Adult Tobacco Survey from 2009 and 2017; and annual reports from tobacco manufacturers and other literature to examine demand- and supply-side factors in the cigarette market. They found that three reasons, in addition to cigarettes becoming more affordable, seem to have lessened the impact of tax and price hikes on Bangladesh's cigarette consumption. The first one was the multitiered excise tax structure which expanded brand price differences and encouraged smokers to switch from more expensive to less expensive cigarettes.

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The second reason was identified as the growing incomes and smokers' preferences for higher-quality goods which promoted a shift away from hand-rolled local cigarettes (bidi) and toward low-price-tier cigarettes produced by machines. The third factor was the market expansion and differential pricing strategy used by the tobacco industry that adjusted the relative price to maintain low-tier cigarettes more affordable. The researchers stated that low-priced cigarettes being more affordable has a greater effect on public health as

it encourages smoking among the lower socioeconomic groups and the youth. And in case of price and tax increases, it presents the public with a cheaper alternative rather than quitting. The multi-tiered system makes it more difficult for the tax administrators to monitor brand declarations and tax bases. They concluded that in a lower-middle income country like Bangladesh, a high tax share may not be a reliable indicator of successful tobacco taxation, especially when the tax structure is complicated, tobacco products are inexpensive, and the affordability of tobacco products is rising. Finally, the researchers recommended that for tobacco taxes and price hikes to be successful in reducing the consumption of tobacco products, there must be a simple, uniform specific tobacco tax system that is adjusted to inflation and income growth.

2.3 Multi-tiered Tax System Inducing Tax Evasion

Several studies have produced evidence on how the complex multi-tiered tax structure of Bangladesh has failed to reduce consumption as well as enabled the tobacco industry to evade taxes and earn extra profit. Adding to that list of evidence is the study conducted by Hossain, Abdullah, & Huque (2022) where the researchers have attempted to calculate the potential decline in tax revenue that could be brought on by British American Tobacco's (BAT) growth of the low-tier market and its reduction in the supply of medium-tier brands.

According to their assessment, there was a 2.73 billion-to-9.84-billion-taka revenue deficit for the government in FY 2019–20 as a result of BAT launching a new low-tier brand. This study also discovered that increases in cigarette prices without a change in excise tax rates would lead to a significant increase in industry revenue (ranging from 2.13 billion to 7.73 billion taka), which might persuade BAT to continue expanding its low-tier market, leading to an increase in the tax revenue gap.

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The estimated revenue gap, according to this study, was between 34.90 billion and 42.01 billion taka when comparing the results from the baseline scenario with those from the simulation in which the government raises the base price of low-tier cigarettes while also enforcing a uniform ad valorem excise tax rate for all tiers. Furthermore, compared to the findings from the baseline, it was projected that BAT's revenue would be lower in this scenario. This suggested that, with this regulatory intervention, BAT would be less inclined to launch a new brand in the low tier. Moreover, analyzing the situation through the principles of Game Theory, the researchers found the same results which implied that imposing a uniform specific tax

accompanied by an increase in the base price of low-tier cigarettes would be a dominant strategy for the government. Based on the study's findings, the researchers highly recommended the Bangladeshi government to simplify the cigarette tax system by implementing a uniform tax for all tiers coupled with a substantial increase in the base price of each tier in order to reduce tobacco consumption and raise cigarette tax collection.

2.4 Industry's Manipulative Pricing Strategy

While the above-mentioned factors in the previous section contribute largely to Bangladesh not succeeding in reducing cigarette consumption, the tobacco industry's pricing strategy plays a more substantial role in

The researchers discovered that MRPs for higher-priced brands were higher than RRPs, enabling the opportunity of gaining additional profit margin on the high-end brands while simultaneously lowering the relative price of and growing demand for lower-priced brands.

that too. Following their findings regarding the multi-tiered tax structure causing brand substitution that enables consumers to keep on smoking rather than quitting; Nargis et al. (2020) conducted subsequent research on the pricing of tobacco products. In this study, they evaluated the tobacco industry's pricing strategies in the cigarette market of Bangladesh by observing the difference between market retail prices (MRP) of cigarettes faced by consumers and government-recommended retail prices (RRP) used as tax base in a four-tiered ad valorem tax structure. The researchers discovered that MRPs for higher-priced brands were higher than RRPs, enabling the

opportunity of gaining additional profit margin on the high-end brands while simultaneously lowering the relative price of and growing demand for lower-priced brands. The researcher remarked that tobacco companies in Bangladesh used a differential pricing approach, which countered the intended effect of the tax policy shift in reducing cigarette consumption and promoting public health. Additionally, in this pricing strategy where the MRP is higher than the RRP, the extra profit gained from excess retail margin goes untaxed. This gave the manufacturers an opportunity to acquire extra sales profit and at the same time evade paying taxes on this extra profit. The tiered excise tax structure which has been in force for the last two decades in Bangladesh aided this pricing technique. They also recommended that this should be replaced by a standardized specific excise tax structure which should be routinely increased adjusting for income growth and inflation, so that the price hikes are substantial enough to make cigarettes less affordable over time.

3. Methodology

3.1 Research Method

The study was conducted following qualitative research methods as qualitative research involves interpreting interviews and observations to identify substantively meaningful themes and patterns. The purpose of the qualitative inquiry is to gain a comprehensive, unique, and context-sensitive understanding of the study's research issues (Patton, 2015). Non-numerical data is collected and analyzed in qualitative research to better comprehend concepts, opinions, or experiences. This method was most suitable for the study since the major objective of the study was to identify the gaps in the current tobacco tax policy and administration which is not a quantifying element. Qualitative research is generally inductive in nature, that is, this research method is used to examine and explore the meanings and implications of a situation, hence this method was followed in the study to gain understanding and draw observations about the overall tax management of tobacco products and the gaps or limitations the NBR officials face in administering the current tobacco tax in Bangladesh.

3.2 Data Collection

Key Informant Interviews (KII), a widely used qualitative research method, was employed as the data collection tool of this study. Numerous factors influence the choice of sample size in qualitative research including research topic, context, objectives, theoretical paradigm, and resource constraints. These factors are broadly divided into two categories, factors dependent on epistemological-methodological considerations and factors dependent on practical research considerations (Mocănaş u, 2020). Hence, even though a large number of participants were identified for our study, not all of them could be interviewed due to time and resource constraints. A list of ten NBR officials was developed for interviewing. Purposive sampling was used throughout this qualitative investigation to choose the respondents while specific purposive sampling approaches were applied to assure maximum representation. Thus, the participants included both current and former officials of NBR. Among the current employees, officials working both at the regional level and the central office of NBR were included in the study. All the participants have been working in tobacco tax administration and tax collection for a long time and had extensive experience. All of them provided us with valuable information.

The interviews were conducted through a semi-structured questionnaire. This style of interview questionnaire entails the use of several preset questions and special topics. These questions are generally

asked of each interviewee in a methodical and uniform manner. However, the interviewers are free to stray; that is, they are allowed to delve and probe beyond the replies to their pre-planned, standardized questions (Lune & Berg, 2017). The study focused on all types of tobacco products. The questions were designed to get information on how the NBR get the data on the amount of production and sales of cigarettes and bidis, how they record it, how they report it to the central office, what format they use to collect this data, and the complexities related to the various tiers of cigarettes. It was also investigated how the NBR gets data from the tobacco companies, what kind of data they get and how the reliability of these data is verified. Along with it, information was also collected on how they ensure the proper use of banderoles of tobacco products in the market. We also asked for suggestions and their recommendations regarding what measures can be taken to improve the overall tax management of tobacco products in Bangladesh.

The interviews were conducted both virtually and physically. The data collection period of the study was one month. The online meeting platform ‘Zoom’ was used to interview the NBR officials working at the regional level or outside Dhaka city. This was more convenient rather than traveling to those areas as that would require both additional resources and time. In the case of the participants residing in Dhaka, physical in-person interviews were conducted by going to their offices.

3.3 Data Validity

Maintaining the quality and validity of data is a crucial step in the whole research process. While designing the research method, a protocol was set to ensure optimum documentation so that no data was lost in translation or transcription. Audio of all the interviews was recorded with the consent of the participants. At the same time, written notes were also taken during the interviews for better documentation. In the case of the participants who did not give consent to be recorded, written notes were taken with as many details as possible, and transcription was done in the shortest viable time so that no data was lost from memory. Apart from that, with each completed interview, the transcriptions were scanned for identifying new points or topics that could be further inquired about and explored in the upcoming interviews.

3.4 Data Analysis

The data from the transcripts of the KIIs were analyzed through thematic analysis, a method of analyzing qualitative data usually applied to interpret data in form of texts like interview transcripts or documents. Identifying and refining the key concepts was a crucial step in the iterative process of the qualitative

research conducted for this report. To do that, interview transcripts were carefully examined to extract the themes and ideas. The statements in the transcript were coded with an initial code and later with a refined code if needed. The information was then arranged and classified into concepts based on the codes. Afterward, they were all linked together to illustrate how one concept might affect another. Almost all of the participants had remarkable domain knowledge and provided valuable insight. Their feedback helped with understanding the issues such as, gaps, and needs in Bangladesh's tobacco tax policy and tax administration and provided useful recommendations for future plans and policies.

3.5 Research Ethics

In any kind of research endeavor, adhering to the standard research ethics is paramount. While conducting the research for this study and interviews the following ethics were followed:

- As majority of the interviews were conducted through online meeting platform, written consent could not be taken from the respondents. However, verbal informed consent was taken from all of them before recording the interviews.
- The purpose of the research was explained to all the respondents before starting the interviews.
- Confidentiality of the data provided by respondents and their anonymity was maintained.

3.6 Limitations

By its very nature, every research project has inherent limits, and this study is no exception to that. A moderate number of participants were included in the study. If the sample size was bigger, the study may have extracted more information. Moreover, the perspectives of the NBR officials were explored only, there was no scope to observe the issues from other angles. Including other stakeholders in the research may have made it more robust. Additionally, not much information could be gained on the tax administration of SLT products as most of the respondents had experience of working with only cigarettes and bidis, so there was a knowledge gap in that regard.

4. Findings

The NBR officials were asked a series of questions on various topics related to tobacco tax administration in Bangladesh. The topics ranged from monitoring the proper use of banderoles to keeping track of the tobacco companies' production through reporting and documentation, from the collection of taxes to the problems they face during tax collection, and many more. Their feedback and opinions provided us with valuable insights. The findings from these interviews are arranged and synthesized thematically in this section.

4.1 Banderole Collection

Bangladesh's cigarette taxation is imposed using the tax stamp and banderole system. These markings are affixed on cigarette and bidi packs to ensure that the due taxes have been paid on them. Based on the packaging, both banderole and tax stamp are used in the case of cigarettes and only banderoles are used in bidi packs. To outline the difference between the two, a respondent remarked,

“One is affixed in a way that you have to tear it to open the packet of cigarettes, and the other one is used in packaging where you can just slide the packet to take out the cigarette/bidi.”
(KII_07_Central level official).

The NBR has given guidelines on what kind of banderoles will be used for what kind of cigarettes based on the size and nature of the pack through specific statutory regulatory orders (SRO) and VAT booklet.

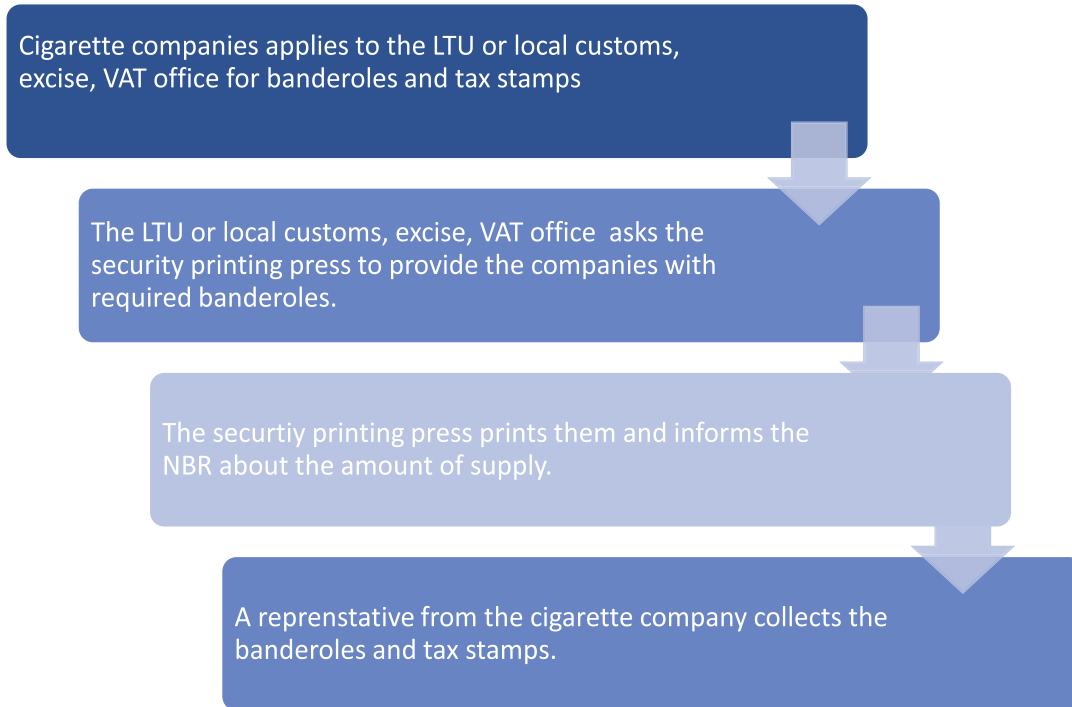
The tax stamps and banderoles used on cigarette and bidi packets are printed in the Government Security Printing Press. According to the information given by the participants, the cigarette companies collect them directly from the security printing press and the bidi companies collect them from the local post office where their

According to the information given by the participants, the cigarette companies collect them directly from the security printing press and the bidi companies collect them from the local post office where their factories are situated.

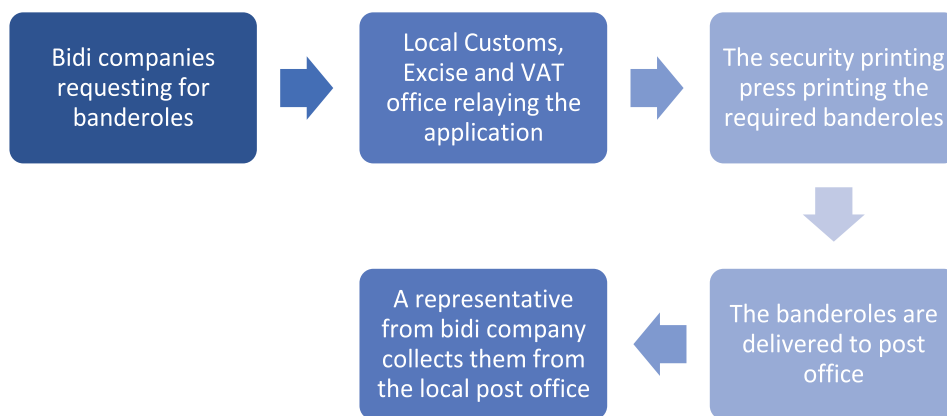
factories are situated. The cigarette companies under LTU (Large Taxpayer's Unit) apply to them mentioning their desired number of banderoles, while both cigarette companies not under LTU and bidi companies have to apply to their local Customs, Excise and VAT offices. The LTU and the other offices then officially write to the security printing press for providing the number of banderoles and tax stamps the companies have asked for. A representative from the cigarette companies directly collects the banderoles from the printing press and the bidi companies pay for the stamps and collect it from their local

post office. The security printing press records the information regarding which company is taking how many banderoles/tax stamps. This information is also relayed to the NBR by both the press and the companies so that they are aware of all the cigarette companies' operation scales.

Following is a flow chart representing the cigarette companies' process of banderole/tax stamp collection.



For the bidi companies, this process is showcased in the below diagram.



4.2 Proper Use of Banderoles & Tax Stamps

A major task in the administration of tobacco taxation is to ensure that the cigarette and bidi companies are properly using banderoles/tax stamps as per the regulations. This is the principal responsibility of the Assistant Revenue Officers (ARO) and Revenue Officers (RO) working at the field level. Cigarette companies operate under the ‘Supervised Clearance’ system and through that the proper use of banderoles is ensured. One respondent who has considerable experience in tobacco tax administration stated that:

“NBR has two statutes regarding this. First is that our officials will be present at the factories to grant clearance of the goods. Secondly, our officials can inspect the factories at any time for gathering counter-intelligence or taking preventing measures and monitor whether they are properly affixing the stamps or not.” (KII_03_Regional level official)

The banderoles/tax stamps are attached to cigarettes at the time of their packaging in the factory. Most of the respondents informed that the cigarette companies have a banderole register book where they keep a record of their daily use of banderoles. Besides, at least two to

The banderoles/tax stamps are attached to cigarettes at the time of their packaging in the factory. Most of the respondents informed that the cigarette companies have a banderole register book where they keep a record of their daily use of banderoles.

four officers are stationed at the factories at all times, and they have to be on duty maintaining a roaster. So, whenever the factories are using banderoles from their stock, they enter into the register the number of banderoles they have used and the NBR official who is employed there as supervisor signs that document. He also checks that the balance in the books and the stock amount match. The officer in charge also has to keep a count of how many cigarette packs are produced through each machine per hour and document it in the relevant register. The officers maintain a register where they enter the number of 10-stick packs and the overall number of cigarette sticks manufactured. Apart from these, NBR also conducts drives and inspections to ensure the use of banderoles. As one respondent said,

“We sometimes randomly collect sample cigarette packs at field level from the local shops and verify the authenticity of the banderoles through some of our tools.” (KII_03_Regional level official)

It was also mentioned in an interview that whenever the factories bring a new stamping machine or start using it, the officials check that machine to ensure that it is functioning perfectly and there is no problem with it. Additionally, the cigarette companies also provide details about

NBR also conducts audits on these companies every three years. They examine their papers to check whether they have used all the banderoles they took, and they also evaluate the companies' debit-credit balance and the annual reports.

how many cigarettes they have manufactured and distributed in a month and submit a monthly return on their production and supply. NBR also conducts audits on these companies every three years. They examine their papers to check whether they have used all the banderoles they took, and they also evaluate the companies' debit-credit balance and the annual reports.

Though there are processes in place to make sure that cigarette companies are using banderoles appropriately, most of these processes are manual. This manual procedure leaves space for discrepancy and manipulation. If the system were digitized instead of the current manual supervision and record keeping, it would be more fitting and there would be a very small margin of error. On top of that, shortage of human resources is also a major problem owing to which the NBR cannot conduct regular and frequent inspections and drives at the field level. Several of the respondents have mentioned the shortage of human resources as an obstacle to necessary monitoring.

4.3 Banderole Stock and Spoiled Banderoles

According to NBR's VAT regulations, the cigarette companies are required to inform the NBR about their use and stock of banderoles/tax stamps each month.

"The main purpose of using banderoles is that even if there is some swindling at the manufacturing level, we can detect that at the sales level" (KII_02_Regional level official),

added one respondent.

When asked about this, all the respondents replied that NBR is updated with this information regularly, but this is not done separately every month. This information is extracted from the monthly invoice returns submitted by the companies. All tobacco companies are obligated to hand in a monthly return that contains the details of their production and manufacturing process, such as the number of sticks they have produced, the number of banderoles they have used, and the

All tobacco companies are obligated to hand in a monthly return that contains the details of their production and manufacturing process, such as the number of sticks they have produced, the number of banderoles they have used, and the amount of tax they have paid, etc.

amount of tax they have paid, etc. At the end of the month when they submit the returns to NBR, the Commissionerate offices check whether the banderoles were procured and preserved properly. The returns for each month have to be submitted by the 15th of the next month. All of the respondents confirmed that this is done on a regular basis. And if there is any lagging in this process then the NBR officials file cases or fine them or take action according to the regulations in the VAT law. As one respondent corroborated,

“If they don’t provide this information regularly, then appropriate actions are taken against them according to articles 85 and 86 of the VAT and Supplementary Duty Act, 2012.” (KII_08_Central level official)

Along with the above directive, the VAT SRO (VATSRO-181) also has a provision on spoiled banderoles as mentioned in the section 6.2 which states that in case any banderoles get damaged during the

Many of the respondents, especially the ones working at the regional level conveyed this practice is not that common in their authoritative area; while some of the respondents said that if any company informs them about this, then they go and destroy those damaged banderoles/tax stamps.

manufacturing stage, a waiver of 1% would be given to the cigarette companies. That is if the damaged banderoles account for 1% then they would be compensated with that number of banderoles by the security printing press that is they would be provided with that number of banderoles/tax stamps without paying additional

taxes. Many of the respondents, especially the ones working at the regional level conveyed this practice is not that common in their authoritative area; while some of the respondents said that if any company informs them about this, then they go and destroy those damaged banderoles/tax stamps. And if the wastage rate is more than 1%, then they are taxed for the additional amount.

4.4 Banderole Fraud

Proper use of banderoles/tax stamps ensures that the cigarette and bidi companies (as these are not used in SLT products) are paying their due taxes to the authority and that no product is marketed bypassing the government’s tax net. The regulation on updating monthly banderole stock, random inspections in the market, and not allowing for more than 1% of banderole/tax stamp wastage, all of these aid to that end. Apart from these, several of the respondents have mentioned a device that can verify the authenticity of banderoles. This is a portable device that shoots laser light, that when held up on the banderoles shows the markings of a genuine banderole. One respondent stated,

*“When the laser light hits the banderole, you can see NBR written in them in very small and fine letters.”
(KII_01_Former official)*

But this device is also not used routinely to verify the authenticity of banderoles. When the officials sometimes go on inspections or they get suspicious about any product, only then do they use this device. Many of them added that if they find any fake banderoles during their inspections then they seize and confiscate those products, destroy them and take appropriate legal actions against the related parties according to the law.

However, despite all these measures, many of the respondents have agreed that there are cigarette and bidi packs with fake banderoles available in the market, and the companies are involved with banderole fraud to evade taxes. During an interview, a senior official who has been working in this sector for a very long period expressed that there are 4 big and in total, almost 28 cigarette companies in Bangladesh, and among so many companies, some swindling linked to banderole is happening. This is occurring through fake banderoles that are brought from abroad as some shipments of these counterfeit banderoles were also seized in the Chittagong port. Another respondent also expressed his suspicion about the cigarette companies importing fake banderoles from abroad. He added,

There are 4 big and in total, almost 28 cigarette companies in Bangladesh, and among so many companies, some swindling linked to banderole is happening. This is occurring through fake banderoles that are brought from abroad as some shipments of these counterfeit banderoles were also seized in the Chittagong port.

“I suspect that the banderoles may come from some other country because it is quite hard to replicate the banderoles made at the security printing press since banderoles of cigarettes have high-security features.” (KII_04_Regional level official)

Furthermore, many unregistered small-scale manufacturing units are operating from people's houses in rural areas that produce bidi and cigarettes. And the shop owners and retailers in those remote areas don't have proper knowledge about banderoles and relative regulations. Sometimes the manufacturers would request them to use water to remove banderoles from packs that the factory owners can use again on new packs. Hence, when someone sells these unauthorized cigarettes, he is evading the taxes and the whole price is entering his pocket as profit. It has also come up that some field-level officers facilitate the companies in this illegal practice. As one respondent working at the regional level said,

“Sometimes, these companies maintain a liaison with the NBR official on duty and request them to not record the total number of packs they produced and show a lesser amount like half of it. Then they pay tax on only half of the packs.” (KII_04_Regional level official)

He also added that higher officials are not aware of what the field-level staff is doing. This is mainly done by those officers who are stationed at the factories.

4.5 Supply Chain Monitoring

According to section 8.2 of the SRO on VAT and Supplementary Duty (VATSRO-181) published in 2019, all cigarette manufacturers and importers have to submit the details such as the names and addresses of their selling points, dealers, agents, and distributors to the relevant VAT commissioner's office. When asked about how this provision is implemented and how this information is updated, most of the respondents said that the NBR does not have this data.

This non-compliance depicts a major shortcoming in the current structure. Keeping updated information on point of sales, dealers, agents, and distributors is essential in monitoring the supply chain of cigarettes and other tobacco products. It assists in tracking any mismanagement, discrepancy, or disobedience of the rules and regulations.

As per their statements, the revenue on cigarettes is directly collected from the factory based on the retail price. The dealers, agents, and distributors are not subjected to any VAT or tax. That's why their information is not really necessary. One respondent mentioned,

“The companies are supposed to provide this information to the VAT commissioners. And all the commissioners ought to submit that to the central NBR office. The regulation and process are there but there is a lack of enforcement.” (KII_03_Regional level official)

Another respondent added that sometimes the cigarettes are produced in one area and then transported to other areas for sale. The different locations of factories and selling areas also cause difficulties in collecting and updating detailed information about the people associated with the supply and distribution.

This non-compliance depicts a major shortcoming in the current structure. Keeping updated information on point of sales, dealers, agents, and distributors is essential in monitoring the supply chain of cigarettes and other tobacco products. It assists in tracking any mismanagement, discrepancy, or disobedience of the rules and regulations. It helps in getting to the source of any unethical activities. Thus, the absence of implementation of this provision creates scope for manipulation and fraudulence.

4.6 Tax Calculation and Collection

On each fiscal year, the NBR announces new price rates for cigarette, bidi and SLTs with the aim of increasing the tax revenue as this sector is one of the biggest sources of government revenue. But sometimes there is also no change in prices in some of the tobacco products. The Minister of Finance announces these rates in the national budget proposal. NBR prepares the SRO of new prices beforehand and publishes it on the day of the budget announcement. The amount of tax revenue payable by each brand or tier of cigarettes or by the cigarette companies is calculated and decided beforehand by the NBR. When any company wants to launch a new brand of cigarette or makes changes to an existing brand, it has to declare it to the NBR. It has to give details as to which tier the cigarette belongs to and what would be its price. They have to take approval for launching it. They have to apply for it through Input-Output Coefficient declaration and by filling the form VAT-4.3. While approving the NBR will fix the price tier of that brand and the amount of the three types of taxes, which are VAT, Supplementary Duty (SD), and the Health Development Surcharge (HDS) imposed on it.

When the cigarette companies go for manufacturing, they enter the amount of produced goods in their sales register. Then they subtract this amount from their stock/advance payment.

The tobacco companies do not have to pay tax money to the NBR directly. Rather this money is deposited in the government's consolidated fund in Bangladesh Bank. They pay through VAT invoices or treasury invoices and then submit those invoices to the NBR. The cigarette companies have a current account where they deposit an amount of money in advance and then money would be deducted from that every time, they make a delivery from their factory. When the cigarette companies go for manufacturing, they enter the amount of produced goods in their sales register. Then they subtract this amount from their stock/advance payment. They deposit this money in Sonali Bank or sometimes directly in Bangladesh Bank through treasury invoices. If any company does not have an advance deposit in their account, then they pay on the day of delivery. One cannot take out any product from the factory unless they have paid the due taxes on it. In the case of bidis, when the bidi companies collect the banderoles, they have to pay the three types of taxes through three invoices, and only then they are allowed to take the supply of banderoles. These invoices are attached with the monthly returns that they submit to the NBR, so that, NBR is aware of the amount of revenue the companies have paid.

4.7 Documentation and Reporting

The documentation of the various information regarding production and tax collection is mostly done through the monthly returns and invoices that the tobacco companies submit to NBR. The VAT collection follows a self-clearance system where the manufacturer himself will get the relative invoices and deliver his products. When the cigarette companies deliver products from the factories, they have to record all the information such as the number of cigarettes belonging to each brand produced and the tax paid on them. Whenever the companies are making deliveries from the factory, they have to submit the VAT invoice. The companies have a sales register where they record the number of products sold corresponding to each invoice. At the same time, NBR has entries in their books for all the invoices too. Based on the information from all these invoices, the companies submit a monthly return documenting the sales and tax paid for each brand belonging to each price tier to the NBR. The hard copy of this return has to be submitted directly to the VAT office and the soft copy can also be submitted online. Most of the big cigarette companies keep their accounts through software and online servers. As one respondent mentioned,

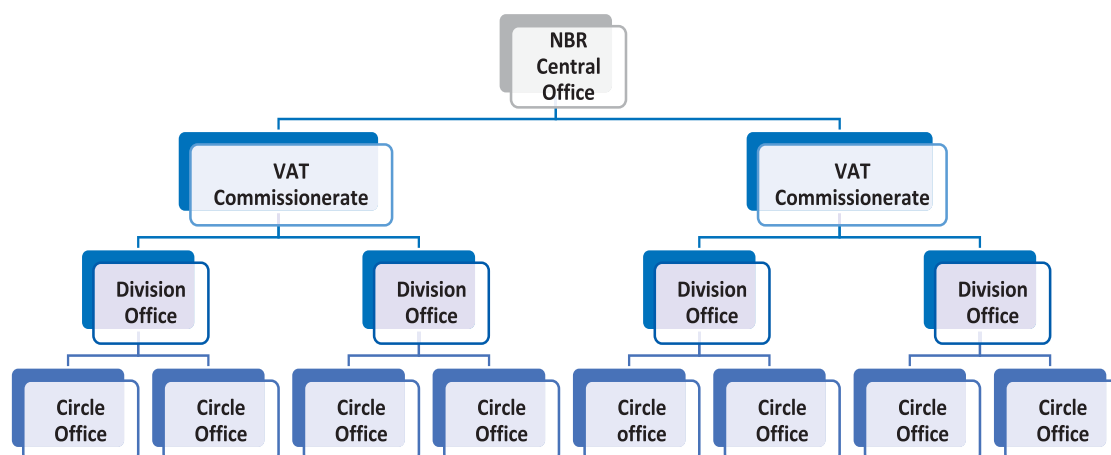
The companies have a sales register where they record the number of products sold corresponding to each invoice. At the same time, NBR has entries in their books for all the invoices too.

“NBR has made it compulsory for companies having an annual turnover of more than 5 crore Taka to use the approved and recommended software by NBR.” (KII_08_Central level official)

However, the small-scale local cigarette companies and the bidi companies keep their accounts manually. This lack of digitization creates an opportunity for the companies to manipulate the accounts and resort to dishonest means to evade taxes.

Documentation of the above-mentioned information is usually done through the MS Excel software by following a specific format according to most of the respondents. Reporting of all the information related to cigarette taxation is done according to a hierarchical order in the NBR. The central NBR office supervises the commissioners, the commissioners supervise the division offices, and the division offices supervise the circle offices. So, the data are sent maintaining this chain of command. The field-level data is collected by the ROs and AROs in the circle offices, there are 3-4 circle offices under a division. All the circles send their data to the division. Then the division office coordinates all the data and sends it to the commissioner. And finally, the commissioner collects the data of all the divisions under him, coordinates them and develops his own format, and finally sends it to NBR.

Following is a diagram that would assist in better understanding the flow of information between the different offices of NBR.



This information and data are saved on the NBR’s server, but they cannot be accessed by all the officials of NBR. Only the commissioner and the deputy commissioner can see the data of their division. If other commissioners want to access this data, then they have to apply for permission from the NBR. NBR’s IT team can access and see the data of the whole country. If anyone ever wants to see the data from other divisions then they request the IT team for that. This creates a barrier to the availability and accessibility of information.

4.8 Challenges in Tax Collection

When asked about the challenges the officers/officials faced in collecting taxes on tobacco products, a variety of issues came up. While one respondent mentioned that round-the-clock monitoring is essential in supervising and collecting taxes on tobacco products, another respondent mentioned the shortage of manpower is a major problem in the case of monitoring and administering tobacco taxes. He added,

“We have 6 officers and more than 150 bidi factories in our area. It is very difficult to monitor all these factories with only 6 people.” (KII_05_Regional level official)

The issue of fake banderoles and the tendency to evade taxes through them was also mentioned by many of the respondents. Though the security printing press has added many advanced security features in the banderoles/tax stamps of cigarettes, the banderoles of bidi are still of very poor quality; hence, they can be easily replicated.

Another problem that has arisen in recent times is the rapidly increasing number of bidi manufacturers. Earlier, when the companies had to apply manually for getting VAT registration, their number was low. One respondent explained the reason as:

“Because we would go to their location and manufacturing unit, inspect them and only then give permission to set up factories. But since the online registration service started in July 2019, numerous bidi companies have applied for VAT registration. And they got approval too. This has caused a sharp rise in new bidi factories.” (KII_02_Regional level official)

The respondent added,

“Because of this large number of manufacturing units operating from people's homes, monitoring has become really troublesome for us.” (KII_02_Regional level official)

The point of automation and digitization has also come up in several interviews. Apart from two to three big cigarette companies, most of the others still have not been able to automate their procedures. Because of the absence of automation in the monitoring of imports of raw materials for commercially manufactured cigarettes, NBR has to take up many preventive measures which are not very effective.

“Undertaking this kind of work is to some extent a waste of human resources and our logistics” (KII_03_Regional level official),

added a respondent.

In addition to these, several respondents expressed that there is a general reluctance among people to pay their due taxes. They have to work more to extract taxes rather than collect them. Apart from the major tobacco companies like BAT, Japan Tobacco International (JTI), and Akij Group; other companies are generally reluctant to pay taxes. Collecting taxes on smokeless tobacco is especially difficult. They have to talk to the manufacturers and convince them in many ways and have to work hard to motivate and encourage them to pay the taxes on time. Sometimes the authorities have to send official letters urging them to pay up their dues immediately.

4.9 Price Manipulation and Industry Profit

Some of the respondents were asked about the tobacco companies' unethical practice of price manipulation and gaining additional untaxed profit through that. In a recent study of BER which was conducted after the national budget announcement for the fiscal year 2021-22, it was found that cigarettes of almost all the brands were sold at a higher price than the MRP (Maximum Retail Price) at the markets. Respondents were asked about their opinions regarding this deceitful strategy of the cigarette companies especially the multi-national companies such as BAT and JTI. A few of them stated that it is difficult to monitor this kind of activity as the NBR has a shortage of staff. Besides, market and price monitoring are the responsibility of the Consumer Rights Protection department. Hence, a respondent said,

“It is very challenging to monitor this price manipulation at the field level and address them.”

They also advised that customers should file a complaint to the consumer rights protection department whenever they are charged more than the MRP for any cigarette pack. While another respondent thought that the retailers are largely to blame for taking higher prices. According to him,

“It is mostly the retailers who increase the price, wholesalers seldom do this. There might be some cases like this, but those are an exception.” (KII_06_Former official)

In another interview, the respondent mentioned that

“If the cigarette companies are selling a 14.2-taka cigarette at 15 taka and they are not giving any profit margin to the retailers then the retailers have to sell it at a higher price. If the company is asked why they are selling a cigarette at 15/16 taka in the shops when the price has been fixed at 14.2 taka. The company would reply that they have been delivering product at 14.2 taka to the agents/distributors and are not taking more than that and their papers also show that. So, they are taking advantage of this small gap in the law.” (KII_07_Central level official)

There is a provision in the SRO of 2019 related to VAT and supplementary duty that when a new price rate is announced in the national budget, the old cigarette packs which already have been manufactured in the old packaging but not marketed out of the factory yet, have to attach a seal on the pack mentioning the new prices. However, it has been observed that almost one month after the budget announcement of fiscal year 2022-23, the cigarette companies were still producing cigarettes in the old packaging, but they were charging the new higher prices. When the question regarding this was raised, one respondent said that all of these must have been the company's old stock. Whenever a new pricing/tax rate is announced through the budget, the companies are given some time to make concurrent changes in their packaging since they already have ready stock in the old packaging. He added that:

“They (cigarette companies) know the prices are going to increase in the new budget. Considering that they make huge supplies in the market in the preceding 1 to 2 months of the budget. So, this thing can happen in case of existing pre-budget stock.” (KII_06_Former official)

Some respondents were also asked about how each year only the price of cigarette increases and not the tax rate which leads to increased industry profit. One respondent thought that whether the tax rate is increased, or the price is increased directly, both of them are increasing prices. Increasing tax rates may increase prices at a higher rate. However, ultimately, the prices are increasing each year.

One respondent thought that whether the tax rate is increased, or the price is increased directly, both of them are increasing prices. Increasing tax rates may increase prices at a higher rate.

Another respondent stated that when the price increases, government revenue increases more than the profit of the companies. So, the government gains more. And the NBR tries to increase price in a way that there is a retention cap. They calculate the new prices to keep retention on the companies’ additional profit so that it doesn’t increase more than a certain amount.

The findings indicate that cigarette companies adhere to various malpractices in their pricing strategy to gain unethical profits. This is most serious around the time of budget announcement from one month prior to even one to two months after the budget. Lack of market monitoring is giving incentives to the companies to engage in this practice and causing the government to lose on a huge amount of tax revenue.

4.10 Limitations of the Current Tobacco Taxation System

It has already been depicted in the previous sections that Bangladesh has a complex, multi-tiered, ad-valorem taxation method levied on tobacco products. The respondents were asked about the problems they faced working in tobacco taxation specifically due to the four price tiers of cigarettes and the ad-valorem method.

Regarding the price tiers, most respondents expressed that they did not face any particular problem due to the four tiers. As this tier system has been in practice for a long time and the price and taxes for each tier are already fixed by NBR in advance, it does not create much hassle to calculate or collect taxes because of them. In some of their opinion, managing taxes in four tiers is a little time-consuming but not that complicated. One respondent said,

“Considering the quality of cigarettes, target groups of consumers, and maintaining the continuity of the substantial amount of tax revenue deposited in the national exchequer, I find the presence of four price tiers to be quite logical.” (KII_03_Regional level official)

However, one of the respondents also mentioned that multiple tiers create a tendency of downtrading when prices go up as the consumers can easily shift to a brand in the lower tier than the one, they were previously buying. Another respondent stated that defining their distinctive features to differentiate between the low and medium tiers is difficult. There is a tendency among companies to show that their cigarettes belong to the low tier as it has a low tax rate. That is why it is essential that distinctive features of each of the tiers be defined precisely so that they can be easily differentiated from each other.

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The overall opinion of the respondents regarding the ad-valorem system was quite similar to their opinion of the four price tiers. Most of them stated that this method has been employed for a long time and the whole system has been run following this method, they have their training in employing it and have been doing it for a considerable amount of time, hence, there is no need to change it. In their opinion, this method has been working fine, however, if the government at some point decides to reform or change it, they would work accordingly.

4.11 Opinions Regarding Specific Tax

There was a general consensus of opinion regarding the introduction of a specific tax on tobacco products among the respondents. Almost all of them preferred the current ad-valorem method to a specific tax as they were a little hesitant to shift to a new system because of the uncertainty of adapting to new work mechanisms. According to most, the ad-valorem method has been employed for a substantial amount of time and they are trained to work under this method; now, introducing a new method might disrupt the whole system and there might arise a range of problems in tobacco tax administration. Though some of the respondents thought that tax calculation and collection could be easier under specific taxation and this method could be simpler to administer, they were still in favor of the ad-valorem method as it is a system they are used to working under.

Additionally, some also thought the choice between ad-valorem and specific taxation depends on the goal of tobacco taxation. If the goal is only to control and eliminate tobacco consumption, in that case, the

specific tax is suitable. However, if government revenue is considered, it cannot be compromised as tobacco contributes massively to the country's tax revenue.

Overall, there was a uncertainty among the respondents to adopt specific taxes as many thought this can pose a threat to the steady revenue stream coming from tobacco products and no one was willing to take that risk. Since the NBR officials are asked to increase the government's revenue every year more than what was in the last year and are given targets that exhibit 30%-40% growth in revenue, they cannot jeopardize this steady revenue stream. One respondent stated,

“A lot of the groups working on tobacco control initiatives have been advocating for specific taxes for some time now. But only advocacy or activism is not enough for bringing change. Where is the evidence that this system will work?” (KII_06_Former official)

This opinion was reiterated by another respondent who also expressed the need for robust research and strong evidence to back up the demand for introducing specific taxation on tobacco products. They conveyed that precise examples should be presented of countries who are implementing the specific tax, what is their procedure, how are they administering it, how are they collecting the taxes, and what effect it had on revenue. And it has to be relevant to Bangladesh's social structure and reality.

“Research also has to reflect on how we will implement the specific tax in our country, what will happen to price tiers, whether should we keep them all or should we bring it down to three, additionally, what will happen to revenue?” (KII_07_Central level official),

added the respondent.

A number of respondents stated that the tobacco industry is turning in almost BDT 30,000 crore as tax revenue annually. This constitutes a major portion of the government's revenue and cannot be risked or else the national budget may go into a further deficit. They opined that the overall consequence of the decision of imposing specific taxes has to be evaluated in a study. And then those results should be shared with the NBR. If the findings give strong evidence that this system is going to be benefitting, then they would consider it.

4.12 Suggestions for Improving Tax Management

Finally, when asked about suggestions to improve the current tax management, the respondents recommended taking up a variety of steps to resolve the problems they face in tax collection and to further

improve it. An important point that came up was about automating the manufacturing process of tobacco products. If the cigarette companies' business process, manufacturing process, business cycle as well as supply management, all of these are automated then it would be more efficient. Additionally, if a mechanism can be developed through the NBR's policy wing to monitor the import of raw materials like tipping paper and machines for commercial cigarette manufacturing, tax can be collected from this sector more effectively.

Another important recommendation that emerged was regarding the unregulated bidi factories. Small bidi factories that are operating from residential houses often remain outside the government's tax net. So, there should be a set of requirements or criteria that one has to meet to set up a factory. For example, they could be that the factory has to be far away from the locality, that there should be an extension room or setting an area limit for the factory, etc. Some respondents thought that if these regulations are set in place, then the number of bidi factories can somewhat be controlled. They also proposed that the quality of the banderoles used on bidi packs need to be improved. The banderoles that the security printing press makes for bidis use very low-quality paper and the security features on them are also not that advanced. One respondent said,

“When the banderoles of bidi were first launched many years ago, bidi used to bring in only 1-2 taka per packet for the government. Additionally, these banderoles are quite cheap, likely only 7 or 8 paisa each packet. But now that the government earns around 9+ taka per packet of bidi, the quality needs to be improved to stop the use of fake banderoles.” (KII_02_Regional level official)

Some useful suggestions were also made regarding the price tiers of cigarettes. It was mentioned that it would be easier to work at the field level if the demarcation lines and distinctive features of each of the tiers are more defined so that they can be differentiated from each other easily. While in another interview the respondent suggested that the number of price tiers should be brought down from 4 to 2.

“If the local/national companies were allowed to do business only in the low tier, and the international/multinational companies in a different tier; then it would be easier to monitor them. I think this would improve the tax procedures” (KII_06_Former official),

he added. This would also help to prevent transfer pricing in the tobacco industry.

Apart from these, it was also advised that the capacity of the NBR employees, especially the ones directly responsible for imposing and collecting taxes should be enhanced. Moreover, the NBR is short-staffed compared to the workload they have. So, the problem of shortage in human resources needs to be resolved too.

5. Conclusion and Recommendations

According to the findings of the Global Adult Tobacco Survey (GATS) of 2017, 35.3% of people aged 15 years and above use some form of tobacco (cigarettes, bidis, zarda, gul, sada pata, etc.) in Bangladesh and almost 19.2 million of them specifically used smoking tobacco. This vast population that is consuming tobacco products is imposing a huge economic burden on the country. They are not only harming their own health but also affecting the health of their families and the people near them. At the same time, these products are harming the environment around us, and the cultivation of various tobacco leaves is severely damaging the soil and water bodies near the farming land. But in spite of all these well-known harmful effects, tobacco use is still going on in a substantial number in the country. Often times, it is not easy for the person dealing with addiction to quit smoking/using tobacco on their own. Hence, around the world many countries have adopted taxing measures to make tobacco products unaffordable to such a degree that encourages the public to stop consuming tobacco. This strategy has proved the most successful strategy in terms of tobacco control.

This vast population that is consuming tobacco products is imposing a huge economic burden on the country. They are not only harming their own health but also affecting the health of their families and the people near them.

The tobacco industry's illegal practices like using fake banderoles and tax stamps, adopting unethical pricing strategies and manipulating the market, etc. are also contributing to unwanted profit gain in the industry's part and a huge revenue loss in the government's part.

In the case of Bangladesh, though we have very high rates of taxes imposed on tobacco products, the prices of these products are still very low and quite affordable to the general public. The multi-tiered complex ad-valorem structure is mostly responsible for this. Additionally, the various gap in the tax administration such as, shortage of manpower, absence of supply chain monitoring, lack of market and price monitoring, not automating the production process, lack of digitization and automation in case of account keeping and many more factors reduce the intended effects of many tax measures. Apart from these, the tobacco industry's illegal practices like using fake banderoles and tax stamps, adopting unethical pricing strategies and manipulating the market, etc. are also contributing to unwanted profit gain in the industry's part and a huge revenue loss in the government's part.

As pledged by the Honorable Prime Minister at the South Asian Speakers' Summit convened by the National Parliament and the Inter-Parliamentary Union in January 2016, the government is committed to make the country tobacco-free by 2040. To that end, these drawbacks in the tax administration and the several issues in tax management have to be addressed immediately to protect public health as well as enhance the government's revenue stream.

Recommendations

In the light of the findings from this study, the following recommendations are made to eliminate the limitations of the current system and to improve the overall tax management of tobacco products in Bangladesh:

- i) The training needs should be identified and the capacity of the NBR employees should be developed, especially the ones directly responsible for imposing and collecting taxes should be enhanced.
- ii) Automation of procedures and digital tax stamps should be introduced for preventing manipulation by tobacco companies and for ensuring better monitoring.
- iii) Immediate measures should be taken to bring the unregulated bidi and smokeless tobacco products under the NBR's monitoring and the government's tax net.
- iv) Regular market monitoring mechanisms should be put into place to keep necessary check and balance on the industry's price manipulation activities.
- v) Number of price tiers of cigarettes and bidis should be brought down to better administer their tax management processes and to gradually shift to specific taxation system from the current ad-valorem system.
- vi) Further research should be conducted on this topic to better understand a) the issues creating difficulties in the tax administration and tax management of tobacco products, b) the consequences of shifting to the specific taxation system and c) how this shift could be implemented.

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