

Raising Tobacco Taxes in FY 2024-2025

A crucial step towards a tobacco-free Bangladesh by 2040

18% of people 15 years and older in Bangladesh smoke tobacco.

TOBACCO USE IN BANGLADESH IS DEADLY AND COSTLY

In 2018, tobacco use killed almost **126,000** people.

The total economic cost of tobacco use was BDT **305.6 bn** in 2017-18, while tobacco tax revenues from the Supplementary Duty and VAT were BDT **228.1 bn** in 2017-18.

Bangladesh is **among the largest** tobacco consuming countries in the world.

THE CURRENT TOBACCO TAX POLICY IN BANGLADESH IS NOT EFFECTIVELY REDUCING TOBACCO USE

- The tobacco tax system in Bangladesh is complex and not effective in discouraging tobacco use.
- Cigarettes remain cheap and affordable.
- Cigarette sales per adult have remained stable in recent years.
- Smoking prevalence has remained constant in recent years.

RAISING TAXES IS PROVEN STRATEGY TO REDUCE CONSUMPTION WHILE INCREASING GOVERNMENT REVENUE. ACTIONS NEEDED:

- Substantially **increasing the tax and price of cigarettes in the lowest tier.**
- Increasing the tax and price of bidis and smokeless tobacco products.



RECOMMENDATIONS FOR THE CIGARETTE TAX SYSTEM

Recommendation for 2024-2025: Increase the price of low-tier cigarettes significantly (Table 1).

Table 1: Maximum Retail Price (MRP), total taxes, excise tax in 2023-2024 and in 2024-2025 (proposed)

Cigarette tier	2023-2024			2024-2025 (Proposed)		
	MRP (BDT)	Total tax	Excise tax(%)	MRP (BDT)	Total tax	Excise tax(%)
Low	45	33.30	58%	60	47.40	63%
Medium	67	54.27	65%	80	64.80	65%
High	113	91.53	65%	130	105.30	65%
Premium	150	121.50	65%	170	137.70	65%

IF THE GOVERNMENT OF BANGLADESH REFORMS THE CURRENT CIGARETTE TAX SYSTEM FOLLOWING THE RECOMMENDATIONS IN FY 2024-2025, IT WOULD ACHIEVE THE FOLLOWING:

- Reduce the prevalence of cigarette smoking from **15.1%** to **13.80%**;
- Encourage **nearly 1.5 million adults to quit smoking and deter almost 1 million youth** from smoking initiation;
- Save the lives of more than 537,968 current adults and nearly 540,656 current youth** premature deaths due to tobacco use in the long term; and
- Generate nearly BDT 47 thousand crores in tax revenue adding more than BDT 10 thousand crores in **additional tax revenues, which is a 28% increase!**

RATIONALE FOR THE RECOMMENDATIONS:

Rising incomes and inflation have helped to make cigarettes more affordable

The prices of cigarettes in the low segment have not kept pace with significant income growth and rising inflation. The average monthly household income has increased by 103% from 2016 to 2022, with a 93% rise in per capita income while inflation has surged to around 9%, contributing to more affordable tobacco products.

The World Health Organization (WHO) reports a 15% drop in the share of income needed to buy 100 packs of cigarettes, suggesting a need for significant price increases in this segment.

Price increases in the lowest tier will not lead to a significant switch to bidis

Past trends show that price increases in the low and medium cigarette tiers did not lead to a significant switch to bidis. In the last five years, low-tier cigarette sales have continued to increase while bidis sales have dropped. This indicates that smokers are more likely to "switch up" to cigarettes rather than "trade down" to bidis.

Increasing taxes will not severely hurt the domestic tobacco industry

Increasing Special Duty (SD) rates in the low segment will not necessarily hurt the domestic tobacco industry. A policy that increases MRPs and SD rates in the low segment can maintain or increase gross revenue per pack and total gross revenue per firm. Thus, a combination of higher SD rates and maximum retail prices (MRPs) can generate higher revenue for both the government and tobacco companies.

In conclusion, raising tobacco taxes in Bangladesh is a cost effective way to achieve tobacco-related targets and contribute to a healthier, tobacco free future by 2040.

