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**LETTER**

# The need for taxation to reduce tobacco affordability in Pakistan

Dear Editor,

Tobacco use remains the single most important cause of preventable morbidity and mortality globally, with 80% of deaths forecast to occur in low- and middle-income countries (LMICs) by 2030.[1] In Pakistan, with the sixth largest population globally, 45% of households are reported to use tobacco.[2] Smoking is a major risk factor for non-communicable diseases (NCDs) such as cardiovascular disease and lung cancer, which account for approximately 58% of total deaths in the country.[3] The WHO has developed a Framework Convention on Tobacco Control (FCTC) to protect populations from the health, environmental and economic consequences of tobacco,[4] to be implemented by signatory nations at regional, national and sub-national levels. However, its implementation has remained weak in LMICs.[4] Health taxes, while important policy instruments to improve population health and generate revenues, have remained largely underutilised. Article 6 of FCTC defines a tax that requires a proportion of tobacco tax revenue to be allocated to health objectives, also referred to as 'earmarked tobacco taxes'.[4] However, taxing tobacco products is the least implemented strategy among the range of tobacco control measures, particularly in LMICs. According to the WHO, an average price increase of 10% is expected to reduce demand for tobacco products by about 4% in high-income countries and about 5% in LMICs.[1] The key affected populations, including youth and low-income households, are expected to be more responsive to price changes.[1] Global evidence has demonstrated the positive impact of imposing a health levy on tobacco products. In Latin America, the introduction of tax resulted in a decline in the consumption of tobacco and an increase in revenues.[5] In Asia, the Philippines, India, Thailand, Vietnam and Iran have already implemented a tax policy for sustainable health financing.[6]

In 2005, Pakistan became a signatory to WHO FCTC. A Tobacco Control Cell (TCC) housed at the Ministry of National Health Services, Regulation and Coordination (MoNHSRC) was established in 2007 to provide leadership on tobacco control policies. After the 18$^{th}$ Constitutional Amendment of 2010, the mandate for the enforcement of federal laws on tobacco control was transferred to the provincial health departments. The federal–provincial coordination on tobacco control is constrained by a lack of guidelines for coordination, inadequate resources and lack of Parliamentary approval. Domestically produced cigarettes in Pakistan are currently subject to two major taxes – the Federal Excise Duty (FED) and a General Sales Tax (GST) – and the FED accounts for almost 80% of revenue from the sector.[7] Historically, the structure of FED on cigarettes has been an intricate mix of a specific tax on low-priced brands, an 'ad valorem' tax based on the value of high-priced brands, and a combined specific and 'ad valorem' tax on mid-priced brands.[8] In 2013, the ad valorem tax was withdrawn, and a two-tiered structure of specific FED (based on a range of retail prices) was introduced, which has since gone through various changes. Until June 2017, the two-tier system continued with the annual upward revision of tax rates for both tiers. In July 2017, the federal government introduced a three-tier excise duty structure, with a new tier for the low-priced brands where the applicable tax rate was reduced by 48%. Consequently, a significant decline of 22% was observed in the overall price index of cigarettes in 2017–18.[8] In July 2019, the government reverted to the two-tier system with changes in tax rates for both low-priced and high-priced tiers. Although the tax rate on high-priced brands was increased, the applicable tax rate on low-priced brands was effectively reduced by 10%. The FED as a percentage of retail price was estimated to be 45.4% in 2020–2021, falling to 44.7% and 39.1% in 2021–2022 and 2022–2023, respectively.[9,10] According to the WHO's report The Global Tobacco Epidemic 2019, the retail price for the most widely sold cigarette brand in Pakistan is much lower than in neighbouring countries. In 2018, the retail price of a 20-cigarette pack of the best-selling brand was US$24.9 in Sri Lanka, US$8.66 in India and US$6.01 in Iran, as compared to US$2.06 in Pakistan. In addition, the proportion of current smokers who intend to quit in Pakistan is the lowest, at 22.3%.[11]

In Pakistan, the average tax rate on cigarettes is currently around 45% of the retail price against the widely accepted benchmark of 70%. Due to unchanged tax rates, cigarette prices have remained stagnant since 2019. In fact, the inflation-adjusted prices have declined, increasing the affordability of cigarettes (Table). According to estimates, approximately 4% of per capita income was required to purchase 2,000 cigarettes in 2020–2021, which decreased to 3.6% in

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**Table** Structure of Federal Excise Duty on cigarettes, Pakistan, 2013–2020 and its affordability*†

| Tier/price per 1,000 sticks | Federal excise duty rate |
|---|---|
| 2013–2014 | |
| Tier 1: ≤ PKR2,286 (US$22.4) | PKR880 (US$8.6) |
| Tier 2: > PKR2,286 (US$22.4) | PKR2,350 (US$23.0) |
| 2016–2017 | |
| Tier 1: ≤ PKR4,000 (US$38.1) | PKR1,536 (US$14.6) |
| Tier 2: > PKR4,000 (US$38.1) | PKR3,436 (US$32.7) |
| 2017–2018 | |
| Tier 1: ≤ PKR 2,950 (US$24.2) | PKR800 (US$6.6) |
| Tier 2: > PKR2,950 (US$24.2) ≤ PKR4,500 (US$36.9) | PKR1,670 (US$13.7) |
| Tier 3: > PKR4,500 (US$36.9) | PKR3,740 (US$30.7) |
| 2018–2019 | |
| Tier 1: ≤ PKR2,950 (US$24.2) | PKR848 (US$5.7) |
| Tier 2: > PKR2,950 (US$24.2) ≤ PKR4,500 (US$36.9) | PKR1,770 (US$11.8) |
| Tier 3: > PKR4,500 (US$36.9) | PKR3,964 (US$26.4) |
| 2019–2020 | |
| Tier 1: ≤ PKR5,960 (US$36.8) | PKR1,650 (US$10.2) |
| Tier 2: > PKR5,960 (US$36.8) | PKR5,200 (US$32.1) |

* Source: Federal Board of Revenue, Islamabad, Pakistan.
† US$ = PKR exchange rates varies for each period (2013–2014: US$1 = PKR102; 2016–2017: US$1 = PKR105; 2017–2018: US$1 = PKR122; 2018–2019: US$1 = PKR150; 2019–2020: US$1 = PKR162).
US$ = US dollar; PKR = Pakistani rupee.

2021–2022 and further decreased to 3.2% in 2022–2023 (Figure).[10] In addition, revenues from cigarette taxation have not been explicitly earmarked to the health budget. Pakistan's public health expenditure, including all tiers of government, is 1.2% of GDP.[12] It is believed that the imposition of a health levy will generate sustainable finances to address tobacco control and NCDs. This has become particularly important as the Government of Pakistan is largely focused on communicable diseases following the COVID-19 pandemic. One of the key factors that contributed to the success of comprehensive national smoking cessation services in the Republic of Korea – and a 28% decrease in the smoking rate – was the ability to fund these cessation services from the earmarked tobacco tax revenue.[11] To generate earmarked revenues for health, a proposal for a 'sin tax' was approved in principle following a presentation to the Prime Minister by the MoNHSR&C in September 2018.[13] "The Federal Health Levy Bill, 2019" was drafted by the MoNHSR&C on the directives of the Prime Minister, which aimed to impose a health levy tax of 10 Pakistani rupees (equivalent to US$0.07) per pack of 20 cigarettes.[13] According to the Bill, a health levy shall be imposed and paid on the manufacture, sale or transfer of cigarettes by the manufacturers, producers and importers. However, the Federal Health Levy has still not been implemented in Pakistan due to political and legal roadblocks, related to intergovernmental fiscal transfers.[13] According to the Federal Board of Revenue (FBR; Islamabad, Pakistan), health is a provincial matter and the Federation cannot levy a health tax on tobacco. Although the Ministry of Law has now permitted the FBR to impose and collect the health levy,[13] no bill has yet been presented in Parliament to take this forward.

We strongly advocate for increased taxation of tobacco, alongside more stringent application of existing legal frameworks. This is urgently required to control tobacco use and to reduce the growing burden of NCDs in Pakistan.

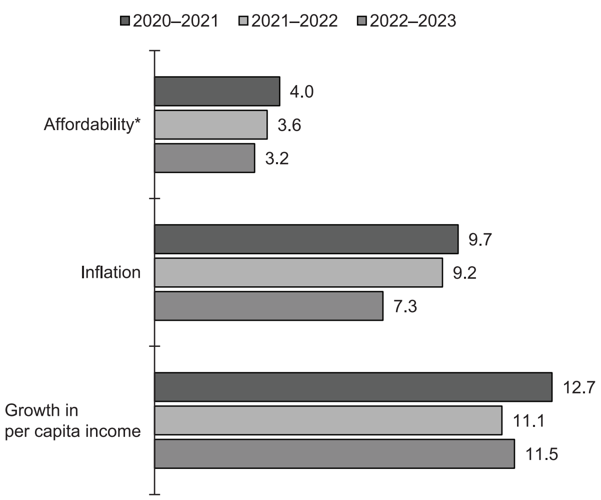


**Figure** Affordability of cigarettes, Pakistan, 2020–2023 (Source: Projections from IMF World Economic, Outlook October 2021).*
*Affordability: Relative income price ratio, defined as the percentage of per capita GDP required to purchase 2,000 sticks of cigarettes.

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