

### Advancing Public Health and Strengthening Fiscal Stability: *Cigarette Tax Proposal for 2026-27*

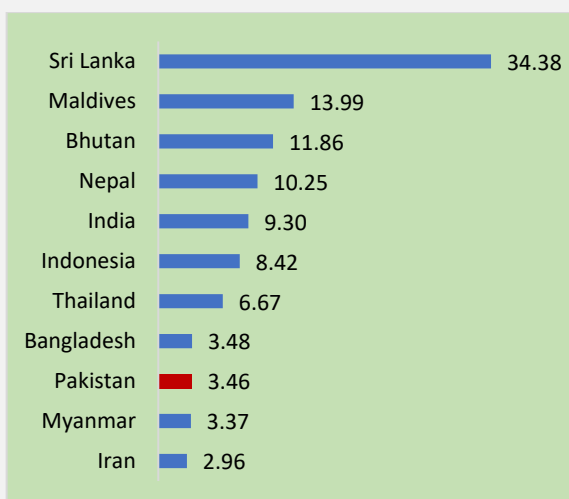
#### Severe health consequences and high economic costs

- In 2023, the death rate<sup>1</sup> attributed to smoking was estimated at 79.6 per 100,000 people, markedly exceeding the WHO Eastern Mediterranean region's average of 67.3 per 100,000.<sup>2</sup> This translates into over **192,000 smoking-attributable deaths annually**.
- The estimated health cost of smoking-related diseases was 1.6% of GDP in 2019<sup>3</sup>, which is currently equivalent to **Rs 1,835 billion**. This compares to tobacco tax revenue of only Rs 266 billion (0.26% of GDP) in 2024-25.

#### Low cigarette prices

- Cigarette prices in Pakistan are among the lowest in the regional countries. A pack of 20 cigarettes costs approximately 3.46 International Dollars (adjusted for purchasing power parity), as compared to average prices of Int\$ 6.32 and Int\$ 10.91 in the Eastern Mediterranean (EM) and South-East Asia (SEA), respectively.<sup>4</sup> In percentage terms, cigarettes are 83% and 215% more expensive in EM and SEA than in Pakistan.

**Figure 1: Prices of the most-sold brands (Int\$/pack)**



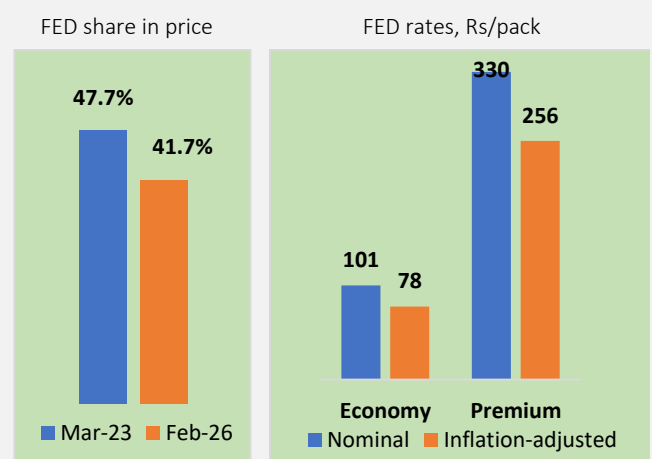
Source: WHO ([www.who.int/data/gho/data](http://www.who.int/data/gho/data))

- Due to the tax rate freeze, cigarette prices in Pakistan continue to remain among the lowest in the region.
- Raising per pack tax by **Rs 35 on economy brands and Rs 21 on premium brands would result in 271,000 fewer smokers, and a 16.6% increase in revenue.**

#### The tax rate freeze

- FED rates on cigarettes have not increased since February 2023.
- Real tax rates (inflation-adjusted) have declined. For instance, the real FED rate for economy brands has declined from Rs 101 to Rs 78 per pack (a 23% reduction).
- FED share in retail prices has declined substantially. The tax share of the most-sold brand has dropped from 47.7% to 41.7%.

**Figure 2: Tax rates and tax share in retail price**



Source: SPDC estimates based on the price data of the Pakistan Bureau of Statistics (<https://www.pbs.gov.pk/price-statistics>).

## Implications of the tax rate gap

- Currently, the applicable rate of FED is Rs 330 and Rs 101 per pack on premium and economy brands, respectively.
- The tax rate gap has increased over time. The current ratio of premium to economy rate is 3.27, compared to 3.15 in 2021-22.
- Cigarettes of all categories are equally harmful to health—equal harm demands an equal tax burden.
- Lower taxes on economy brands create an opportunity for consumers to switch to cheaper brands when prices increase. As a result of the price hike in February 2023, the share of economy brands rose from 80 percent in 2021-22 to 96 percent in 2023-24.<sup>5</sup>
- The tax rate gap also provides a safety net for producers to introduce more low-cost brands, leading to a massive loss of tax revenue and weakening the effect of a tax increase on reducing consumption. Average effective tax rate (FED and GST) per stick, which initially increased from Rs 4.2 per stick in 2022-23 to Rs 9.1 after tax increases, has declined to Rs 7.5 in 2024-25.
- Lower taxes on economy brands effectively "subsidize" addiction for the poor and youth—the groups most sensitive to price changes. Estimates from the SPDC survey<sup>5</sup> show that after the tax (and price) increase in February 2023, while overall 29.5% of smokers reduced their consumption, this ratio was 42.3% among young smokers (aged 15-20 years).

## Need for tax rate harmonization

- There is a need to gradually move toward a single-tier system over the next five years. A pragmatic approach would be to apply higher

FED increases to economy brands relative to premium brands to bridge the existing tax rate gap. This would not only improve the effectiveness of taxation but also deter young smokers who tend to use cheaper cigarettes.

- According to SPDC's tax simulation model<sup>6</sup>, by indexing the premium-tier rate to expected inflation (6.5%) and increasing the economy-tier rate by about 35% annually, unification of tax rates can be achieved by fiscal year 2030-31.

## THE PROPOSAL

- Based on the above considerations, particularly reducing the tax rate gap and including an inflation adjustment, it is proposed to **increase the FED rate on the economy and premium brands by Rs 35 and Rs 21 per pack, respectively.**

### Proposed tax rates for 2026-27

FED: Rs per 20-cigarette

Price tier	Current	Proposed	Increase	% increase
Economy	101	<b>136</b>	<b>35</b>	35.0
Premium	330	<b>351</b>	<b>21</b>	6.5

### The impact of the proposed increase

<b>271,000</b>	Adults induced to quit
<b>95,000</b>	Adult lives saved
<b>369,000</b>	Youth initiation averted
<b>185,000</b>	Youth lives saved
<b>279,000</b>	Total lives saved
<b>Rs 51 billion</b>	Additional revenue, including Rs 43.5 billion in FED and Rs 7.5 in GST—a total increase of 16.6%

<sup>1</sup> This is age-standardized death rate—a weighted average of age-specific mortality rates.

<sup>2</sup> <https://ourworldindata.org/grapher/death-rate-smoking>

<sup>3</sup> Nayab, Durre, Nasir. M., Alam. J. & Siddique. M. (2021). The economic cost of tobacco-induced diseases in Pakistan.

<sup>4</sup> <https://www.who.int/data/gho/data/indicators/indicator-details/GHO/tobacco-raise-taxes--inflation-adjusted-prices>

<sup>5</sup> SPDC Survey 2024

<sup>6</sup> Modeling the Revenue and Public Health Impact of Cigarette Excise Tax Harmonization in Pakistan (upcoming)