

Tax on Tobacco

A Virtue for the Public Health and the Economy

Policy Brief



Raise the tobacco tax to save lives and the economy

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Executive Summary

Tobacco kills its users. Tobacco has become a global epidemic killing over 8 million people each year. Unfortunately, as the burden of tobacco is shifting from high-income countries to low- and middle-income countries (LMICs), poor households will be disproportionately affected in terms of health and finances. In addition, evidence suggests that tobacco use is a catalyst for worsening poverty in LMICs. Tobacco use not only damages organs in the human body but also costs the economy and the environment.

In Nepal, 28.9% of adults (15-69 years of age) use tobacco, in any form, and this is equivalent to 3.8 million adults. Sadly, tobacco is responsible for 37,529 preventable deaths each year in Nepal, according to Global Burden of Disease, (GBD) 2019. In addition, 1.8% of GDP is lost annually due to tobacco-related diseases. Even after over 10 years of formulation and implementation of tobacco control laws and efforts, tobacco-related deaths are on the rising trend each year. Now, a question comes into place i.e. Is Nepal on right track in curbing the tobacco epidemic in Nepal?

Tobacco-related diseases and deaths are preventable and avoidable by adopting globally proven tobacco control measures. One of the highly recommended, most effective, and cost-effective methods of tobacco control is to increase the tax on tobacco. WHO recommends tobacco tax be 70% or more for a greater outcome. The higher taxes on tobacco support the efforts to reduce tobacco use, save the poor and youth, generate additional revenue for the government, and contribute to achieving the SDGs. Unfortunately, Nepal levies a tobacco tax that is significantly lower than the global standard. The tax on tobacco in Nepal is around 33%, which is higher than the tax on tobacco in Bhutan and Afghanistan; however, it is the lowest as compared to other South Asian countries.

Since the Tobacco Industry (TI) is well aware of the fact that increasing tobacco taxes is the single most effective tobacco control measure that could significantly reduce its revenue and profit, TI has left no stone unturned to influence policymakers and lobby the government against high tobacco taxes. In doing so, TI makes baseless and unsubstantiated arguments, such as higher taxes will promote the illicit trade of tobacco products, reduce the government's revenue, cut jobs, and increase the financial burden on the poor, to mislead the policymakers and the governments. However, these arguments are unfounded.

According to the data, in 2019, the government collected NPR 18.5 billion as tobacco tax, while economic losses due to tobacco use accounted for NPR 40 billion, thereby causing a net loss of NPR 21.5 billion (i.e. 116%) to the economy due to tobacco consumption. Thus, the cost of tobacco substantially outweighs the revenue generated from taxes on tobacco products in Nepal. Similarly, studies reveal a higher prevalence of tobacco among the poor than among their counterparts rich. Shockingly, the poor have been found to spend a greater percentage of their income on the consumption of tobacco products. In addition, while the government fears that tax increment on tobacco would increase the smuggling of cigarettes in Nepal, evidence reveals that actually Nepali cigarettes are being illegally sold in the Indian markets, and smuggled Nepalese cigarettes dominate Nepal-India border areas of Uttarakhand and other areas of India.

Based on the fact and evidence, it is strongly advised to increase the excise duty on tobacco by at least 300% and the existing health hazard tax of Rs. 0.6 per stick to Rs. 0.8 per stick to meet the global standard set by WHO. Finally, local government should be empowered to introduce and levy environmental tax on tobacco in order to further make tobacco products dearer at the local level.

The Burden of Tobacco: Global Perspective

WHO states that tobacco kills up to half of its users. Tobacco is responsible for over 8 million deaths every year and is the leading cause of preventable deaths globally. The world has become home to 1.3 billion tobacco users; Unfortunately, 80% of them reside in middle and low-income countries, such as Nepal¹. Tobacco use is one of the key risk factors for NCDs, such as lung cancer and heart disease. Tobacco use is responsible for one in every six NCD-related fatalities². The economic cost associated with tobacco is huge, including substantial healthcare costs for the treatment of tobacco-related illnesses and diseases. In addition, tobacco poses a great threat to the environment poisoning the planet. Globally, tobacco cultivation, production, and distribution generate an estimated 84 megatons of carbon dioxide each year, destroying 3.5 million hectares of land, increasing climate change, lowering climate resilience, wasting resources, and harming overall ecosystems³.

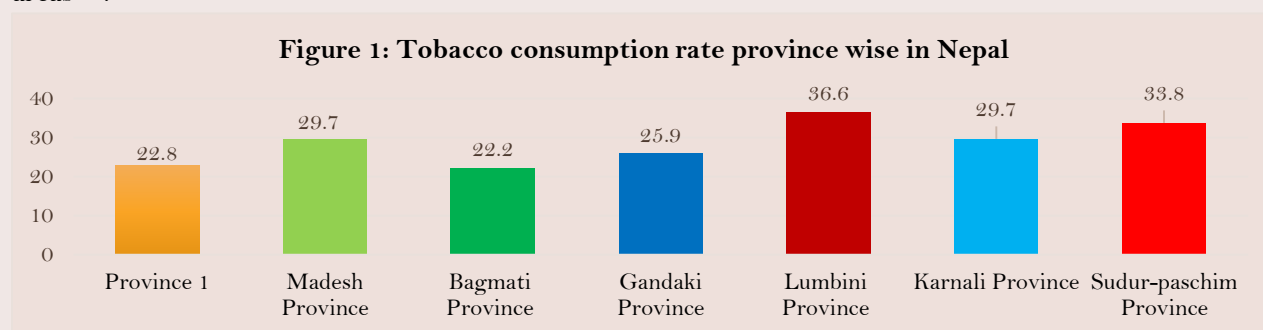
The Burden of Tobacco: Nepal

According to a WHO study conducted in 2018, tobacco kills around 27,137 Nepalese (accounting for 14.9 % of all deaths) each year⁴, whereas according to the Global Burden of Disease (GBD) 2019, tobacco takes the lives of 37,529 people in Nepal (accounting for 19.4% of all deaths)⁵. This means, as per a WHO study, tobacco consumption causes 74 deaths per day, while considering the GBD data of 2019, the number is significantly increased to 102 deaths each day in Nepal.

According to the Nepal STEPS survey, 2019, 28.9% of adults 15-69 years of age (48.3% of men, 11.6% of women) were current users of tobacco, in any form, and this is equal to 3.8 million adults. On average, a cigarette smoker smoked 151 cigarettes per month and spent an average of Rs.1049 Nepali rupees per month⁶. In addition, tobacco costs Nepal NPR 47 billion every year and a significant (90%) proportion of the costs are due to economic productivity losses. 1.8% of GDP is lost annually due to tobacco-related disease⁷.

Prevalence of Tobacco in Nepal: Across Provinces

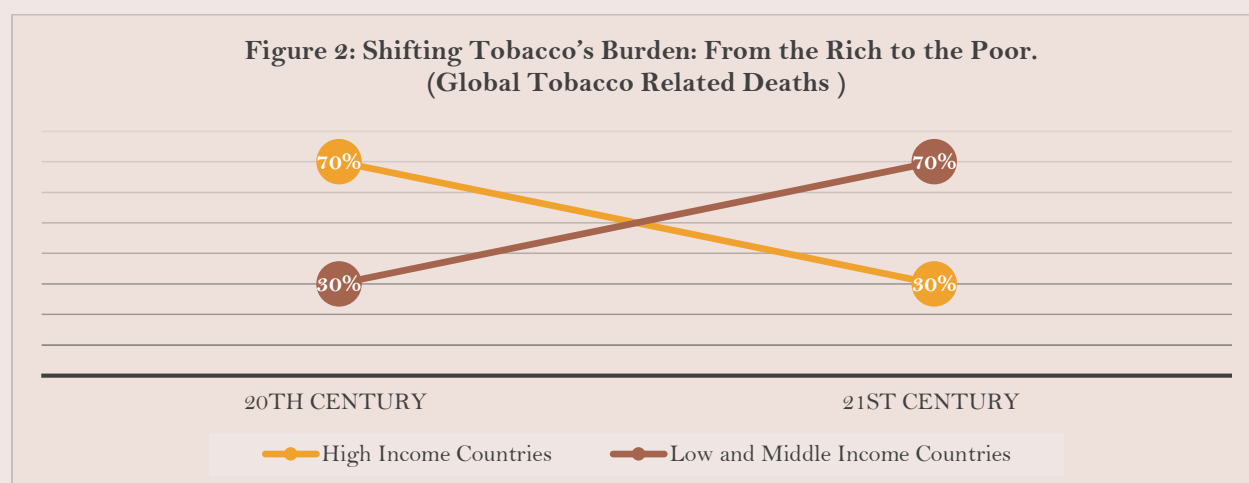
According to the Nepal STEPS survey 2019, the highest rate of prevalence of tobacco was found in Lumbini province (36.6%) followed by the Sudurpaschim Province (33.8%) and Madesh Province (29.7%)⁶. The important thing is that Karnali Province, Sudurpaschim province, and Madesh provinces have been categorized as provinces with a high rate of multidimensional poverty⁸. This pattern supports the evidence that tobacco use is higher among poor people, especially those living in rural and economically deprived areas^{9,10}.



Source: Nepal STEPS Survey 2019

Tobacco's Burden: A Dire Shift from the Rich to the Poor

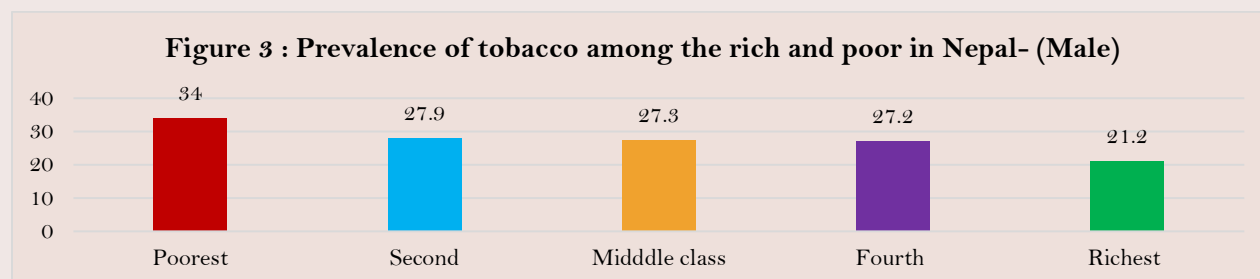
While the world itself is witnessing enormous health, economic, and environmental loss due to tobacco production and consumption, unfortunately, the tobacco burden is shifting from developed countries to developing and underdeveloped countries. As stated before, currently, about 80% of the world's smokers reside in low and middle-income countries (LMICs), and if this trend keeps on going then the burden of tobacco use in these countries would be substantially high in the future. While analyzing and comparing the global tobacco-related deaths in the 20th century and projected deaths in the 21st century, Sir Richard Peto -a researcher at the University of Oxford, found a staggering shift of tobacco burden from the rich to the poor. Peto further highlighted that more and more people are quitting tobacco use in developed nations, whereas people in developing and less developed countries are taking it up indicating that the large burden of tobacco-related disease and deaths falls on low and middle-income countries¹¹.



Source: R Peto (Oxford Uni.), P. Jha (Uni. of Toronto). WHO 20009

The Tobacco: Catalyst for Worsening the Poverty

People with lower incomes are more likely than those with higher incomes to consume cigarettes. In other words, the poorest spend a greater proportion of their income on cigarettes than the rich, resulting in increased health hazards, economic burden, and productivity loss. Furthermore, empirical studies suggest that tobacco use deteriorates poverty by raising hospitalization costs incurred for the treatment of tobacco-related diseases, while reducing one's capacity to purchase basic necessities, such as food, clothing, and education. This further contributes to the disproportionate burden of tobacco-related diseases and deaths among the poor sliding them into the vicious circle of poverty ^{11,12,13}.



Source: NDHS Report 2016

Tobacco Control: Globally Proven Measures

To curb the globalization of the tobacco epidemic, World Health Organization's Framework Convention on Tobacco Control, also known as WHO FCTC, came into force on 27 February 2005, and currently, there are 182 member countries, including Nepal, covering more than 90% world's population¹⁴. To assist parties to WHO FCTC to implement the treaty effectively at their country level and local setting, the World Health Organization (WHO) developed six evidence-based tobacco control measures known as MPOWER, which have been already proven as the most effective and high-impact strategies in reducing tobacco use. These measures correspond to the WHO FCTC articles and guidelines¹⁵. Most countries have implemented MPOWER measures as a strong tool to fight the tobacco epidemic¹⁶. In the context of Nepal, it has made progress in three of the six measures: protecting people from tobacco smoke, warning about the harms of tobacco, and enforcing bans on tobacco advertising, promotion, and sponsorship. However, additional measures, including monitoring tobacco use and preventative programs, offering aid to quit tobacco, and raising the tobacco tax have not been successfully implemented¹⁷.

Figure 4: MPOWER Measures and Nepal's Implementation Status

M = Monitor Tobacco Use and Prevention Policies

- Obtain nationally representative and population based data periodically on key indicators for tobacco use for youth and adults.
- Periodic surveys, such as GYTS, NDHS, STEPS Survey have been conducted in Nepal in support with WHO and other organizations

P = Protect People from Tobacco Smoke

- Make completely smoke less environment in all indoors of public places and work places, including restaurants and bars.
- There is complete ban on using tobacco in public places, workplaces, and public transportations.

O = Offer Help to Quit Tobacco

- Provide adequate treatment for tobacco dependence and promote cessation of tobacco use through national toll free quit line, and both nicotine replacement therapy and cessation services, which is fully or partially cost covered.
- In few districts, brief intervention (5 A's Approach: Ask, Advise, Assess, Assist, and Arrange) have been adopted to support users to quit.

W = Warn About the Danger of Tobacco Use

- Ensure and implement large pictorial health warning on all tobacco packaging that describe the harmful effects of tobacco use on health. Rotating message will maximize the impact.
- Provision of mandatory 90% PHW on all tobacco packaging has been a significant milestone in this regard.

E = Enforce Ban on Tobacco Advertising, Promotion, and Sponsorship (TAPS)

- Implement and enforce ban on all forms of tobacco advertising, promotion and sponsorship
- The law bans all sorts of tobacco advertising, promotion, and sponsorship in any form.

R = Raise Taxes on Tobacco Products

- Increase price of tobacco products through higher taxes at least 70% of the retail price to make tobacco products less affordable.
- Nepal levies lowest tax on tobacco as compared to the South Asian Countries around 32.5% of retail price of the most sold brand.

Top Five Reasons to Raise Taxes on Tobacco Products

"Sugar, rum, and tobacco, are commodities which are nowhere necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation."

Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

Article 6 of the WHO FCTC recognizes tax on tobacco as a high-impact and cost-effective strategy to bring down the demand for tobacco products. Raising taxes on tobacco products is one of the crucial and most effective MPOWER measures, yet it is the least used tobacco control measure globally. While comprehensive implementation of all tobacco control measures is equally important for great outcomes, tax on tobacco has been consistently proven as the single most effective as well as the most cost-effective tool for reducing tobacco consumption, particularly in low and middle-income countries (LMICs); consequently, bringing down the tobacco-related deaths and diseases, while raising opportunity to increase the government's revenue¹⁸. The top five reasons that justify the urgent need for high tobacco taxation are explained below;

Figure 5: Why higher tax on tobacco is needed?



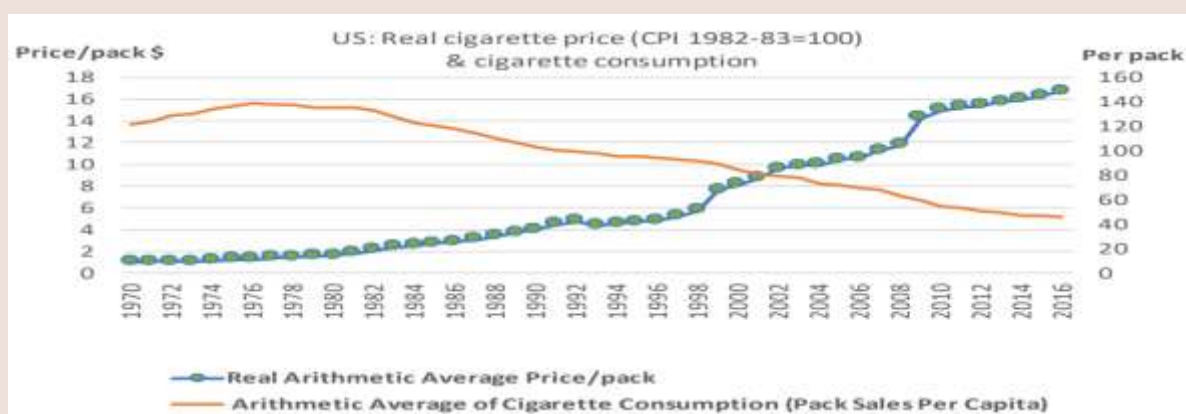
1. Higher tax lowers tobacco prevalence, diseases, and deaths

Tobacco tax is widely considered one of the highly effective measures to lower tobacco prevalence and its consequences. WHO estimates that on average, a tax increase that causes prices to increase by 10% reduces consumption by 4% in high-income countries and 5% in LMICs¹⁹. A significant increment in tobacco tax, as recommended by WHO, leads to an increase in the price of tobacco making it expensive and less affordable. Consequently, the increased price of tobacco encourages current tobacco users to quit, prevent potential tobacco users from initiating it and discourages post-smokers from starting it again²⁰. A large body of empirical evidence clearly demonstrates that higher taxes on tobacco work effectively to reduce tobacco consumption; thereby, lowering the overall tobacco burden.

- WHO estimates that if all countries increased taxes on cigarette packs by 50%, 49 million smokers would quit and at least 11 million tobacco-related deaths globally will be avoided within the first three years ²¹.
- Similarly, tripling tobacco excise taxes in most low- and middle-income countries is expected to increase the cigarette price by 100% and reduce tobacco consumption by about 40% ²².
- China has estimated that raising tobacco taxes to 75% of retail cigarette prices (up from 40% of the share of price in 2010) would avoid nearly 3.5 million deaths from cigarette smoking ²².
- In South Africa, total taxes on cigarettes rose from 32% to 52% of retail price between 1993 and 2009. This contributed to a halving of tobacco consumption from about four cigarettes per adult per day to two cigarettes per day over a decade ²².
- In Colombia, it is estimated that a 50% increase in the price of cigarettes would result in about a 31% decrease in consumption ²³.

To further justify the inverse relationship between change in Cigarette price due to tax increment and change in cigarette consumption, the following figure is presented considering the pattern from 1970-2016 in the United States²⁴.

Figure 6: Relationship between price and cigarette demand, 1970– 2016, United States



Sources: US Department of Labor, Bureau of Labor Statistics; Centers for Disease Control

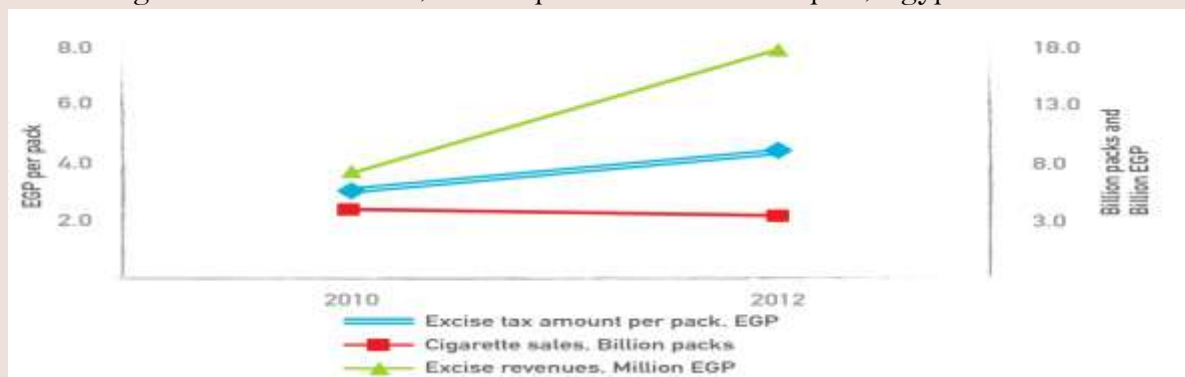
2. Raising tax on tobacco saves the youth and the poor

A higher tax on tobacco is substantially effective to reduce tobacco consumption among the youth and poor as both are price sensitive, as a result, they could divert their income to health, and education. A significant increment in tobacco tax, as recommended by WHO, leads to an increase in the price of tobacco making it expensive (less affordable). Consequently, the increased price of tobacco encourages current tobacco users to quit, prevent potential tobacco users from initiating it and discourages post-smokers from starting it again²⁰. Significant tax and price increases result in bigger decreases in tobacco consumption among the poor than among the rich. According to estimates from a study in Turkey, a 25% rise in cigarette taxes would reduce smoking among the poorest by more than 35% ²⁵. Furthermore, by making tobacco products less affordable, tobacco taxation can have an even greater impact on reversing the tobacco epidemic in LMICs, given their large proportion of young people. ²².

3. Higher tax on tobacco generates additional revenue for the government

Evidence suggests that the higher tax on tobacco products not only reduces tobacco consumption, but also generates a sustainable source of health financing for the government. Hence, raising tax on tobacco is a win-win for public health and government. The additional revenue could be used to promote public health and control the tobacco epidemic. For instance, in Egypt, the government hiked the tax on cigarettes significantly by 46% in 2010. In just two years, this reduced sales by 14% while the government's revenues plunged by 151% from 7 billion EGP to 17.6 EGP between 2010 and 2012²⁶.

Figure 7 : Tax increases, consumption and revenue impact, Egypt 2008-2012



4. Raising tax on tobacco helps achieve SDGs

Non-communicable diseases (NCDs) are the leading cause of death and burden of disease worldwide. At the same time, tobacco is one of the major risk factors for Non-Communicable Diseases (NCDs), such as cardiovascular diseases, chronic respiratory diseases, cancers, and diabetes. Unfortunately, one in six deaths by NCDs is related to tobacco. Therefore, it seems highly critical to adopt comprehensive tobacco control measures, particularly the most cost-effective tobacco control tool- “higher tobacco taxation” to reduce tobacco-related NCDs. Moreover, based on accumulated evidence and country experiences, a tripling of the global excise tax on tobacco may be imperative to meet the 2030 UN Sustainable Development Goal of a 30% reduction in non-communicable disease fatalities^{27, 28, 29}

5. Highly-impactful and cost-effective tobacco control measure

Implementing a high tobacco tax to reduce tobacco use is comparatively less expensive for the government when compared with the benefits it produces. For instance, a study conducted in 2000 that examined the impact of different tobacco control policies on smokers revealed that increasing tobacco prices by 33% cost 15 times less than other measures to obtain the same health benefit. Specifically, raising tobacco taxes costs as little as US\$ 0.005 per person per year³⁰

Tobacco Industry's Arguments Against Tax Increment: Not Backed Up by Evidence

Tobacco Industry (TI) has consistently opposed tobacco control efforts as such efforts would ultimately hurt its sales and profitability. Because TI itself knows the fact that a higher tax on tobacco products is

the most effective tool to reduce tobacco consumption, TI has left no stone unturned to dissuade the government from raising tax on its deadly products by presenting false, nonfactual, and misleading claims against raising the tobacco tax. The common false arguments that TI uses to undermine tobacco tax raise are as follows;

1. Higher tax will promote the illicit trade of tobacco products

It is one of the classical arguments of TI that the high price of tobacco products due to the raise in tax will eventually stimulate black marketing and illicit trade of tobacco products from other countries. This is not true. For instance, in Viet Nam, illicit cigarettes accounted for only about 13.72% of the country's total cigarette consumption in 2017, which is six percentage points lower than in 2012 (i.e. 20.7%), the year when the increase of tobacco tax had not been implemented. Therefore, rate of the illicit consumption declined significantly after the increase in the tax rate, which implies that raising tobacco taxes does not necessarily cause higher illicit consumption in the country³¹. Similarly, evidence from Georgia, Gambia, Mongolia, Colombia, and South Africa has suggested no relationship between the price of tobacco and smuggling. Even in the case of Nepal, very weak effects of price increases due to tax raises on the illicit trade of tobacco have been observed³². When we talk about illicit trade, other determinants of illicit trade, such as corruption, weak tax administration, poor enforcement, etc. should be monitored and controlled. There are so many countries with the higher illicit trade of tobacco products even with low taxes such as the United Kingdom, and the United States of America³³.

2. Higher tax on tobacco will reduce the government's revenue

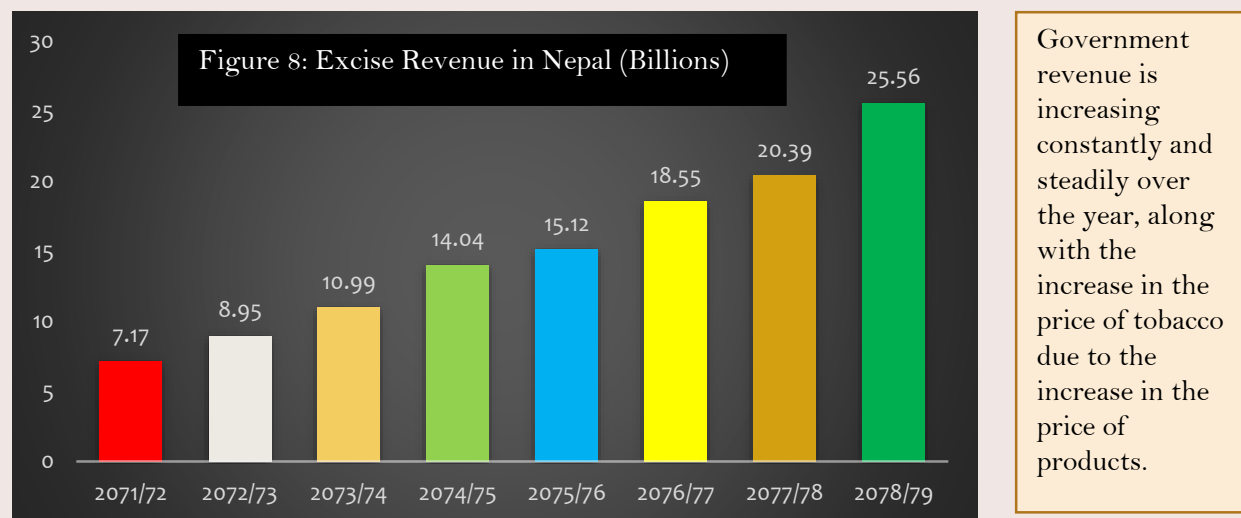
The tobacco industry claims that higher taxes will reduce tobacco sales and consequently this would lower the government's tax revenue. This claim is not evidence-based. Tax revenue actually increases because the reduction in sales is less than proportionate to the price increase. Following international experiences, indeed, suggests that an increase in tobacco taxes does increase government revenues.

Table 1: Increased tobacco tax revenue due to an increase in tobacco tax in different countries.

Country	Years	Price/ Tax Change	Change in tax revenue
South Africa	1991 - 2011	Increased from less than 2 Rand per pack to about 10 Rand per pack	Tobacco tax revenue from 3 billion Rand to almost 12 billion Rand
Philippines	2012 - 2013	Tobacco tax increased between 100% and 300%	Tax revenue increased more than two times from USD \$ 680 million in 2012 to USD \$ 1.6 billion in 2013.
Brazil	2006 - 2013	Excise tax for each package of cigarettes increased by 116%	Government revenue from tobacco taxation increased by 48% (from 3.5 billion raise in 3006 to 5.1 billion in 2013.).
Viet Nam	2015 - 2016	Increased tax from 65% to 70%	Tobacco tax revenue increased by about UND 1.25 trillion compared to 2015.

Source: <https://apps.who.int/iris/> / <https://apps.who.int/iris/handle/10665/272682>

Similarly, Nepal has also witnessed an increase in government revenue while increasing excise duty on tobacco products.



Source: <https://ird.gov.np/> (IRD's annual report)

3. Higher tax on tobacco will cut jobs

Another opaque argument that is commonly made by Tobacco Industry in opposition to higher taxes is that the tobacco tax raise will reduce economic activities and thereby cause a large number of job losses. The truth is that very few tobacco-related jobs (particularly, tobacco farming and manufacturing of tobacco products) are actually dependent on tobacco and that the economic contribution from tobacco-dependent businesses in the overall economy is very modest and decreasing in the majority of countries. Moreover, since the price elasticity of tobacco products is inelastic, the percentage decrease in consumption would be less than the percentage increase in the price of tobacco due to the tax raise as result business activities would not be reduced as estimated by the tobacco industry³⁴. A higher tax on tobacco would reduce tobacco consumption and this would lead to merely reductions in employment in tobacco-dependent sectors of the economy. However, these losses are compensated and offset by increased economic activities and employment in other sectors as tobacco users would tend to spend their income on other goods and services that they once used to spend on tobacco. On the other hand, government expenditure would also increase because of additional revenue generated through levying a high tax on tobacco products³⁵.

4. Raising the tax on tobacco will increase the financial burden on the poor

The tobacco industry frequently presents the argument that the higher tax on tobacco will affect the poor the most and claims that high taxes on tobacco are regressive (i.e. a disproportionate amount of the burden of the cigarette tax falls on individuals with lower income). But, the truth is that tobacco use pushes the poor into the vicious circle of poverty³⁶.

The tobacco tax increases are not necessarily regressive. Since people with lower incomes are more price-conscious and sensitive to price increases, they tend to either quit tobacco or reduce the frequency of tobacco consumption. Consequently, a higher tobacco tax would reduce the burden of tobacco on the poor. Indeed, this will reduce their healthcare cost for the treatment of tobacco-related diseases and improve

their productivity, which could help to improve the financial condition of the poor. Therefore, a high tax on tobacco is truly a pro-poor policy ³⁶.

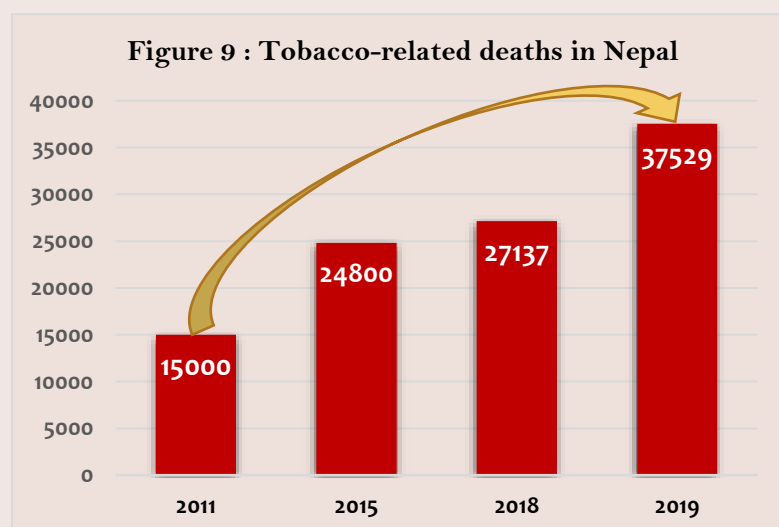
Tobacco Control Efforts in Nepal: Are We on the Right Track?

Nepal signed the WHO FCTC on 3rd December 2003 and became a Party to the WHO FCTC on 5th February 2007. In line with WHO FCTC, the government of Nepal has enacted the following major laws aiming at advancing tobacco control in Nepal;

- Tobacco Products (Control and regulatory) Act, 2011.
- Tobacco Products (Control and regulatory) Regulations, 2011.
- Directives for Printing and Labeling of Warning Messages and Graphics in the Boxes, Packets, Wrappers, Carton, Parcels, and packaging of Tobacco Products - 2068 [2011].
- Tobacco Product (Control and Regulatory) Directives, 2014.
- Government of Nepal, Ministry of Health and Population's public notice on Rules for Sale and Distribution of Tobacco Products, 2017.

Nepal has made significant progress in the development of tobacco control laws and policies, including mandatory 90 percent pictorial health warnings (PHW) on tobacco products, a sales ban to minors and pregnant women, a prohibition on selling loose cigarettes, a total prohibition on tobacco advertisements, promotion, and sponsorship (TAPS) in any form, and prohibitions on the sale of tobacco in public places, workplaces, and public transportation. The laws also prohibit the sale of tobacco products by unlicensed vendors. In addition, the law also makes provisions for punishment and penalties to be imposed if the law is undermined in any way

Despite having strong tobacco control laws and policies, Nepal is, still, experiencing high tobacco prevalence among adults, accompanied by an increasing number of tobacco-related diseases and deaths. Studies have unequivocally demonstrated that Nepal's failure to make significant progress in tobacco control is mostly due to the weak and inadequate enforcement and implementation of tobacco control policies. Tobacco-related mortality and deaths are soaring over the years. Studies revealed that tobacco was responsible for 15,000 premature and preventable deaths in 2011, whereas, in 2019, the number of deaths plunged to 37,529 each year (accounting for 19.4% of all deaths) in Nepal ^{37, 38, 39}.



The increasing rate of deaths due to tobacco-related diseases is alarming in Nepal. Even after over 10 years of formulation and implementation of tobacco control laws and efforts, tobacco-related diseases and deaths have not been curbed; instead, it is on the rising trend. Now, a question comes into place i.e. Is Nepal on right track in curbing the tobacco epidemic in Nepal?

How Tobacco is taxed in Nepal?

In Nepal, cigarettes and other tobacco products are subject to non-uniform, differential specific excise duty. In case of Cigarettes, differential specific excise is imposed on per 1000 sticks (Per M) of cigarettes based on the type (filtered and unfiltered) and length (Up to 70 mm, over 70 – up to 75 MM, over 75 – up to 85 MM, over 85 MM) of cigarettes, whereas other tobacco products are taxed on Per Kg. basis. All kinds of cigar are taxed on the basis of per stick.

Table 2: Excise Duty on Cigarettes

Code	Tobacco Products	Unit	016/17	017/18	018/19	019/20	020/21	021/22	Bill for replacing financial ordinance 2021	022/23
2402.20.21	Cigarettes (Up to 70 mm with filter)	Per M	795	859	1030	1135	1135	1418	1418	1635
2402.20.10	Cigarettes (70 mm without filter)	Per M	374	374	450	495	495	618	618	710
2402.20.22	Cigarettes (over 70 – up to 75 MM) with filter	Per M	1024	1116	1340	1475	1475	1843	1843	2225
2402.20.23	Cigarettes (over 75 – up to 85 MM) with Filter	Per M	1336	1456	1747	1920	1920	2400	2400	2880
2402.20.24	Cigarettes (over 85 MM) with filter	Per M	1868	2055	2466	2715	2715	3393	3393	3965

Source: Ministry of Finance/ Arthik Ain-Bidhayak

Cigarettes with filters are subject to higher specific excise tax than cigarettes without filters. Similarly, cigarettes (with filters) that are longer in length are liable to a higher amount of excise duty as compared to cigarettes (with filters) with shorter lengths. Apart from specific excise tax, Cigarettes/Bidis in Nepal are subject to Value Added Tax (VAT) and Health Hazard Tax of Rs. 0.6 per stick. Therefore, total tax on tobacco is composed of three components i.e. specific excise duty, value added tax, and health hazard tax.

$$\text{TTT} = \text{SET} + \text{VAT} + \text{HHT}$$

Where,

TTT = Total Tax on Tobacco Product;

SET = Share of Specific Excise Tax on total tax; VAT = Share of value added tax on total tax

HHT = Share of Health Hazard Tax on total tax

Sluggish Tobacco Taxes Growth Continues Over the Years

The specific excise duty has increased by only a 5-point percentage, from 13% in 2013 to 18% in 2022. Similarly, value-added tax has remained stagnant for the last 14 years, at 11.5%. However, a health hazards tax of 2% was introduced in 2018, which has increased to 3.75% in 2022; again, this is not a significant increment. The taxes on tobacco as a percentage of the retail price of the most sold brand from 2008 to 2022 are presented below;

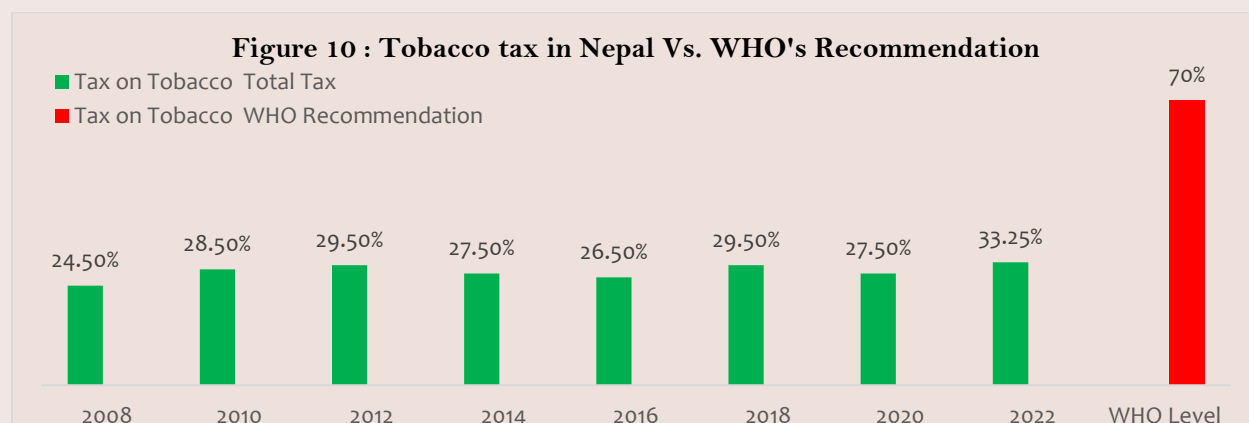
Table 3: Tax on Tobacco as a percentage of the retail price of the most sold brand

Year	Share of specific excise duty (%)	Health Hazard Tax (%)	VAT (%)	Total Tax (%)
2008	13%	0%	11.50%	24.5%
2010	17%	0%	11.50%	28.5%
2012	18%	0%	11.50%	29.5%
2014	16%	0%	11.50%	27.5%
2016	15%	0%	11.50%	26.5%
2018	16%	2.00%	11.50%	29.5%
2020	14%	2.00%	11.50%	27.5%
2022	18%	3.75%	11.50%	33.25%

Source: [Global health observatory data repository](#) and author's calculation

Tobacco Tax in Nepal: Dramatically Lower than WHO's Recommendation

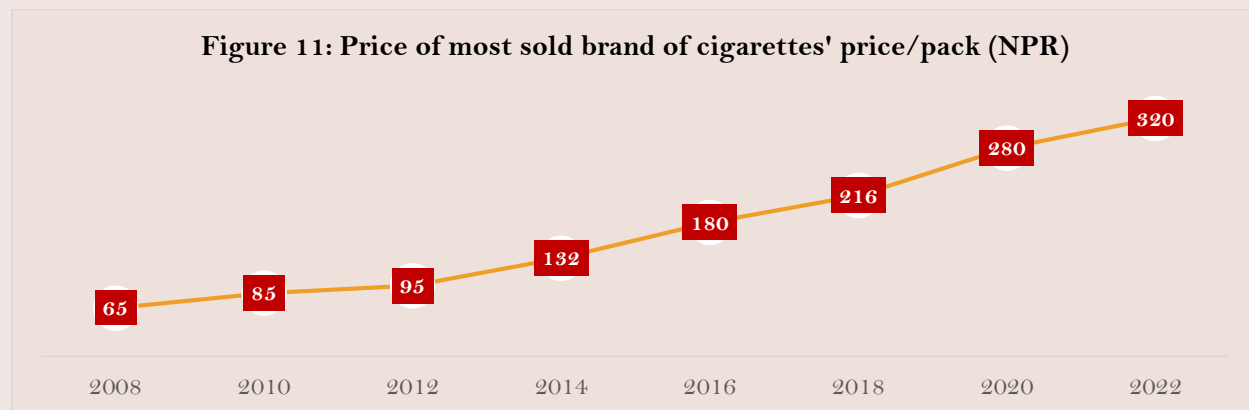
The tax rate on tobacco has remained significantly lower in Nepal, below half of the WHO's recommendation, with some fluctuation over the years. In 2008, the tax rate was 24.5%, which has increased to 33.25% in 2022, i.e., only an 9-point percentage increment in the last 14 years. This growth rate is disappointing, and it is even far below the target set by the National Tobacco Control Strategic Plan (2013–2016) of Nepal. The strategic plan had set the target that the tax on tobacco products would increase to 45 percent in 2013 and 66 percent by 2016; however, unfortunately, Nepal has failed to achieve the target, and the tax rate in Nepal is hanging between 30 and 35 percent.



Source: [Global health observatory data repository](#) and author's calculation

The Price of Cigarettes Has Increased with the Increase in Tobacco Tax

Even though the tax on tobacco is growing in sluggish rate over the year and remains low as compared to South Asian countries, the price of cigarettes is increasing in decent rate. In 2008, the price of most sold brand of cigarette was Rs 65 per pack, which has increased to Rs 320 per pack in 2022 i.e. 392% growth. It seems that the price of cigarettes has increased significantly, making it relatively dearer and less affordable over the year, but when compared with income and gross domestic product per capita, tobacco has become more affordable. It is because the growth of income and gross per capita income has increased more than the increase in the price of tobacco.⁴²

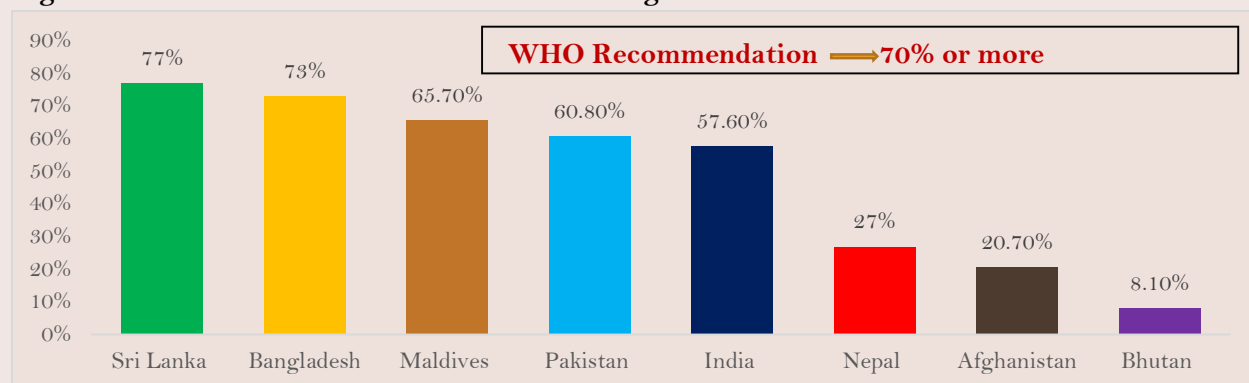


Source: [Global health observatory data repository](#)

Low Tax on Tobacco: A Major Hindrance to Tobacco Control Efforts in Nepal

One of the many reasons for persistently high tobacco prevalence and tobacco-related deaths in Nepal is the low tax rate on tobacco products. According to the WHO's report 2021, Nepal levies a tax on tobacco at 27%, which is the lowest among South Asian countries after Bhutan (8.1%) and Afghanistan (20.7%). However, considering recent tax increments and price effects in 2021, and 2022, the tax on tobacco in Nepal is around 33.25% of the retail price of the most sold brand (author's calculation). This rate is still significantly lower than the global standard of 70% or more, which is recommended by the WHO⁴⁰.

Figure 12: Tax Rates on Tobacco Products among South Asian Countries



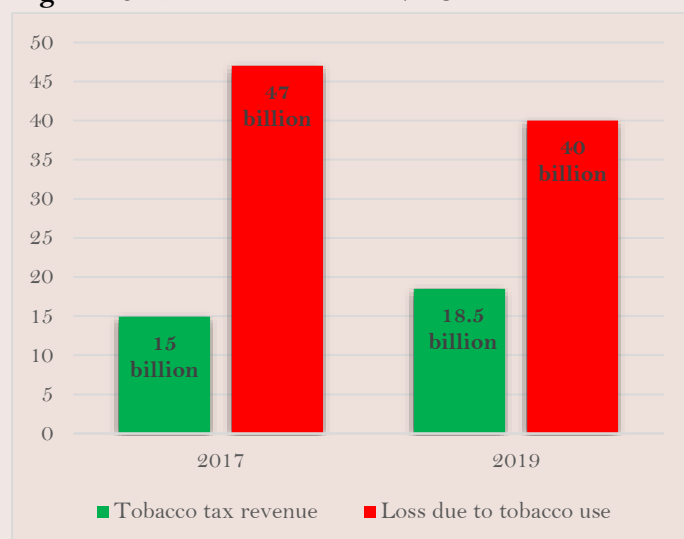
Source: [WHO report on the global tobacco epidemic, 2021](#)

Though the National Tobacco Control Strategic Plan (2013–2016) of Nepal set the target that the tax on tobacco products would increase to 45 percent in 2013 and 66 percent by 2016, Nepal has fallen well short of the target, and the tax rate is still hovering around 27 percent⁴¹. Hence, there is an opportunity for the government to accelerate the tobacco control efforts in Nepal by increasing the tax on tobacco significantly to the level suggested by WHO. This could have two-fold benefits. First, a higher tax on tobacco would reduce its consumption, particularly among the young and the poor, and second, a higher tax would generate a sustainable source of health financing for the government itself. Hence, raising the tax on tobacco means a win-win for public health and the government.

The Cost of Tobacco Substantially Outweighs the Revenue Generated

While Nepal collected NPR 15 billion in 2017 from taxing tobacco products, it lost NPR 47 billion from tobacco use, and a significant proportion (90%) of the loss is comprised of loss from economic productivity. Hence, the net loss due to tobacco use is 32 billion i.e. over two times the revenue generated in the year 2017. Similarly, in 2019, the government collected NPR 18.5 billion as tobacco tax, while economic losses due to tobacco use accounted for NPR 40 billion, thereby causing a net loss of NPR 21.5 billion (i.e. 116%) to the economy due to tobacco consumption.

Figure 13 : Tobacco Revenue Vs Cost/Economic loss



In Nepal, Surya Nepal Pvt. Ltd., the major tobacco company in the country, is one of the highest taxpayers in the private sector. It frequently lobbies to prove its economic significance in the overall economy by stating as itself as highest taxpayer and employment creators. The reality is that the economic burden or loss on individuals who smoke, on society, and on the economy is substantially high when compared with the revenue generated through the excise duty levied on tobacco products.

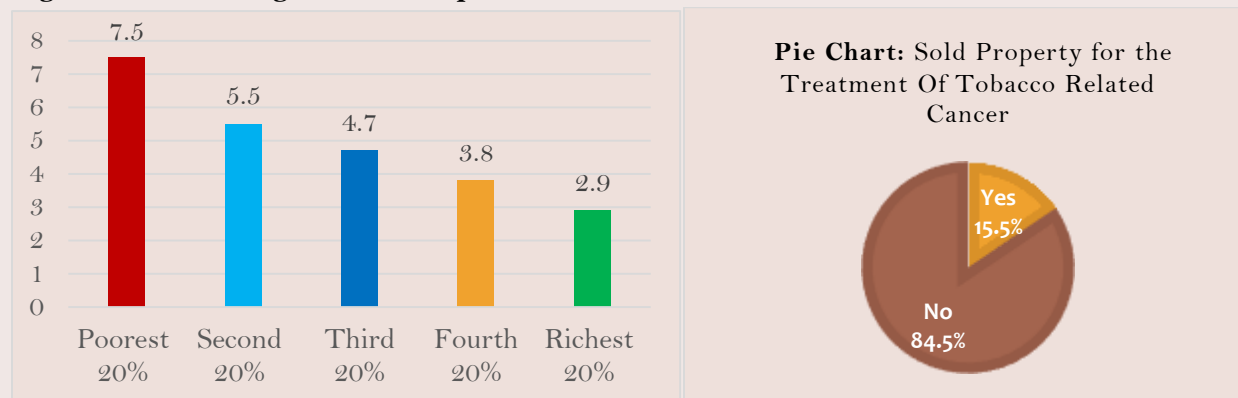
Source: IRD Annual Reports and WHO

It is noteworthy to acknowledge that the anguish of tobacco-related illnesses, such as cancer and CVD or the agony caused by the loss of loved ones due to tobacco consumption cannot be quantified. It is beyond monetary value. Hence, the argument that TI makes about its significance in the economy is nothing but the greatest deception. Moreover, lives and health of people are far more important than the revenue and profit of the tobacco companies. This reinforces the necessity for higher tobacco product taxes to reduce the financial burden of tobacco usage while also increasing the revenue for the government.

Poor People Spend More on Tobacco Products Than Rich People in Nepal

Like in many low- and middle-income countries, in Nepal, poor people have been found to spend a greater percentage of their income on tobacco products than rich people⁴². The cost of tobacco products is a major factor in why impoverished people spend money on tobacco.

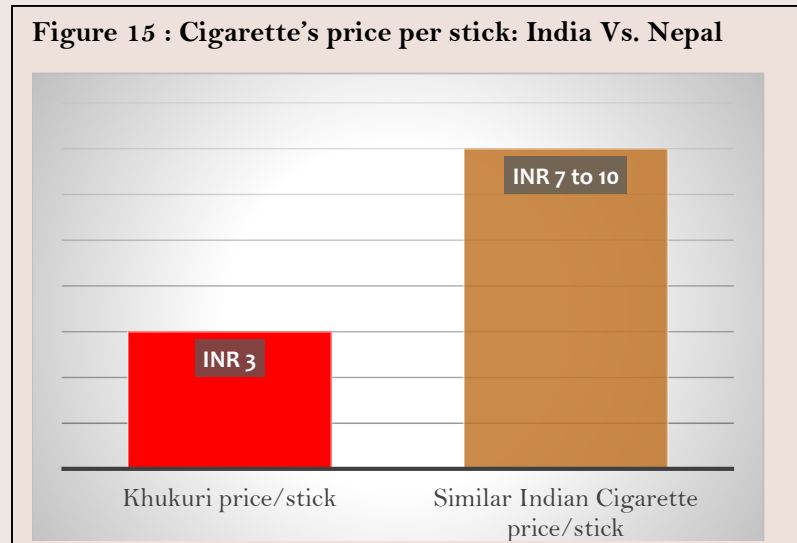
Figure 14: Percentage of income spent on tobacco



Tobacco prevalence among the poor is high as compared to the rich. Similarly, the poor spend more of their disposable income on tobacco than their counterparts who are rich. Poor people spending more on tobacco means they have less money to invest in education, nutrition, healthcare, etc. Moreover, when they suffer from tobacco-related illnesses, such as cancer and CVD, their healthcare costs increase, whereas their productivity decreases. A study reveals that 15% of tobacco-related cancer patients manage treatment costs by selling their properties⁴³. Tobacco use pushes people into the vicious circle of poverty making the poor further poorer. Therefore, raising the tax on tobacco is critical to saving the poor.

A High Price of Tobacco Will Precipitate Illicit Trade from India to Nepal: Unsubstantiated Claim

TI in Nepal frequently lobbies the government to oppose tobacco tax increases, claiming that raising tobacco prices will proliferate illicit trade into Nepal from India. But, this claim has no empirical base. In contrast, evidence demonstrates that cigarettes in India are less affordable than in Nepal, i.e., Indian cigarettes are over two times the price of similar cigarettes in Nepal. The price of one stick of Khukuri Cigarette is about INR 3, while an Indian cigarette with similar taste and quality costs between INR 7 to 10 inclusive. While government fears that tax increments on tobacco would increase the smuggling of cigarettes in Nepal, evidence reveals



that actually Nepali cigarettes are being illegally sold in the Indian markets, and smuggled Nepalese

cigarettes dominate border areas of Uttarakhand, India ⁴⁴. Since Nepali cigarettes are significantly cheaper as compared to Indian cigarettes, there is enough room to increase the tax on cigarettes in Nepal. As the price of tobacco products is not the only primary driver of smuggling, it is critical to identify and address additional factors such as corruption, weak tax administration, and enforcement, etc.

Problems/Limitations of Existing Taxation Method

Following are the two major widely discussed problems, but yet to be addressed, that are associated with the existing taxation method in Nepal.

Low Tax Base.




Despite the periodic increment in excise duty on tobacco, the total tax on tobacco still remains far below the global standard. It is because the excise duty on tobacco started with a low base. Since the tax base is lower, even a considerable increase in cigarette taxes would not have an equivalent effect on the price of tobacco.

Opportunity for tobacco companies to reposition at lower tax tier.

Another problem is the application of un-uniform excise duty. For instance, cigarettes with filters are subject to higher specific excise tax than cigarettes without filters. Similarly, cigarettes (with filters) that are longer in length are liable to a higher amount of excise duty as compared to cigarettes (with filters) with shorter lengths. The differential taxation method creates an opportunity for tobacco companies to move to the lower tax tier, reducing the overall impact of a price increase on tobacco consumption.

Policy Recommendation

As the government is on the verge of preparing a budget for the forthcoming fiscal year 2023/2024, the following recommendations are proposed to curb the tobacco epidemic through tax increases.

-  Raise the tax on tobacco tremendously high to reach the level recommended by WHO i.e. at least 70%. When excise duty increased by 50% on the price of the most-sold brand of cigarette during the year from 2020 to 2022, the total tax increased from 27.5 % in 2020 to 33.25% as a percentage of the price of the most-sold brand in 2022. Therefore, to meet the global standard of at least 70%, it is suggested that excise tax must be increased by 300%, whereas health hazard tax should be from Rs 0.6 per stick to Rs 0.8 per stick. This should be implemented in the upcoming budget for 2023/24 to mitigate the burden of the tobacco epidemic.
-  Since uniform-specific excise duty will have a strong effect on raising the price of cigarettes and making them less affordable, the un-uniform tax method should be replaced by uniform-specific excise. In addition, a single specific tax is easy to administer and monitor.
-  Local governments should also be empowered to collect environmental taxes separately on tobacco to further make tobacco products more expensive and less affordable. Additionally, by doing this, the local government will have a sustainable source of revenue that it may use to promote health or protect the environment at the local level.

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LIST OF ABBREVIATIONS

CVD	=	Cardiovascular diseases
FCTC	=	Framework Convention on Tobacco Control
GBD	=	Global Burden of Diseases
GYTS	=	Global Youth Tobacco Survey
HHT	=	Health Hazard Tax
INR	=	Indian Rupees
IRD	=	Inland Revenue Department
LMICs	=	Low and Middle Income Countries
NCDs	=	Non-communicable diseases
NDHS	=	Nepal Demographic Health Survey
NPR	=	Nepalese Rupees
PHW	=	Pictorial Health Warning
SDG	=	Sustainable Development Goal
SET	=	Specific Excise Tax
TAPS	=	Tobacco Advertisement, Promotion and Sponsorship
TI	=	Tobacco Industry
TTT	=	Total Tax on Tobacco Product;
VAT	=	Value Added Tax
WHO	=	World Health Organization



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