Tobacco Taxation in Bangladesh: Administrative and Political Constraints

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15th World Conference on Tobacco or Health 2012
Singapore, March 23, 2012
Outline of Presentation

• Prevalence of Tobacco Use in Bangladesh
• Tobacco Tax Structure in Bangladesh
• Administrative Issues in Tobacco Taxation
• Political Dimensions of Tobacco Taxation
• NBR - WHO Collaboration on Tobacco Taxation
• Concluding Remarks
1. Prevalence of Tobacco Use in Bangladesh

Table 1: Prevalence of Tobacco Use

<table>
<thead>
<tr>
<th>Overall tobacco use among adults</th>
<th>43.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco use among males</td>
<td>58%</td>
</tr>
<tr>
<td>Tobacco use among females</td>
<td>28.7%</td>
</tr>
<tr>
<td>Overall smoking prevalence</td>
<td>23%</td>
</tr>
<tr>
<td>Smoking prevalence among males</td>
<td>44.7%</td>
</tr>
<tr>
<td>Smoking prevalence among females</td>
<td>1.5%</td>
</tr>
<tr>
<td>Overall smokeless tobacco use</td>
<td>27.2%</td>
</tr>
<tr>
<td>Smokeless tobacco use among males</td>
<td>26.4%</td>
</tr>
<tr>
<td>Smokeless tobacco use among females</td>
<td>27.9%</td>
</tr>
</tbody>
</table>

Source: GATS Bangladesh Report 2009
2. Tobacco Tax Structure in Bangladesh

• Historically, price bands were created to recognize different quality and price bands of cigarettes that range from low to high end.

• When VAT was first introduced on cigarettes in FY 1992-93, there were four price bands.

• However, in FY 1994-1995 and FY 1995-96, this number was increased to 5 under pressure of the cigarette industry. Increasing the number of price bands led to massive switching to lower bands when tax rates were increased.

• To prevent this, the number of bands was reduced to 4 in FY 1996-97. This continued up to the middle of FY 1998-99.
In January 1999, the number of price bands was increased to 6 as a result of collective bargaining of the cigarette industry. This continued up to June 2000.

Again the number of price bands was reduced to 4 in FY 2000-01 through FY 2001-02.

In FY 2002-02, the government took the initiative to reduce the number of price slabs to 3 to augment revenue. This continued through FY 2003-04.

Finally, the number of bands was raised to 4 in FY 2004-05 and since then the number of price bands remained at 4.
Lop-sided tobacco taxation policy

Although cigarettes have been slapped with across-the-board tax hike, bidi, the indigenous smoking stick, is left out of the new tax burden. Although price slabs increase substantially, SD increased marginally during FY 2011-12 over FY 2010-11 (Table 2).

Table 2: Cigarette price slabs and tax structure

<table>
<thead>
<tr>
<th>Category of Cigarettes</th>
<th>FY 2010-2011</th>
<th>FY 2011-2012</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price per pack of 10 (In Taka)</td>
<td>SD (%)</td>
<td>Price per pack of 10 (In Taka)</td>
</tr>
<tr>
<td>Low</td>
<td>8.40 – 9.15</td>
<td>33</td>
<td>11.00 – 11.30</td>
</tr>
<tr>
<td>Medium</td>
<td>18.40 – 19.00</td>
<td>53</td>
<td>22.50 – 23.00</td>
</tr>
<tr>
<td>High</td>
<td>27.00 – 32.00</td>
<td>56</td>
<td>32.00 – 36.00</td>
</tr>
<tr>
<td>Premium</td>
<td>52 and above</td>
<td>58</td>
<td>60 and above</td>
</tr>
</tbody>
</table>

NB: In all cases, Value Added Tax (VAT) is imposed at the rate of 15%. The provision of deferred payment (tax payment after 14 days) for cigarette manufacturers was repealed.
Bidi price slabs and tax structure

Although bidi is sold at an average retail price of Taka 6.00 per pack of 25, the retail price is not the tax base. Rather SD and VAT are applied to a tariff value of 3.1579 Taka and 3.43 Taka per pack of 25 non-filtered and filtered bidi respectively. Therefore, this tariff value driven tax base reduces effective rate of SD and VAT to 10.5% and 9% respectively (Table 3).

Table 3: Bidi price slabs and tax structure

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2010-2011</th>
<th>FY 2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-filtered</td>
<td>Filtered</td>
</tr>
<tr>
<td></td>
<td>Tariff value (in Taka)</td>
<td>SD (%)</td>
</tr>
<tr>
<td>25 sticks per pack</td>
<td>3.1579</td>
<td>20</td>
</tr>
<tr>
<td>20 sticks per pack</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12 sticks per pack</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10 sticks per pack</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8 sticks per pack</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Compared to FY 2010-11, there is no change in tariff value and SD in FY 2011-12.
3. Administrative Issues in Tobacco Taxation

- Tobacco taxation in Bangladesh is governed by Value Added Tax Act, 1991
- Out of the three wings of the NBR namely, income tax, VAT and customs wings, VAT Wing is responsible for enforcing the law. The organizational structure of the NBR is shown in Figure 1

**Figure 1 : Organizational Structure of the NBR**

- National Board of Revenue
  - Income Tax Wing
  - VAT Wing
  - Customs Wing
    - VAT Commissionerates
      - VAT Divisions
        - VAT Circles
3. Administrative Issues .. contd.

• The enforcement of tobacco tax is done by a VAT Commissionerate (headed by a Commissioner) and its field offices namely, Divisions and Circles.

• Several problems persist in the NBR’s tax administration. These are:
  • Most of the NBR’s tax processes are manual and there is little in the nature of taxpayer education and taxpayer services.
  • The NBR faces the acute shortage of trained tax officials as well as physical infrastructure.
  • It also faces problems in its functioning due to lack of distribution of tax work by function and size.
  • There is little research-policy linkage.
4. Political Dimensions of Tobacco Taxation

• According to the Constitution of Bangladesh, levy or collection of any tax requires the approval of the Parliament.

• Stakeholder consultation for new tax proposals commences from March every year.

• During the pre-budget period, the NBR holds consultation with the members of business associations, different levels of government, Members of Parliament (MPs), media and NGOs and proposes tax measures.

• A tax proposal is placed before the Council of Ministers for its concurrence and then it is introduced in the form of Finance Bill as budget document to the Parliament in the second week of June every year.
4. Political Dimensions.. Contd.

- After discussion in the Parliament, tax proposals are approved and enacted as Finance Act.
- During the pre-budget consultation, the NBR encounters tremendous pressure from the tobacco industry which resorts to collective action through forming coalition with some politicians.
- They try to resist increase in tax rate and convince the NBR that increase in existing price bands would be enough to augment revenue.
- The pressure of the tobacco industry is evident from the fact that during the period from FY 2004-05 to FY 2009-10, SD rates in different price bands of cigarettes remained the same.
- Rather the NBR tried to generate more revenue through increasing retail price by revising the price ranges within and across price bands.
- This measure helped the industry to widen their profit cushion. As a result, it did not help achieve public health objectives.
4. Political Dimensions.. Contd.

• Enhancing consumer price of bidi through tax measures appears more challenging for the NBR for political reasons.

• Firstly, several MPs are involved in tobacco business.

• Secondly, it is claimed that about 2.5 million workers are engaged in bidi industry, many of whom are poor women and children. Controlling bidi consumption will force bidi manufacturers to downsize their production, which will in cause unemployment of bidi workers.

• Thirdly, bidi consumers belong to the poorer segment of the society. Raising tax and price of bidi will, therefore, result in loss of popularity of the government among this population.

• The pressure of bidi manufacturers is evident from the fact that since FY 2005-06 there is no change in SD rate in bidi. Moreover, the tariff value for a pack of 25 sticks non-filtered bidi remained at Tk 3.1579 since FY 2008-09.
4. Political Dimensions.. Contd.

- During FY 2011-12 budget cycle, more than 120 MPs made written representation to the NBR not to increase bidi price. Rather they demanded complete withdrawal of tax from bidi.

- Bidi manufacturers’ association created substantial pressure to split the tariff value (bidi tax base) into three price bands namely, 12 sticks per pack, 10 sticks per pack and 8 sticks per pack and they succeeded. Splitting of tariff value in FY 2011-12 may have three effects on revenue and health.

- Firstly, there may be huge substitution effect from medium and low bands of cigarettes to bidi.

- Secondly, the scope of revenue evasion may increase because of opportunity for swapping banderols between different price slabs.

- Thirdly, this may also have negative impact on health because of likely increased consumption of bidi.
5. NBR-WHO Collaboration on Tobacco Taxation

- The main objective of the NBR-WHO collaboration is to strengthen the policy development process and tobacco tax administration at the NBR.
- In May 2010, WHO provided technical assistance for developing Tax Simulation Model to be used by the NBR.

- WHO helped to establish a Tobacco Tax Cell at the NBR:
  - to develop tobacco database
  - to conduct research on tobacco market trends; and
  - to analyze the impact of tobacco tax on health and revenue
  - to formulate evidence based policy on tobacco taxation.

- WHO supported several training programs for NBR officials to strengthen their capacity.
- NBR in collaboration with the University of Dhaka and WHO is undertaking a study on bidi workers.
6. Concluding Remarks

- Increase tobacco prices and harmonize tax rates across different forms of tobacco so that no switching takes place;

- Switch from *ad valorem* tax to specific tax as the latter is found to be more effective;

- Strengthen monitoring and enforcement to combat tax evasion and illicit trade; and

- Undertake comprehensive motivational programs to create awareness among the elected representatives of people and other stakeholders.

- Introduce banderole-applied tracking system of monitoring for tobacco products in order to enhance compliance and deal with illegal manufacture and trading of tobacco products.
6. Concluding Remarks

• Address cross-border issues in tobacco taxation through collaboration with neighboring countries. The partners of Bloomberg Initiative (BI) may assist us in forming a tax dialogue forum with the Ministry of Finance in the region.

• In order to phase out bidi manufacturing, which appears to be linked with livelihood of the poor and is a politically sensitive issue, resources for creating alternative employment opportunities are required.

Thank You