

What should be Bangladesh's tobacco tax policy response to the pandemic?



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Tobacco kills more than 8 million people globally every year, according to the World Health Organisation (WHO).

More than 7 million of these deaths are from direct tobacco use and about 1.2 million are due to non-smokers being exposed to second-hand smoke.

In Bangladesh, about 0.126 million people died due to tobacco-attributable diseases, which constituted 13.5 per cent of all deaths in 2018.

The economic cost of tobacco use was

estimated at Tk 30,570 crore (\$3.6 billion), which was about 1.4 per cent of Bangladesh's GDP in fiscal 2017-18.

Tobacco use is a known risk factor for many respiratory infections and increases the severity of respiratory diseases.

A review of studies by public health experts convened by the WHO on 29 April has found that smokers are more likely to develop severe disease with COVID-19 compared to non-smokers.

Available research also suggests that smokers are at higher risk of developing severe disease and death.

Bangladesh is one of the largest tobacco consumers in the world with 37.8 million adults aged 15 years and above -- which is about 35.3 per cent of the country's population -- consuming tobacco products, according to the Global Adult Tobacco Survey (GATS), 2017.

Although the overall prevalence of tobacco use declined by 18.5 per cent from 2009 to 2017, the consumption of cigarettes and smokeless tobacco (SLT) remains very high.

The recent response of the tobacco tax policy to the coronavirus pandemic is very disappointing.

Although the Finance Bill for fiscal 2020-21 has proposed marginal increases in the prices of the low tier of cigarette, tiers of biri and

SLT, little has been proposed for increasing supplementary duty (SD).

This is reflected in the almost constant total tax incidence (TTI). This will have little impact on both tobacco consumption as well as taxes.

A tobacco tax structure matters because how tobacco taxes are structured has implication for protecting public health and enhancing government revenue.

Increases in tobacco taxes that result in significant increases in prices are highly effective in reducing tobacco use, particularly among the youth and the poor.

At the same time, increasing tobacco taxes can bring in new revenues to finance health and development efforts.

In Bangladesh, the government has developed a complex tax structure of tobacco products, which is characterised by multi-tiered ad valorem tax system, low tax base and large variations in prices and taxes within and across different tobacco products.

In Bangladesh, the differential tax treatment has led to product substitution from the medium tier to the low tier of cigarette.

The market share of the low tier is more than 67 per cent in fiscal 2019-20 while that of the medium tier is 14 per cent in the same period.

The effect of product substitution is evident



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from the fact that the revenue share of the low tier of cigarette is about 44 per cent in fiscal 2019-20 while that of the medium tier is 17 per cent.

The overwhelming share (more than 67 per cent) of the low tier of cigarettes in the market leads to loss of government revenue as the low-priced tier yields lower revenue (about 44 per cent in fiscal 2019-20).

National and international experts, including WHO, have suggested implementing an increase in cigarette retail prices, particularly in the lower segment, reducing cigarette tax tiers to two, unifying SD tax rates in all tax segments and incorporating a specific tax component.

These recommendations are aimed to substantially increasing revenues from tobacco and gaining associated health benefits.

To avoid the undesired and likely substitution to other tobacco products, a correlated increase in biri and smokeless tobacco taxation should also be implemented along with cigarettes.

During the current pandemic, the government would need

to protect public health and raise additional revenue to cover health costs as a consequence of the novel virus.

It also needs to fund different schemes aimed at supporting poor-income households and the economy's recovery.

It is estimated by the experts that raising tobacco taxes would: (1) encourage nearly 2 million current smokers to quit; (2) save the lives of at least 6 lakh current smokers; and (3) generate about Tk 10,000 crore additional revenue.

Bangladesh has committed to achieving tobacco-related targets under the Global Action Plan for the Prevention and Control of NCDs and the Sustainable Development Goals (SDGs).

Raising taxes on tobacco is a cost-effective way to reach those targets.

It is also a major step towards achieving the vision of a tobacco-free Bangladesh by 2040.

At the same time, tobacco tax reform will generate significant additional revenue to finance health and development priorities.

This is a clear win-win situation for the government as well as the people of Bangladesh.

The writer is a professor at the Brac Institute of Governance and Development, Brac University and former chairman of the National Board of Revenue

BANGLADESH'S TOBACCO TAX STRUCTURE IN FISCAL 2019-20 AND FISCAL 2020-21

PRODUCTS	CATEGORY	TAX BASE	PRICE (TK)		VAT (%)		SD (%)		HDS (%)		TTI (%)	
			FY 20	FY 21	FY 20	FY 21	FY 20	FY 21	FY 20	FY 21	FY 20	FY 21
Cigarette (10 sticks)	Low	MRP	37+	39+	15	15	55	57	1	1	71	73
	Medium		63+	63+	15	15	65	65	1	1	81	81
	High		93+	97+	15	15	65	65	1	1	81	81
	Premium		123+	128+	15	15	65	65	1	1	81	81
Biri (sticks)	Without filter 25 st	MRP	14	18	15	15	30	30	1	1	46	46
	Without filter 12 st		6.72	9	15	15	30	30	1	1	46	46
	Without filter 8 st		4.48	6	15	15	30	30	1	1	46	46
	With filter 20 st		17	19	15	15	40	40	1	1	56	56
	With filter 10 st		8.50	10	15	15	40	40	1	1	56	56
SLT (10 grams)	Zarda	MRP	30	40	15	15	50	55	1	1	66	71
	Gul		15	20	15	15	50	55	1	1	66	71

SOURCE: NATIONAL BOARD OF REVENUE (NBR)
Note: MRP means maximum retail price. MRP is inclusive of all taxes.

Heavy bank borrowing to weigh on private investment, say experts



STAR BUSINESS REPORT

If the government borrows heavily from the banking sector, it will affect credit flow and investment in the private sector, according to AB Mirza Azizul Islam, an economist and former adviser to the caretaker government.

The government plans to borrow Tk 85,000 crore from banks in order to meet the deficit in the proposed budget for fiscal 2020-21.

However, over-borrowing will hamper funding for private investors, who are going through a tough time due to the coronavirus pandemic, said Islam while addressing a digital meeting on the budget and economic development.

During the discussion, arranged by the American Chamber of Commerce in Bangladesh (AmCham), Islam said that achieving 8.2 per cent GDP growth is near impossible in the current situation.

"Both GDP growth and revenue collection will be lower this year because business has been slow amid the ongoing pandemic," he added.

AmCham President Syed Ershad



Ahmed moderated the meeting. Considering the situation, the government should reduce unnecessary spending on sectors

like foreign travel and focus more on farm mechanisation, implementing social safety net programmes and rural development.

Besides, a drastic fall in corruption is needed while improvements to the country's ease of doing business ranking, bureaucratic efficiency, and rule of law are also crucial for attracting both domestic and foreign direct investment, Islam said.

"The Anti-Corruption Commission should carry out their duties without fear or favour while the organisation itself should be assessed to improve its efficiency," he added.

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Urban poor left uncared for: analysts



STAR BUSINESS REPORT

Though the government has proposed increasing allocation for social safety net, there is a lack of specific plans for the urban poor who have suffered severe income losses due to the Covid-19 outbreak, said Qazi Kholiquzzaman Ahmad, chairman of Pali Karma-Sahayak Foundation (PKSF).

The government will set aside Tk 95,574 crore for the social safety net programmes (SSNPs) in the upcoming fiscal year, the amount being 16.74 per cent higher than the outgoing fiscal year's revised allocation, and 3.01 per cent of the country's gross domestic product.

The proposed budget for the next fiscal year is different from any other years as the government emphasised life, livelihood, and healthcare instead of economic growth, he said.

But the allocation for healthcare and SSNP is not sufficient, Ahmad said while addressing a post-budget review on "Budget for FY2020-21 and social safety net programme".

Right to Food Bangladesh, a network that works on ensuring food and nutrition security, organised the virtual event yesterday.

"The economy was about to be paralysed due to the prolonged 66-day shutdown."

So the government should focus more on employment generation to help the economy recover from the stagnation, he said.

The government should spend every single penny with caution during the crisis period, said AK Enamul Haque, chairman of the economics department of United International University.

"The number of extreme poor doubled

thanks to the pandemic, but measures to help the new poor are not visible in the budgetary allocation," he said.

The government should allocate more funds for the poor and it should at least make the Covid-19 test free of cost for them, he said.

The safety of the people will not be ensured only by providing allowance, he said. "Massive changes are needed to bring them back to economic activities."

However, he said the government has good intentions in this regard but the overall health management is quite weak.

Though an additional outlay of Tk 14,000 crore has been earmarked for SSNPs in the next fiscal year, the government included



various other expenditures under these schemes such as pension for government employees, interest payment for savings certificates, incentive for remittance and so on, said Nazneen Ahmed, senior research fellow at Bangladesh Institute of Development Studies.

"For this reason, a question arises whether this allocation is really meant for social safety net programmes."

Sometimes people are not included in the SSNPs when their present locations do not match with the ones in their national identity cards, she said.

"This should not happen. Anybody with a valid NID should be eligible for safety net benefits."

Reasonable budgetary allocation is needed to mitigate the sufferings of the urban poor, said Sayema Haque Bidisha, a professor of economics at Dhaka University.

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Widen tax gap between listed, non-listed firms: CSE



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Chittagong Stock Exchange has called for widening the corporate tax gap between listed and non-listed companies in order to encourage well-performing companies to go public.

The call came yesterday in an online press briefing organised to express the port city bourse's

reaction to the proposed national budget.

"The government move to reduce the corporate tax gap between listed and non-listed companies will discourage fundamentally strong companies from coming to the stock market," said Asif Ibrahim, chairman of the bourse.

The finance minister proposed to reduce corporate tax for non-listed companies by 2.5 percentage points to 32.5 per cent.

"We urge the government to reduce corporate tax to 20 per cent from existing 25 per cent for

listed companies," he said.

It will give relief to stock investors also as then the listed companies' profits will rise, clarified Ibrahim, also a former president of the Dhaka Chamber of Commerce and Industries.

Moreover, the government can give an incentive to newly listed companies through a tax waiver for three years to encourage non-listed companies into going public, he added. The CSE welcomed the decision of allowing investment of undisclosed money in the stock market for one year.

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CSE's budget proposal

- Slash in corporate tax for listed companies by **5** percentage points
- Withdrawal of lock-in period for investing undisclosed money
- Tax waiver for **3** years for newly listed companies
- Tax exemption for CSE for **5** years
- Decrease in AIT for stockbrokers to **0.015%** from existing **0.05%**
- Reduction of capital gain tax to **7.5%** from **10%** for institutional investors

Bangladesh, Bhutan to sign preferential trade deal

REFAVET ULLAH MIRDHA

Bangladesh and Bhutan on Tuesday finalised the terms and conditions for signing a preferential trade agreement (PTA) to increase bilateral trade.

"We have reached a consensus to sign a PTA, not the free trade agreement (FTA)," said Sharifa Khan, additional secretary to the commerce ministry.

Under PTAs some select goods enjoy duty benefits from both countries whereas under FTAs



almost do, meaning that, in turn, both countries will also lose import and export revenue.

"So we are not preferring to sign FTA but PTA, also to protect our domestic industries," said Khan.

For instance, Bangladesh is not interested in signing an FTA with China because the government earns nearly Tk 25,000 crore as duty on import of goods from that country.

So if the government signs an FTA with China, it will lose out on this big amount of revenue. Currently,

China is the largest trading partner of Bangladesh.

Bangladesh imports goods worth \$14 billion from China every year while exporting goods worth nearly \$1 billion.

"As per our discussion through a video conference, the officials of both Bangladesh and Bhutan agreed to make the PTA functional from August 30 this year," said Khan who led the Bangladesh delegation in the conference.

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Mountain Dew's new TVC featuring Hrithik Roshan now on air

STAR BUSINESS DESK

American soft drink brand Mountain Dew has rolled out its latest TVC featuring its brand ambassador Bollywood actor Hrithik Roshan, as part of its ongoing efforts to consolidate its image as the beverage of choice of youths looking to live life on the edge.



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