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Raise tobacco taxes to save lives and secure Pakistan's youth

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As Pakistan approaches its 2025-26 federal budget, increasing the Federal Excise Duty (FED) on tobacco products is not only a fiscal necessity but also a critical public health intervention. With over 31.6 million adult tobacco users and more than 160,000 tobacco-related deaths annually, the country faces a health emergency that also strains its economy. Smoking-related illnesses cost Pakistan around 1.6% of its GDP each year, underscoring the dual burden tobacco imposes.

The 2022-23 increase in FED proved that taxation works. Following the February 2023 hike, cigarette consumption fell by 19.2%, with over a quarter of smokers reducing usage due to price increases. At the same time, tobacco tax revenue surged by 66%, from PKR 142 billion to PKR 237 billion. An additional PKR 60 billion was generated in General Sales Tax (GST), illustrating the win-win nature of tobacco taxation: it both discourages smoking and strengthens government finances.

However, progress stalled in 2023-24 due to a tax freeze. While per capita income rose by 12.5% and inflation by 9.5%, cigarette prices increased by only 2.7%. As a result, tobacco products have become more affordable, eroding the public health impact of previous tax efforts. In 2023-24, 5% of per capita income was needed to buy 2,000 cigarettes; in 2025-26, it is projected to fall to 4.2%.

One major issue undermining tobacco control is the tax gap between premium and economy brands. Currently, the FED on premium cigarettes is PKR 330, compared to PKR 101 on economy brands - a difference of PKR 229. This large gap encourages smokers to shift to cheaper brands rather than quitting, diluting the deterrent effect of taxation. The gap was only PKR 71 in 2021-22, highlighting how rapidly this disparity has grown.

To address these challenges, anti-tobacco advocates propose a uniform increase of PKR 39 per pack across all brands. This measure could lead to 263,000 fewer smokers, a 6.9% decline in overall consumption, and the prevention of 264,000 premature deaths. Additionally, it would generate PKR 67.4 billion in new revenue, including PKR 58.2 billion from FED and PKR 9.2 billion from GST.

Concerns about increased illicit trade in response to higher taxes are often exaggerated. Research shows that the real issue lies in the tobacco industry's manipulation of production figures to influence policy. The government's Track and Trace system, already in place in several manufacturing units, is a strong tool to combat tax evasion and illicit trade. Its expansion and strict enforcement are critical.

The government must also address the under-regulation of smokeless tobacco (SLT) products, which are widely consumed yet remain largely outside the tax framework. Bringing SLT under the same tax regime as cigarettes is essential for a comprehensive tobacco control policy.

Looking ahead, long-term reforms are the need of the hour which include automatic inflation-linked tax increases and a move toward a uniform FED rate to prevent brand switching. Such measures would align Pakistan's policies with global best practices and ensure sustainable progress.

Tobacco taxation is more than a revenue tool; it is a lifesaving policy. As the budget approaches, Pakistan has a unique opportunity to protect its people's health, reduce healthcare costs, and reinforce fiscal responsibility. Raising tobacco taxes is no longer a choice, it is an obligation to future generations. The government must act decisively and put public welfare above all else.

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