



Think-tank builds case for increased tobacco taxation in 2023 Budget

11 November 2022 10:41 am  - 8  - 935

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The Proposed Simple Formula for Cigarette Taxes

$$T' = T (1 + (\pi + g + 4) / 100)$$

Where:

T' – next year's tax rate

T – current tax year rate

4 – exogenous adjustment factor

π – current year inflation

g – current year GDP growth rate



Note: The inflation rate and GDP growth rate can be obtained from Central Bank data. The maximum value that could be assigned to the inflation rate is 10 (i.e., any inflation rate above 10 is to be given a value of 10 in the formula). This is to prevent any large inflationary shocks leading to extreme price rises. A minimum value of 0 is to be assigned to both the GDP growth rate and the inflation rate (i.e., any negative GDP growth is to be assigned a value of 0). This is to prevent government revenue from falling in any given year.

- **IPS calls for indexation model which automatically links tobacco taxation increases with the size of economy and inflation**
- **Points out there's no better way to raise tobacco taxes in Sri Lanka given the current economic crisis**
- **Proposes to tax the 'sin product' without increasing the costs of essential goods**
- **Recommends single tax for cigarettes of all lengths**

The upcoming 2023 national Budget must entail policies, which automatically links tobacco taxation rises with the size of the economy and inflation, the Colombo-based think tank, Institute of Policy Studies (IPS) said.

By taxing tobacco, the economic think-tank pointed out that the island nation can boost government revenue without threatening economic growth.

The government is expected to present the 2023 Budget to parliament on November 14.

"The 2023 Budget should introduce a model of indexation which automatically links tobacco taxation rises with the size of the economy and inflation. This would raise substantial additional revenue from the excise tax on cigarettes," the IPS argued in its latest analysis on tobacco taxation.

The time is just right for the government to actively explore and implement this option given that the current economic crisis and the intense pressure on the health system means there is no better time to raise tobacco taxes in Sri Lanka.

Among the benefits of increasing tobacco taxes is the generation of additional revenue for the government,

widespread support among the public for an increase in tobacco taxation, and the reduced burden on Sri Lanka's struggling health system.

"A tax targeting a 'sin product' like tobacco will contribute to the government's ongoing efforts to help raise revenue without increasing the costs of essential goods at a critical time for the economy," IPS said.

The WHO Framework Convention on Tobacco Control (FCTC) recommends simple, inflation-adjusted taxes to reduce tobacco use and prevalence. Sri Lanka did, in the past, take several positive measures to control tobacco use, including tax increases leading to significant revenue boosts for the government as public health benefits for the population. However, the tobacco taxation practices that are in place are rather complex.

Cigarettes in Sri Lanka are taxed at five different excise duty rates based on the length of the cigarette. Tobacco taxation has also not kept pace with inflation and per capita income, which has made cigarettes more affordable.

To help mitigate the current fiscal difficulties, IPS, in an ongoing study, recommends the introduction of a single tax for cigarettes of all lengths, which is adjusted annually according to inflation and GDP growth. Doing so will make cigarettes less affordable to the youth and the poor, the think-tank said.

"Given the current economic crisis and considering that cigarette taxes have not been revised systematically over time, the government could use this opportunity to introduce a simple formula to raise taxes to attain the twin benefits of improved health and fiscal outcomes," IPS proposed.

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[" The Lanshi Burgher Gent "](#) Friday, 11 November 2022 11:35 AM

There goes my bloody Tobacco shares, 'down the pallang'. Shit!

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[Ram](#) Friday, 11 November 2022 01:45 PM

Tobacco taxation is welcome. I have given up smoking now. So I support the tobacco tax. Tax on alcoholic drinks must be reduced as people like to enjoy a drink occasionally including me

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[Sambo](#) Saturday, 12 November 2022 12:08 PM

You may have given up smoking but into drugs. If you don't smoke keep your mouth shut. No smoker needs you five cents of advice.

[Citizen k](#) Friday, 11 November 2022 04:03 PM

Why tax one the pleasures of poor man. Go after the tax dodgers and guys and gals who stole from the treasury and the illegal gatherers of wealth. Draft new laws to show how they obtained their wealth. Time our law makers tackled these problems

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