Budget 2018-19

Taxation on the Smokeless Tobacco Products

From One Outdated System to Another: Govt. Favored SLT Producers Over Itself

The 2018-19 FY budget has been finalized and passed, at last, giving the smokeless tobacco (SLT) companies unprecedented opportunity to expand their trade. While the proposed budget replaced the traditional 'ex-factory price' system with the 'retail price system' in the taxation of SLT products, the Finance Minister has retuned back to adopting another outdated 'tariff value system' in the final budget. As a result, the National Board of Revenue (NBR) will lose a large amount of revenues from this sector. This move, on the other hand, will double the earnings of the tobacco companies. In the proposed budget, the price for 10 grams of jarda and gul was set at Tk. 25 with a 65 percent supplementary duty. Compared to the 2017-18 FY, this would increase the govt. revenues from this sector by 168 percent. But in the final budget, the govt. has turned its back to the most updated method of taxation which is taxing on the retail price and set the tariff value of jarda and gul at Tk. 12 and Tk. 6 respectively and imposed a 100% supplementary duty. Hence, the increase in revenues from this sector as demonstrated in the proposed budget will get reduced by 54 percent and the earnings of tobacco companies will get increased by 118 percent for the same amount of products. For example, the SLT producers, under the taxation of the proposed budget, would get Tk. 5.24 by selling 10 grams of jarda at Tk. 25 retail price. But according to the final budget, the share of these companies has been increased to Tk. 12 for the same amount.[1] The increase in companies' share is more than double. As a result, the desperate SLT producers will increase the sale by compromising their unnatural increase of income to some extent and lessening the expected increase in their SLT products for the consumers. This is also because the final budget has lifted the condition of mandatory minimum retail price and allowed the SLT producers to set the prices as they deem suitable. So, the prices of jarda and gul may not increase as expected. The depletion in the use of jarda and gul at the consumer level and the protection for public health will not be met as expected. Thus, the 2018-19 budget has ignored the issue of public health and made the SLT producers sole beneficiaries at the end. Another important aspect regarding this sector is that the revenue collection system of these products is very weak. As there are hundreds of unregistered jarda and gul factories in the country, it is quite difficult to collect revenues from these factories. So it is essential for the NBR as well as the Govt. to take functional measures to incorporate these companies under its supervision and collect taxes. The most effective method in this regard is to replace the tariff value system with retail price as it is in bidi and cigarette. The use of SLT products is prevalent among the poor people of Bangladesh, particularly among the poor women. So, to protect this large portion of population from the health risks of the use of jarda and gul and to achieve a tobacco-free country by 2040, the policymakers have to stop giving the tobacco companies opportunities to expand their death-trade.

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[1] Budget Calculation

Budget 2018-19	Smokeless Tobacco Products	Base of taxation	Govt. Revenues			Govt. Share	Company Share	Retail price at the consumer level (govt. share + company share)
			Supplementary Duty (SD)	VAT (15%)	Health Development Surcharge (1%)			
Proposed budget	Jarda and Gul	Tk. 25 for 10 grams of jarda and gul	Taka 16.25 (65%)	Taka 3.26 (15% of the retail price= 25 x 15/115)	Taka 0.25	Taka 19.76	Taka 5.24	Taka 25
Final Budget	Jarda	The tariff value for 10 grams Tk. 12	Taka 12 (100%)	Taka 3.60 (Tariff value+ SD=15 percent of Tk. 24)	Taka 0.12	Taka 15.72	Taka 12	Taka 27.72
	Gul	The tariff value for 10 grams Tk. 16	Taka 6 (100%)	Taka 1.80 (Tariff value+ SD= 15 percent of Tk. 12)	Taka 0.06	Taka 7.86	Taka 6	Taka 13.86