

Impact of Increase in Taxes on Sales of Tobacco Industry

A case study of leading tobacco companies in Pakistan

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Abstract:

This Paper reviews the impact of tax increases on the sales of tobacco industry in Pakistan, as the price of cigarettes increase, the quantity demanded decrease which leads to an overall decline of sales in tobacco industry. Tax increases can be implemented by increasing the excise tax on cigarettes or by implementing a value-added tax (VAT) on tobacco products. Studies have found that these tax increases effectively reduce smoking rates, particularly among youth and low-income individuals. However, it is also essential to consider the potential adverse effects of tax increases on the tobacco industry. Some individuals may turn to the black market to purchase cigarettes, which can lead to a loss of revenue for governments. As the research design, a quantitative and qualitative mixed method approach was selected. Secondary data was gathered from annual reports of the company while primary data was collected through the survey method. In the survey, a five-point Likert scale questionnaire was used and a qualitative interview with the Marketing Head of a tobacco company was conducted. However, it is crucial to consider the potential adverse effects and implement policies that address these issues. The results indicate a negative correlation between tax rates and tobacco sales, with increased tax rates resulting in decreased tobacco sales. This suggests that increasing taxes on tobacco products can be an effective strategy for reducing tobacco consumption and promoting public health in Pakistan. However, it is essential to consider the potential impact on small tobacco farmers and the government's tax revenue when implementing such policies. I will allocate different research methods to discover the problems and suppose their solutions.

Keywords: Tax, Tobacco, Tobacco Industry, Tax increases in Pakistan, Sales

Overview of the Industry:

British and Pakistan tobacco has a long and storied history. Many international businesses have set up shops in Pakistan thanks to the country's steady economic growth and development in this sector. In the early days, the tobacco business was controlled by British corporations, such as Imperial Tobacco and British American Tobacco, which had a substantial presence in the market. Philip Morris Pakistan Limited, Pakistan Tobacco Company are just a few examples of homegrown Pakistani firms that have emerged as market leaders in recent years. Significant health and social issues are associated with tobacco use, despite the growth and prosperity of the British-Pakistan tobacco industry. The World Health Organization has called for increased tobacco control measures after highlighting the industry's role in causing cancer, heart disease, and other respiratory illnesses. Pakistan's government has instituted measures to regulate the industry and improve public health, such as increasing tobacco product taxes and cigarette packaging health warnings (Peruga et al., 2021).

In Switzerland sits Phillip Morris International, a tobacco conglomerate with a global reach. Philip Morris Pakistan Limited (PMPKL) was founded in 1961 and acted as the company's subsidiary in Pakistan. A major manufacturer and distributor of tobacco products in Pakistan, PMPKL is best known for its Marlboro and L&M cigarette brands. The company's name is widely recognized and commands a sizable chunk of the national market. PMPKL is one of the most prominent players in Pakistan's tobacco industry. Still, it faces numerous challenges due to rising regulations and taxes, shifting consumer attitudes toward smoking, and illicit trade. As a result, the business has shifted its emphasis to innovation, such as the creation of heat-not-burn devices and other low-risk products.

Regarding Pakistani tobacco, the Khyber tobacco industry is a powerhouse. Smoking of the highest quality, grown in the Khyber Pass region in the country's northwest, is highly sought after by international tobacco manufacturers. After more than a century in business, Pakistan's tobacco industry thrives in the Khyber area, a central hub for exporting Pakistani tobacco leaves. As a result of its excellent quality and low price, Pakistani tobacco has been more sought after, propelling the Khyber tobacco sector to new heights in recent years. There are now several factories in the area dedicated to the processing and manufacturing of tobacco for use in anything

from cigarettes and cigars to chewing tobacco and snuff. Thousands of people in the area have jobs thanks to the sector, making it a vital part of the economy there (Peruga et al., 2021).

Background:

The government has relied heavily on tax money from the tobacco sector for a long time. Tobacco sales are negatively impacted by global efforts to raise taxes on tobacco products to discourage smoking and lower healthcare expenditures. When taxes are raised on tobacco goods, consumers may choose not to buy as many cigarettes or other tobacco products. An additional loss of income for the legal tobacco sector might result from increased taxes encouraging the production of illicit or counterfeit cigarette products. Despite these obstacles, the tobacco business is an essential driver of global GDP and a substantial income generator for governments worldwide. Many people depend on money and work in the tobacco business in Pakistan. Health and policy experts are putting more pressure on the sector to reduce the harm it does to the public. Increasing taxes on tobacco goods is one strategy being used to achieve this goal. A rise in tobacco product taxes may significantly affect the industry's bottom line by making tobacco goods more costly and less accessible to the general public. Because of this, the market for tobacco goods may shrink, reducing profits for the business. In addition to lowering demand, higher tobacco product tariffs discourage people from beginning or maintaining a smoking habit. However, the degree of the tax rise and the general economic situation in Pakistan may also influence the effect of tax increases on sales in the tobacco business. Increasing taxes on a specific industry may or may not have a noticeable effect on sales, depending on the size of the rise. However, a much more significant increase may have a more noticeable effect. Consumers may be more sensitive to price rises during a recession, significantly affecting sales. The tobacco business in Pakistan may significantly drop income if tobacco taxes are raised. A higher tax rate would discourage consumers from purchasing tobacco goods. However, the magnitude of the effect will be determined by the degree of the tax hike and the state of the economy as a whole in the nation.

Introduction:

The tobacco industry has long been a significant contributor to government revenue through taxes on tobacco products. However, as governments worldwide seek to increase taxes on tobacco products to deter smoking and reduce healthcare costs, the sales of the tobacco

industry are increasingly affected. Tax increases on tobacco products can lead to decreased demand for cigarettes and other tobacco products, resulting in lower sales for the tobacco industry (Nayab et al., n.d.). Additionally, higher taxes can increase illegal or counterfeit tobacco products, further reducing revenue for the legal tobacco industry. Despite these challenges, the tobacco industry continues to be a major economic force and a significant source of revenue for governments around the world. The tobacco industry in Pakistan is a significant contributor to the country's economy, providing employment and income for many citizens. However, the industry is also facing increasing pressure from health and policy officials to curb its adverse effects on public health. One of how this is being done is by implementing tax increases on tobacco products (Nayab et al., n.d.).

Tax increases on tobacco products can significantly impact the industry's sales, as they can make the products more expensive and less affordable for consumers. This can result in a reduction in demand for tobacco products, which can, in turn, lead to a decrease in sales and revenue for the industry. Higher taxes on tobacco products can also act as a deterrent for individuals to start or continue using tobacco products, further reducing the demand for these products. However, it is essential to note that the impact of tax increases on the sales of the tobacco industry in Pakistan can also depend on the tax increase level and the country's overall economic conditions. For example, a relatively small tax increase may not significantly impact the industry's sales, while a more considerable tax increase may have a more significant impact.

Additionally, in a period of economic downturn, consumers may be more sensitive to price increases, leading to a more significant impact on sales. Tax increases on tobacco products can significantly impact the sales of the tobacco industry in Pakistan, reducing demand for these products and leading to a decrease in revenue for the industry. However, the overall impact will depend on the tax increase level and the country's economic conditions (Peruga et al., 2021).

An increase in taxes on tobacco products can lead to a decrease in sales for the tobacco industry in Pakistan. This is because a higher tax increases the price of tobacco products, making them less affordable to consumers. As a result, consumers may choose to reduce their consumption of tobacco products or switch to cheaper alternatives, leading to decreased sales for the tobacco industry. Additionally, higher taxes can serve as a deterrent for people considering

starting to use tobacco products, further reducing the potential customer base for the industry (Peruga et al., 2021).

Problem Statement:

An increase in taxes on tobacco products is one of the main factors affecting sales in the tobacco industry. Higher taxes lead to higher prices for purchasers, which can result in decreased demand and lower sales.

Research Methodology:

The research methodology for investigating the impact of a tax increase on the sales of the tobacco industry will involve a combination of quantitative and qualitative techniques where questionnaires will be filled by the marketing employees of the tobacco industry and interview will be conducted by the Marketing Head.

Hypothesis:

Sales affect the tobacco industry due to increases in taxes.

Quantitative research:

Data collection:

Data on tobacco sales and tax rates will be collected from government sources and industry reports. Surveys can be conducted to gather information about the impact of tax increases on the sales of the tobacco industry. These surveys can target market employees, managers, and retailers to gather their perspectives. Sales data can be collected from the tobacco industry to analyze the tax increase's impact on sales. This data can be collected through financial reports, invoices, and sales data provided by the industry (Apollonio & Glantz, 2019). Focus groups can be organized to gather information about the impact of tax increases on the sales of the tobacco industry. These groups can be composed of market employees, managers, and retailers to gather their opinions and feedback. Interviews can be conducted with industry experts, policymakers, and stakeholders to gather information about the impact of tax increases on the sales of the tobacco industry. A literature review can be conducted to gather information about previous studies and research on the impact of tax increases on the sales of the tobacco industry. This can provide valuable insights and context for the current study.

Data analysis:

The data will be analyzed using statistical techniques such as regression analysis to examine the relationship between tax rates and sales. The first step in analyzing the impact of tax increases on tobacco industry sales is to collect relevant data. This data should include information on the tax rate, sales of tobacco products, and any other relevant factors that may affect the sales of the industry. Data can be collected from various sources such as government reports, industry publications, and online databases. Once the data has been collected, it should be cleaned and prepared for analysis. This includes removing any missing or inconsistent data, ensuring the data is in a consistent format and checking for outliers or errors. Once the data has been cleaned, it can be analyzed to determine the impact of the tax increase on sales of tobacco products. This can be done using various statistical techniques such as regression analysis, time series analysis, or causal inference analysis. These techniques will help to identify any trends, patterns, or relationships between the tax rate and sales of tobacco products. To make the data analysis more accessible and understandable, it is essential to use data visualization tools such as charts, graphs and maps to present the results. This will help highlight significant findings and make it easier for others to understand the results. Finally, the results should be interpreted and conclusions should be drawn from the analysis. This should include identifying significant findings, discussing study limitations, and making recommendations for future research or policy decisions.

Modeling:

A model will be developed to predict the impact of tax increases on tobacco sales. After analyzing the data, a model can be developed that predicts the impact of a tax increase on the sales of the tobacco industry. This may include using statistical techniques such as regression analysis to determine the relationship between tax rates and tobacco sales and incorporating other factors influencing consumer behavior. Once the model has been developed, it should be tested using historical data to ensure that it accurately predicts the impact of a tax increase on the sales of the tobacco industry. This may include comparing the model's predictions to sales data to ensure accuracy. After the model has been tested and found to be accurate, it can be used to predict the impact of a tax increase on the sales of the tobacco industry. This information can then be used to inform policy decisions and make recommendations for how to best manage the impact of a tax increase on the sales of the tobacco industry.

Qualitative research:

Interviews:

Interview will be conducted with representatives from the tobacco industry to gather their perspectives on the impact of tax increases on sales.

Focus groups:

Focus groups will be conducted with current and former market employees to gather their opinions on the impact of tax increases on their purchasing decisions. Identify the target population: The target population for this focus group study would be current and former market employees and managers of tobacco products. Participants will be screened to ensure they meet the inclusion criteria of being current or former market employees and managers of tobacco products. The discussion guide will include open-ended questions related to the impact of tax increases on sales of tobacco products, reasons for purchasing or not purchasing tobacco products, and alternatives to tobacco products if any. Focus group sessions will be conducted conveniently for participants, such as their offices and the company's location. Each session will consist of 6-8 participants and will be moderated by a trained researcher. The findings will be detailed, including a summary of the main themes and patterns identified in the focus group data. The report will also include recommendations for further research.

Content analysis:

The collected data will then be analyzed using content analysis to identify patterns and themes in large amounts of text. This will involve coding and categorizing the data based on relevant themes such as sales figures, market trends, and consumer behavior. The coded data will then be analyzed using statistical methods such as regression analysis and correlation analysis. This will help identify any significant differences in sales before and after the tax increase and determine the relationship between the tax increase and the tobacco industry sales. To determine the impact of the tax increase on the tobacco industry compared to other industries, the research will include a comparison of the sales trends of other industries in the same period. As with any research involving human subjects, ethical considerations must be considered. In order to protect the privacy of individual smokers, the research will only analyze aggregate data, and no personal information will be collected or used in the analysis.

Variables:

The variables that I used for this analysis are sales and tax. All these things will determine the analytical approach of the system. However, all the procedure involving the inclination of the scenario of the questionnaire is as follows. All the SPSS and Excel analyses areas follows.

Comparison:

The tobacco industry has seen a decline in sales in recent years due to various factors, such as increased awareness about the health risks associated with smoking, the implementation of anti-tobacco laws and regulations, and the rise of alternatives such as e-cigarettes. Taxes on tobacco products have been raised in several countries, including Pakistan, to cut down on consumption while also increasing government revenue. A rise in the prices of tobacco products due to increased taxes may reduce their overall sales (Munir et al., 2022).

Nevertheless, the tobacco industry continues to be a significant player in the economy of the entire world. It generates significant revenue even though sales have declined and the tax burden has been growing. The specific effect that taxes have on sales and revenue in the tobacco industry can vary greatly depending on several factors, such as the particular products that are being taxed, the amount of the tax increase, and the general conditions of the economy as a whole (Munir et al., 2022).

In many countries, higher taxes on tobacco products and increased anti-smoking campaigns have contributed to a drop in those products' overall sales. Taxes taken at a higher rate on tobacco products make them more expensive, discouraging consumers from buying them. On the other hand, the tax revenue that governments receive from the sale of tobacco can increase as prices rise, providing a source of funding for public health programs and other initiatives. However, the long-term costs of tobacco use in terms of health and finances to individuals and society far outweigh any potential benefits from an increase in tax revenue that may be realized in the short term (Hochlaf et al., 2019).

Tobacco is one of Pakistan's primary exports, making it one of the world's leading producers. The tobacco business in Pakistan has experienced significant expansion over the past few years. While there has been consistent growth in the market for tobacco products, there has

also been an increase in the amount of tax collected from these goods. Around Rs. 130 billion was the total money from selling tobacco products in Pakistan in 2015. That number increased to Rs. 140 billion in 2018. During the same period, the tax imposed on tobacco products went from being worth 37 billion rupees to 46 billion rupees. The increasing tax on tobacco products is part of the government's strategy to discourage smoking and reduce its negative impact on public health. The government has been adopting different anti-smoking initiatives, such as raising taxes on tobacco goods, prohibiting the sale of tobacco products to minors, and limiting the advertising and promotion of tobacco products. Despite these regulations, the tobacco sector in Pakistan is continuing its upward trajectory. Although there has been an increase in the tax imposed on tobacco products throughout the years, there has yet to be a noticeable decrease in the market share of these items in Pakistan (Hochlaf et al., 2019).

Findings:

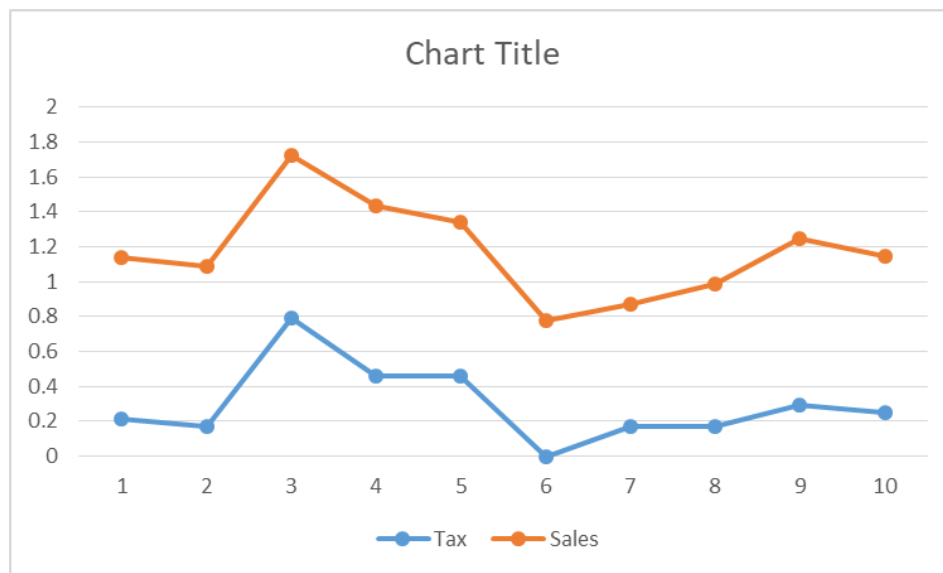
For analysis, 24 marketing employees answered the 10 questions in questionnaire. I gathered their ideas and information, did an SPSS analysis, and then created a graph on Excel analysis for the descriptive form of the system. At the same time, I used Excel software to determine the graphical analysis of the Survey which were retrieved from the survey.

N	Tax	Sales
24	0.21	0.932
24	0.17	0.917
24	0.79	0.932
24	0.46	0.977
24	0.46	0.884
24	0	0.78
24	0.17	0.702
24	0.17	0.816
24	0.29	0.955
24	0.25	0.897

Statistics

		Tobacco tax hikes would result in lower tobacco consumption	Cigarette demand is likely to rise as income rise.	Consumer tastes and preferences can be influenced by marketing campaigns	Price hikes for cigarettes have little effect on sales as they satisfy a need	Despite the price increase due to Brand Loyalty cigarette demand remains constant	Accessibility of alternatives is likely to impact cigarette sales	As a habit-forming product, cigarette demand is likely to remain constant	Advertisement promotes the consumption of cigarettes by displaying satisfaction, elegance, and brand image	Decrease in income will result in a decrease in demand	Perception of maintaining one's status among peers influences demand
N	Valid	24	24	24	24	24	24	24	24	24	24
	Missing	0	0	0	0	0	0	0	0	0	0
	Mean	.21	.17	.79	.46	.46	.00	.17	.17	.29	.25
	Median	.00	.00	1.00	1.00	1.00	.00	.00	.00	.00	.00
	Mode	0	1	1	1	1	0	0	1	1	0

In SPSS software, I create a descriptive and statistical table of Tax and Sales to analyze the relation of the tax increases on tobacco sales. The statistical table of the Survey also analyzes with mean, median, and mode. The fact that sales of tobacco goods continue to rise demonstrates a sizable market for these items, which suggests that the tax placed on these items needs to be higher to dissuade people from smoking. Although there has been an increase in the tax imposed on tobacco products throughout the years, the market share of these items in Pakistan has remained the same. As a result, further actions are required to mitigate tobacco's harmful effects on the general population's health.



Conclusion:

From this research, governments throughout the globe aim to raise taxes on tobacco products to dissuade smoking and cut healthcare expenses. The sales of the tobacco business are increasingly impacted. Tax hikes on tobacco products may lead to reduced demand for cigarettes and other tobacco products, resulting in less revenue for the tobacco business. The tobacco business in Pakistan substantially contributes to the country's economy, providing work and money for many residents. However, the sector is also receiving increased pressure from health and policy experts to reduce its detrimental consequences on public health. One of how this is being done is by imposing tax hikes on cigarette goods. Tax hikes on tobacco products may substantially influence the sales of the sector, as they can make the goods more costly and less affordable for consumers. This may result in a decline in demand for tobacco products, which can lead to a decrease in sales and income for the industry. Increased sales of tobacco goods imply a significant market for these items, and the tax put on them is inadequate to prevent people from smoking. The tax placed on tobacco products has grown throughout the years, but it has not substantially influenced curbing the sale of these items in Pakistan. Further efforts are required to limit the detrimental effect of tobacco on public health. Due to limitation no marketing activities can be conducted or any promotions can be displayed over the social media or any platform. They are limited to market their product at the Point of sale. Diversifying form the cigarettes they can now use the tobacco pouches and other less containment of nicotine products to fill the gap and currently are working on the launch tobacco pouches which can lessen the threat of smoking and bring a new trend in order to increase the sales.

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