

PROPOSALS FOR BUDGET 2026

Research Publications and Resources



Correcting the flaws in cigarette taxation

Abstract - The current method of taxing cigarettes in Sri Lanka has failed to maintain an effective and rational tax system, leading to a revenue loss of over LKR 20 billion in 2024. The tax as a percentage of the retail price is currently at a historical low of 66.2%. This is well below the standard level of 75%. This proposal is to implement two corrective measures: (1) increasing the tax on JPGL, the brand with the highest market share, to 75% of the current retail price, and (2) setting the amount of taxes on other cigarette brands in proportion to their length of the JPGL cigarette.

Overview - The tax as a percentage of the retail price of cigarettes in Sri Lanka has dropped to one of its lowest levels in history. The current rate stands at 66.2%, far below the average in the last 20 years, and the ideal threshold of 75% (it has even exceeded 80% in the mid 2000s). The World Health Organization also endorses a 75% tax-to-price ratio as optimal.¹ The decline in tax as a percentage of the retail price indicates that cigarettes are not being adequately taxed, leading to lost revenue opportunities, while tobacco companies monopolise the benefits of the increased price, having the second highest profit after tax amongst the companies listed on the Colombo Stock Exchange.²

Correcting this flaw and increasing the total taxes on JPGL to 75% of current retail price will not require an increase in the price – and still leave the company with healthy profits. This adjustment would bring the tax rate back to the ideal ratio, generating additional revenue and aligning with public health objectives. To prevent revenue loss through product substitution, the taxes on other cigarette brands should be set to be in proportion to their length of the JPGL cigarette. This correction in cigarette taxes is **estimated to generate more than LKR 20 Bn in additional revenue.**

Although a commitment to introduce the indexation of excise taxes was included in Sri Lanka's IMF programme, this commitment was later removed, with no mention of it in the second review (June 2024) of the programme.

Supporting reading/reference material

- A Technical Case for Affordability Based Pricing of Cigarettes – [[available here](#)]
- The Hidden Side of Cigarette Pricing – [[available here](#)]

¹ World Health Organization (WHO). *Promoting Taxation on Tobacco Products*. 2024, <https://www.who.int/europe/activities/promoting-taxation-on-tobacco-products#:~:text=Recommendations%20for%20taxation%20efforts,tobacco%20use%20and%20save%20lives>

² TradingView. *Sri Lanka Stock Market Movers - Highest Net Income*. 2024, <https://www.tradingview.com/markets/stocks-sri-lanka/market-movers-highest-net-income/>.