



# Latest Trends in Cigarette Taxation and Its Impact on Sri Lanka

Due to the 20% increase in cigarette tax in 2023:

- Cigarette sales dropped by 521.5 million sticks (an 18% decrease compared to 2022).
- Government revenue from tobacco tax was increased by Rs. 7.7 billion.

Increasing taxes and prices on tobacco products is a globally recognized, evidence-based strategy to reduce consumption and associated harm. Recommended by the World Health Organization (WHO), this approach effectively lowers affordability, leading to decreased consumption and reduced health costs, while simultaneously generating increased government revenue.

However,

- Despite significant price and tax increases imposed on many essential goods and services during the period 2024/25, the slower pace of cigarette tax increases in 2025 contributed to a 5% rise in cigarette production in 2025, challenging the declining trend in cigarette production that had been successfully maintained over many years.
- The absence of price adjustments in line with inflation and income growth has increased the affordability of tobacco products, contributing directly to higher production and usage, highlighting a critical policy gap in the existing tobacco taxation policy.
- The continued use of an industry-favorable tiered tobacco tax structure has further weakened the effectiveness of tobacco control efforts, enabling the industry to generate substantial profits. Between 2017 and 2024, government revenue from cigarette taxation increased by only 27.5%, while the net-of-tax revenue of the Ceylon Tobacco Company (CTC) rose by 92.4%, emphasizing the presence of a serious underlying issue (Source: Verité Research).

## Tobacco Trends

The WHO recommends that taxes should account for at least 75% of the retail price of cigarettes, and Sri Lanka had adhered to this recommendation over the past several years. However, in 2024, the tax share of the most sold cigarette category in the market declined from 74.0% to 68.8%, which remained unchanged in 2025 as well.

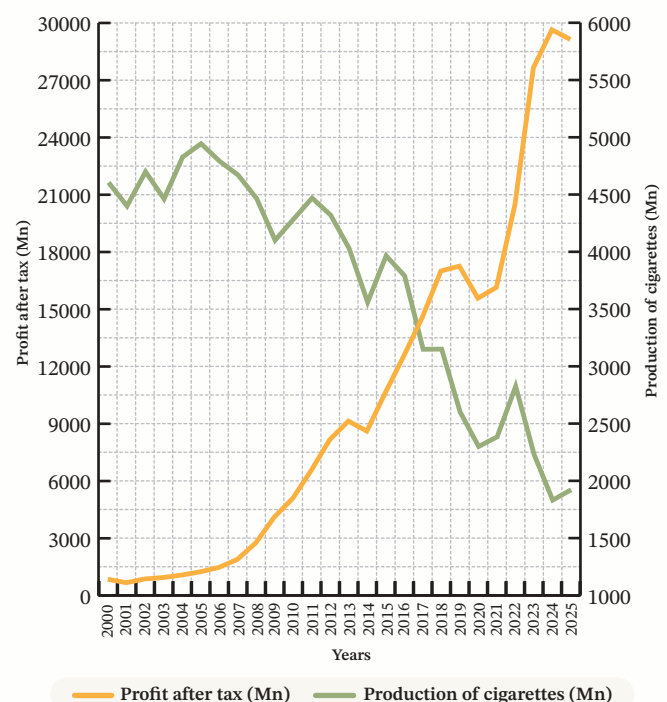
- This situation undermines the overall effectiveness of tobacco taxation and results in higher benefits to the tobacco industry.

Compared to 2023, there has been a significant shift in the market share distribution of cigarette brands.

According to Verité Research, this situation resulted in a loss of LKR 9.4 billion in tax revenue to the government in 2024.

The WHO FCTC Framework Convention on Tobacco Control) encourages moving toward a single (uniform) tax rate for tobacco products, which leads to reduced affordability and usage, and prevents down-trading (consumers shifting to cheaper brands).

## Profit of Ceylon Tobacco Company and Production of Cigarettes from 2000 to 2025



Despite an overall declining trend in cigarette production from 2000 to 2025, the Ceylon Tobacco Company's profits have continued to rise, highlighting a critical gap in tobacco taxation policy in Sri Lanka.

## Key recommendations:

- Increasing tobacco taxation in line with inflation and income growth.
- Introducing a uniform tobacco tax structure.
- Effective implementation of the proposed amendments to the NATA Act (ban on single stick cigarette sales, introducing plain packaging).
- Implementing the Tobacco-Free Generation policy.
- Rejecting and refraining from promoting "harm reduction" narratives in any form within tobacco prevention and control efforts.
- Strengthening enforcement and community action against tobacco industry interference.

### Sources:

The Case for Investing in WHO FCTC Implementation in Sri Lanka, Central Bank of Sri Lanka, Sri Lanka Customs, Verité Research

Alcohol and Drug Information Centre

40/18, Park Road, Colombo 5.  
+94 112 584416, +94 112 592515  
www.adicsrilanka.org

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