

Cigarette Tax Scorecard: Spotlight on Mexico

Key Messages

- In 2022, in the third edition of the Tobacconomics Cigarette Tax Scorecard, Mexico scored 2.38 out of 5 points. This is higher than the average score of countries in its region and country income group, though lower than top-performing countries.
- Among the four components used to calculate the overall score, Mexico received the most points in the tax share component, with a score of 3.5 points.
- In contrast, Mexico scored zero points in change in affordability with an annual average percentage change of 2.96% between 2016 and 2022. Cigarettes cost MXN 70.54 (\$Intl 7.14), and the country uses a mixed excise tax structure with greater reliance on the ad valorem.
- Mexico's overall score fell before increasing again between 2014 and 2020. Then it remained unchanged in 2022. In that time, cigarette prices increased, but there was a broader failure to reduce affordability over time.

Introduction

The Tobacconomics Cigarette Tax Scorecard evaluates countries' cigarette tax systems based on a five-point rating system that incorporates international guidance and best practices in tobacco taxation. The five-point index uses data to score countries on the following four components: cigarette price, changes in the affordability of cigarettes over time, the share of taxes in retail cigarette prices, and the structure of cigarette taxes. The total score reflects an average of the four component scores.

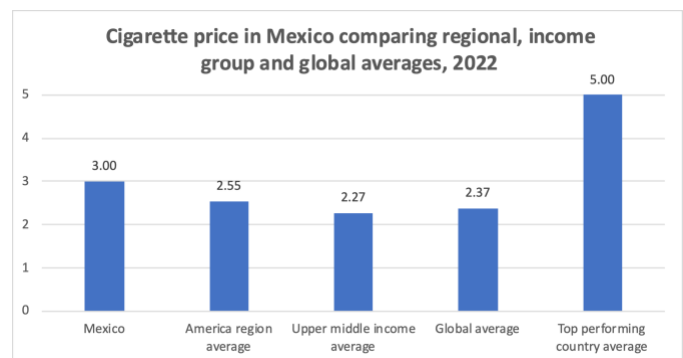
By implementing more effective cigarette tax policies, Mexico would improve the health of its population, while raising additional tax revenue for the government.

Country Findings

Cigarette Price

Price is a key determinant of cigarette use— as the price increases, demand decreases.

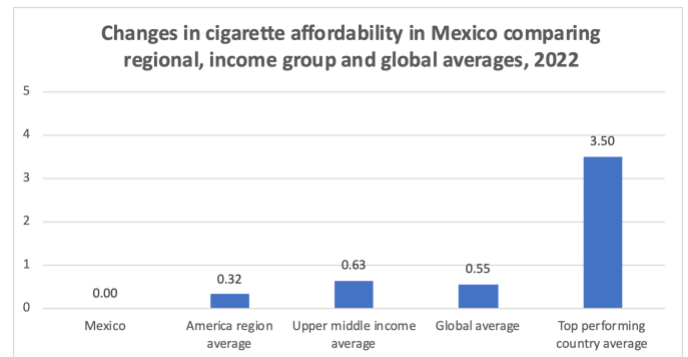
Mexico scored 3 points out of 5, which is higher than the average scores of its region and country income groups, and the global average. The price of a 20-pack of the most-sold brand is MXN 70.54 (\$Intl 7.14) in 2022.



Change in Cigarette Affordability

To reduce demand, cigarettes must become less affordable. As cigarettes become less affordable, consumers buy fewer and many will stop buying them altogether. As part of this effort, at a minimum, cigarette prices should be updated regularly for inflation and income growth.

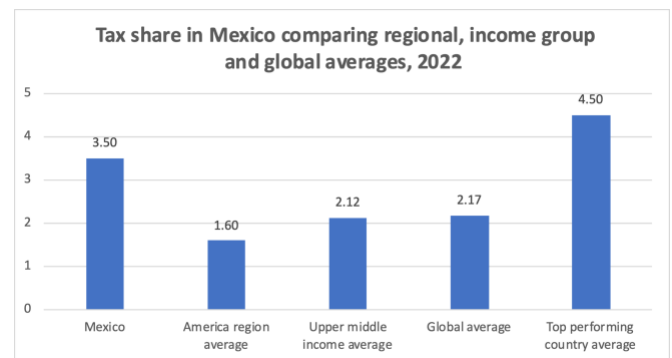
Mexico scored zero in this component in 2022, lower than the regional, income group, and global averages. The annual average percentage change between 2016 and 2022 was 2.96% and not statistically significant, indicating no change in cigarette affordability.



Tax Share

A high tax share of price is generally a good indicator of cigarette tax effectiveness and is essential to raise government tax revenues from cigarettes.

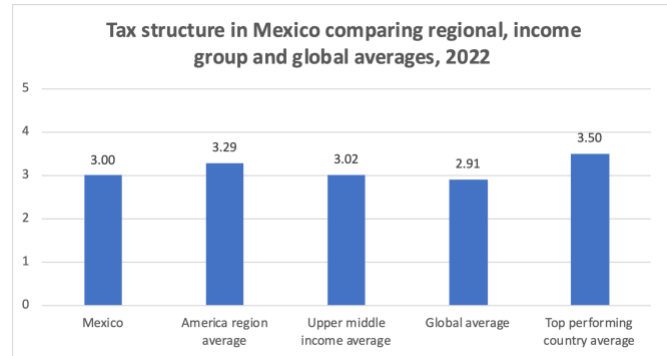
Mexico scored 3.50 points out of 5 in 2022. The excise tax share is only 53.80% of price, leaving significant room for improvement to reach the 70% recommendation. Also, because tax share is greatly affected by price, the affordable prices mean that a higher tax share score overstates the effect.



Tax Structure

Tax structures vary in their effectiveness when it comes to reducing tobacco use and collecting tax revenues. Uniform specific excise tax systems that at least adjust annually for inflation are generally the most effective and easiest to administer.

In this component, Mexico received 3 points out of 5. The country scored lower than the income group and regional averages as a result of its mixed excise tax structure without greater reliance on the specific tax component although it implements an automatic adjustment to the specific tax component for inflation.



Scores Over Time

Mexico's overall score fell after 2014, only to increase somewhat in 2020. Then it remained unchanged in 2022. In that time, cigarette prices increased, but there was a failure to reduce affordability over time, indicating room for improvement.

Score Component	2014	2016	2018	2020	2022
Cigarette Price	2.00	2.00	2.00	3.00	3.00
Changes in cigarette affordability	3.00	0.00	0.00	0.00	0.00
Tax share	3.50	3.50	3.50	3.50	3.50
Tax structure	3.00	3.00	3.00	3.00	3.00
Overall score	2.88	2.13	2.13	2.38	2.38

Policy Implications and Recommendations

In summary, the following cigarette tax policy improvements are recommended as concrete next steps to reduce smoking prevalence in Mexico and improve the health of its citizens, while increasing the tax revenue collected by the government:

- Mexico should significantly increase the tax on cigarettes to **increase the price of cigarettes**. At the same time, the government should strive for excise taxes to account for at least 70% of retail prices.
- To improve its tax structure, Mexico should implement a **uniform specific tax or uniform mixed system with a greater share of specific tax** with the retail price as the base for the ad valorem component, and a minimum specific tax, and an automatic annual adjustment that outpaces inflation and economic growth.
- A solid tax structure with regular and sufficient tax increases will begin to reduce cigarette affordability in Mexico.