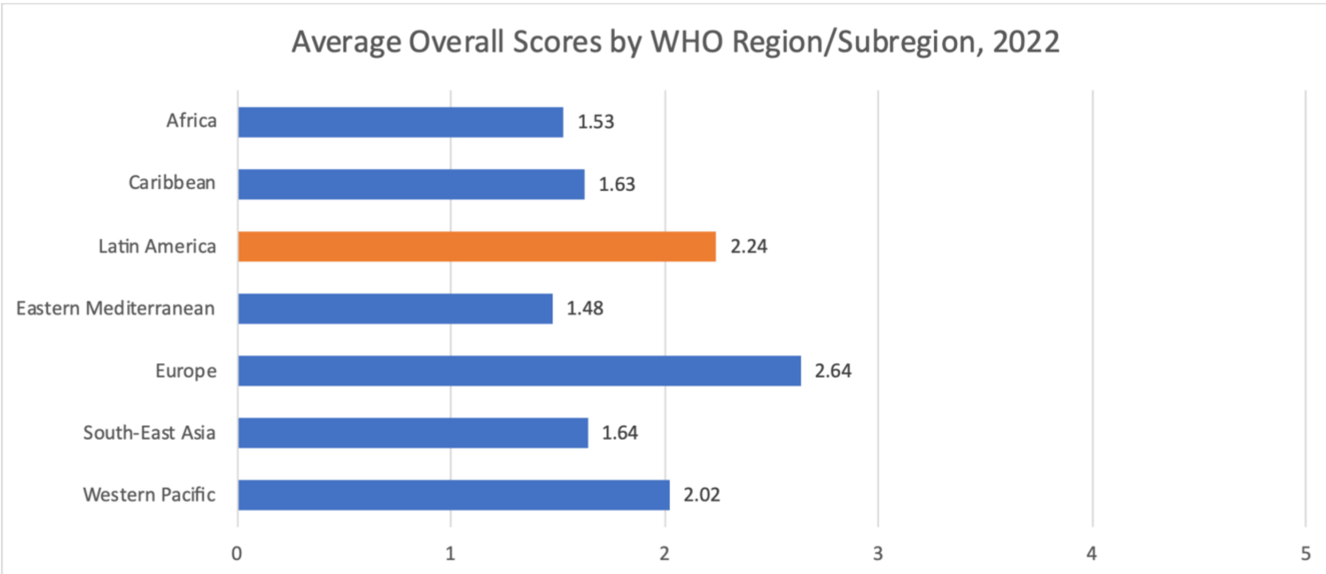
Policy Brief | July 2024

Cigarette Tax Scorecard: Spotlight on Latin America



Key Messages

- In the third edition of the Tobacconomics Cigarette Tax Scorecard, the average overall score in 2022 in Latin America is 2.24 out of 5 points. Although this is higher than other regions except Europe, and the global average, Latin America scored just below half of the possible points on average—thus, there is plenty of room for improvement.
- Out of the four components used to calculate the overall score in the Scorecard, Latin American countries performed best on tax structure, with an average score of 3.47 points. This suggests that tax structures in the region are somewhat effective but there remains room for improvement in many countries.
- Higher excise tax rates would help to reduce the affordability of cigarettes— the average score in the affordability change component is only 0.53 points out of 5. The prices of cigarettes in most countries have not even been keeping up with inflation or income growth.
- Out of the countries in the region, Colombia is the highest performer, with an overall score of 3.50 points, while Paraguay lags the regional average with only 0.5 points out of 5.

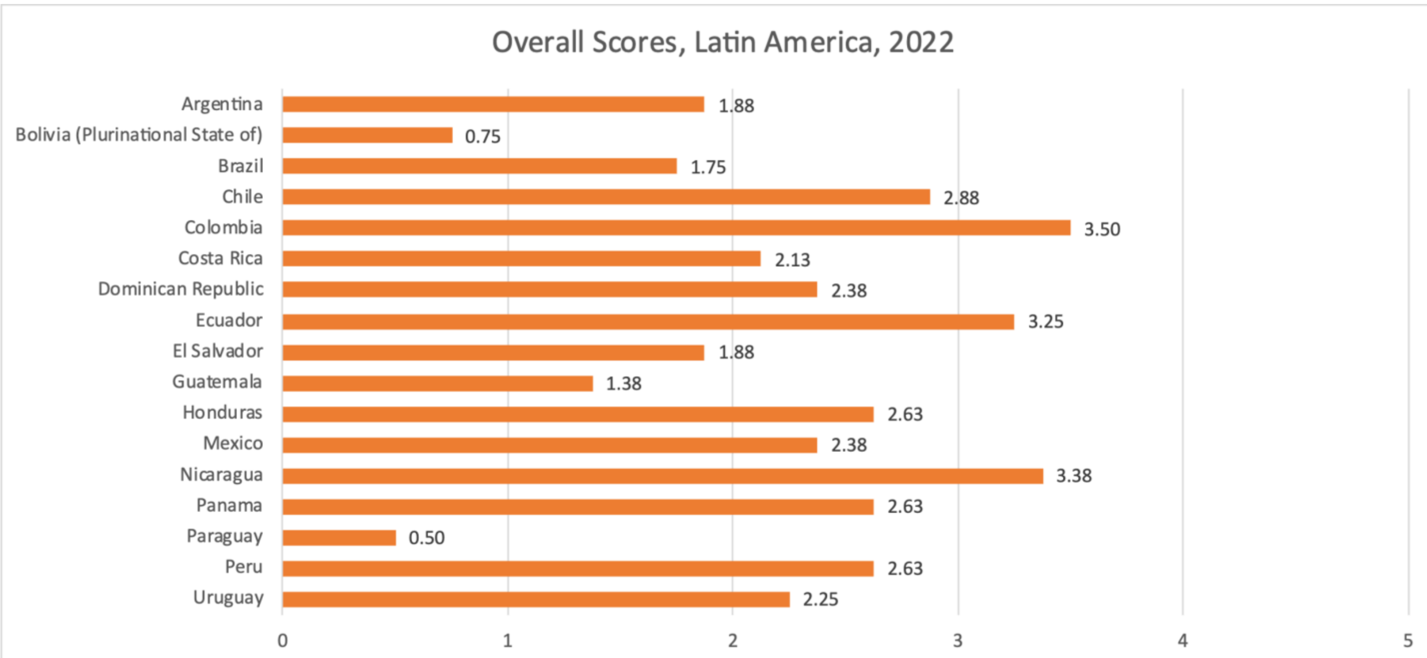
Introduction

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 from the World Health Organization 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.

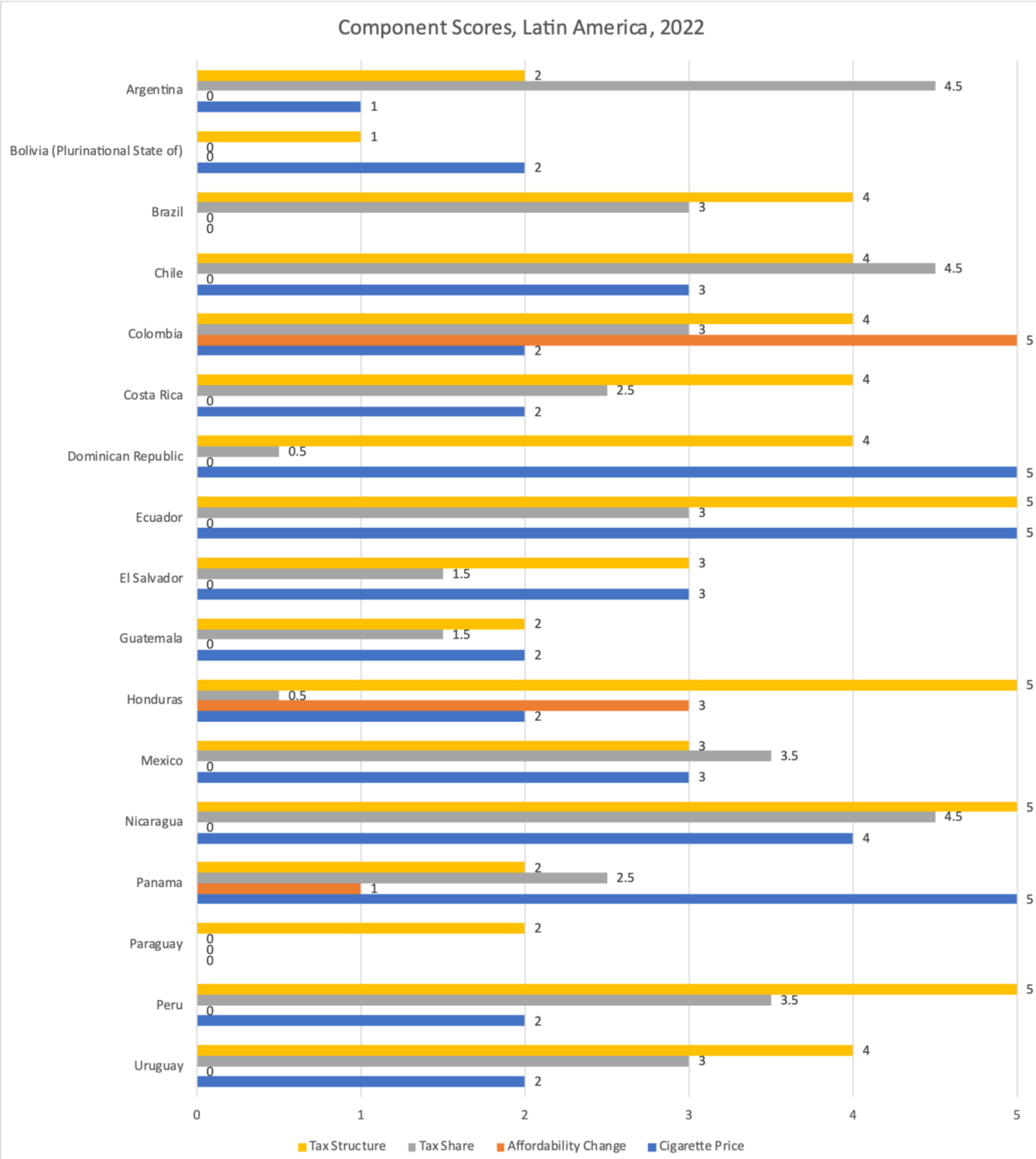
The Latin America region on average scored just 2.24 of the potential points in 2022. Improving cigarette tax policies would decrease smoking prevalence, while raising additional tax revenues for governments.

Regional Findings

There is significant variation across the Latin American region for overall scores in 2022. Colombia scored the highest with 3.50 points out of 5, followed by Nicaragua, which scored 3.38 points. Paraguay had the lowest score of 0.50, and Bolivia was only slightly higher with a score of 0.75. Most countries in the region received less than half of the possible points. These findings suggest there is room for improvement in tobacco taxation policies throughout the region.



Note: There are insufficient data for Venezuela and Cuba



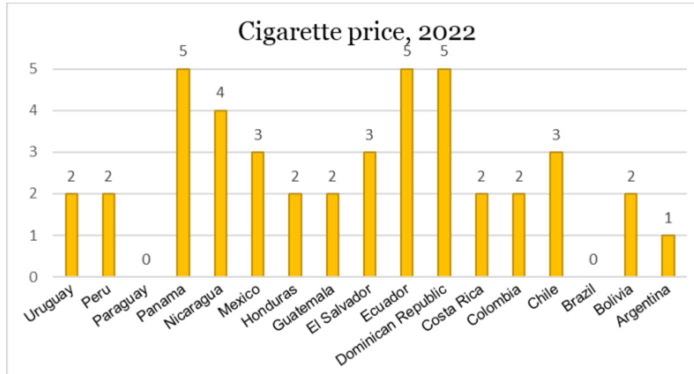
Note: There are insufficient data for the absolute price in Cuba, and the absolute price and affordability components in Venezuela.

Key Component Findings

Cigarette Price

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

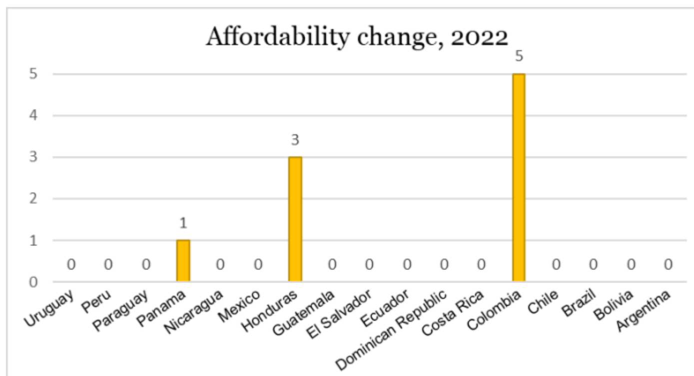
In 2022, the average score in Latin America in this component is 2.53 out of 5 points. Panama, Ecuador, and Dominican Republic performed the best in this component, each scoring 5 points. In contrast, Paraguay and Brazil scored 0 points. Such price variation across the region can threaten the effectiveness of high prices in other countries.



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 must outpace inflation and income growth.

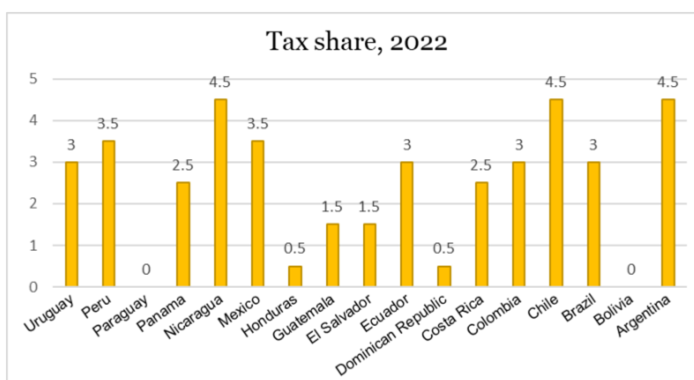
This component requires the most significant improvement in Latin America. The average score is only 0.53 points out of 5. Only Colombia scored all 5 points in 2022, followed by Honduras (3 points) and Panama (1 point). Many countries saw significant decreases in their affordability score in 2022, with fourteen countries scoring 0 points.



Tax Share

High tax share of price is usually a reasonable indicator of good performance. It is typically essential to raise government tax revenues from cigarettes.

The average for this component of the score in Latin America is 2.44 points with large variation among countries. Chile and Argentina receive 4.5 points out of 5, and six countries scored at least 3 out of 5 points.

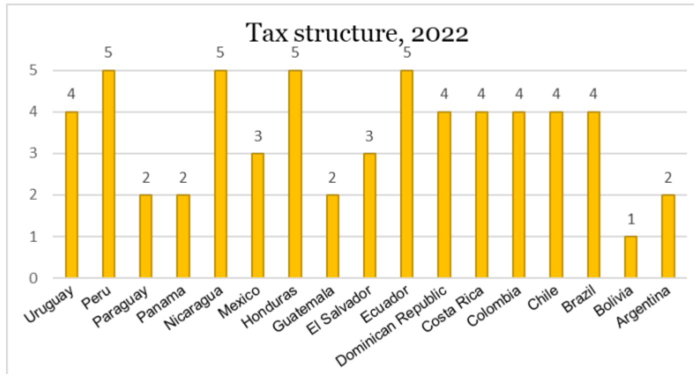


On the other hand, Paraguay and Bolivia received no points and Dominican Republic and Honduras receive only 0.5 points, indicating that these governments could be reaping significantly more revenues from cigarette taxes. Instead, that money is going to the tobacco companies in the form of profits.

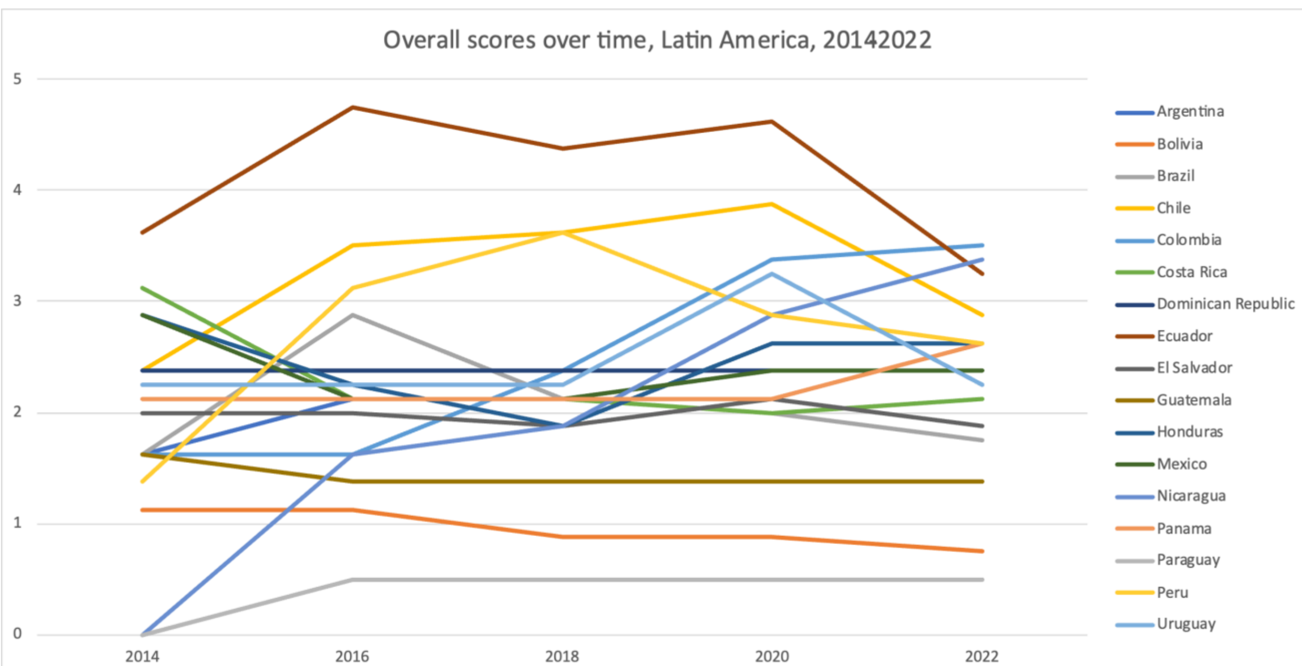
Tax Structure

Tax structures vary in effectiveness when reducing tobacco use and collecting tax revenue. Uniform specific excise tax systems with regular upward adjustments of rates are generally the most effective and easiest to administer.

The average score in Latin America for this component is 3.47 out of 5 in 2022. Ecuador, Honduras, Nicaragua, and Peru receive all 5 points in this component, suggesting a mostly strong foundation for taxation. Bolivia scores the lowest in the region, with only 1 point out of 5.



Scores Over Time



There is significant variation in progress on cigarette tax policies in the Latin American region. Since 2016, the regional average has improved moderately, from 2.23 to 2.43 points in 2020. However, the regional average score declined to 2.24 in 2022. In that period, Colombia, Nicaragua, and Peru increased their overall scores by more than 1 point. Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala and Mexico saw a decrease in their scores in 2022 when compared with 2014. The remaining six countries in the region saw small improvements in their overall score. No change in score is seen in Dominican Republic and Uruguay.

Each country in Latin America should seize the opportunity to improve their cigarette excise tax policies going forward, particularly by raising rates annually to outpace the combination of inflation and income growth. Not only will this improve population health, but governments will reap significant fiscal benefits as well.