

Cigarette Tax Scorecard: Spotlight on Indonesia

Key Messages

- In 2022, in the third edition of the Tobacconomics Cigarette Tax Scorecard, Indonesia scored 1.88 out of 5 points. This is lower than the average score of its country income group and the global average.
- Among the four components used to calculate the overall score, Indonesia received the most points in tax share component, with a score of 3 points.
- In contrast, Indonesia scored zero point in change in affordability, and 1 point in the tax structure components.
 - The annual average percentage change between 2016 and 2022 was 1.56%. Cigarettes cost only 34,375 IDR (\$Intl 6.32)
 - Indonesia continues to use a highly problematic tiered specific excise tax structure.
- Indonesia's overall score increased from 2014 to 2020, and then it decreased in 2022 due to a significant reduction in the affordability change score. There was an increase in the tax share score from 2018 to 2022.

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, Indonesia 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.

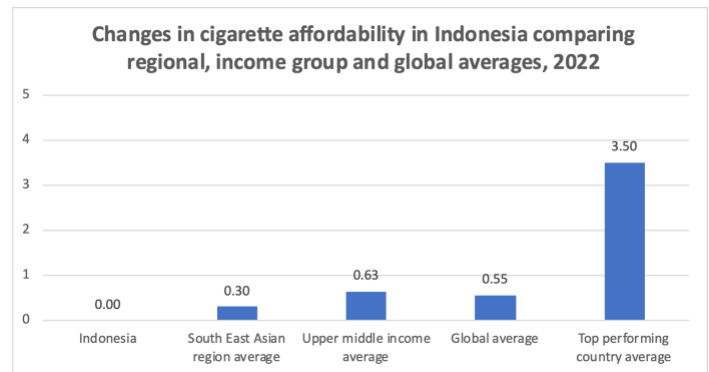
Though Indonesia scored 3 points out of 5 in this component, cigarette prices remain low as the price of a 20-pack of the most-sold brand is 34,375 IDR (\$Intl 6.23) in 2022. This is significantly less than the recommended minimum of 56,053 IDR (\$Intl 10.31).



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.

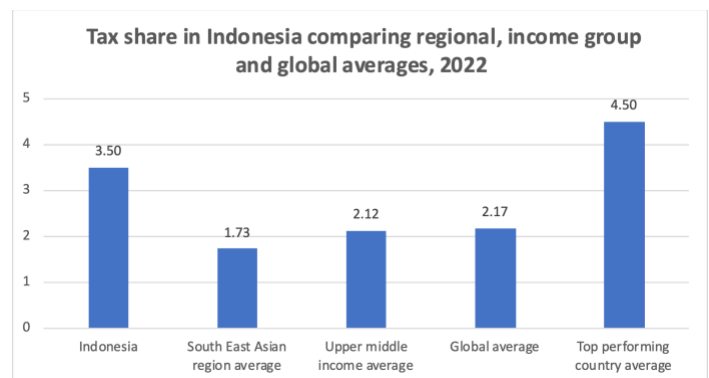
Indonesia scored zero in this component in 2022, lower than the regional, income group, and global averages. The affordability score together with the price score discussed above suggest that cigarettes are affordable to most Indonesians.



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.

Indonesia scored 3.50 points out of 5 in 2022. The excise tax share is only 57.36% of price, leaving significant room for improvement to reach the 70% minimum recommendation. Also, because tax share is greatly affected by price, the low 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, Indonesia received only 1 point out of 5. The country scored lower than the income group, regional, and global averages as a result of its tiered specific excise tax structure.

Tiered structures generally mean large price ranges that provide opportunities for smokers to switch to a cheaper cigarette when prices increase. Tiered structures also give tobacco companies more opportunities to avoid paying taxes.



Scores Over Time

Indonesia's overall score increased from 2014 to 2020, and then it decreased in 2022 due to a significant reduction in the affordability change score. There was an increase in the tax share score from 2018 to 2022. It would greatly benefit from reducing cigarette affordability, improving the tax structure, higher cigarette prices, and increasing the tax share of price.

Score Component	2014	2016	2018	2020	2022
Cigarette Price	2.00	2.00	3.00	3.00	3.00
Changes in cigarette affordability	0.00	0.00	0.00	3.00	0.00
Tax share	2.00	2.50	2.00	2.50	3.50
Tax structure	1.00	1.00	1.00	1.00	1.00
Overall score	1.25	1.38	1.50	2.38	1.88

Policy Implications and Recommendations

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

- To improve its tax structure, Indonesia should replace its tiered specific tax with a **uniform specific excise tax on cigarettes** or a hybrid structure (both ad valorem and specific taxes) that relies more on the specific tax.
 - These specific taxes must be adjusted annually to outpace inflation and economic growth.
 - An improved tax structure with regular and sufficient tax increases will reduce cigarette affordability in Indonesia.
- Indonesia 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.