

Cigarette Tax Scorecard: Spotlight on Brazil

Key Messages

- In 2022, in the third edition of the Tobacconomics Cigarette Tax Scorecard, Brazil scored 1.75 out of 5 points. This is lower than the average score of countries in its region and country income group, and the global average.
- Among the four components used to calculate the overall score, Brazil received the most points in the tax structure component, with a score of 4 points.
- Brazil scored zero points in the cigarette price at BRL 5.50 (\$Intl 2.15), and the country has not been automatically adjusting the specific tax component to account for inflation.
- It also scored zero points in change in affordability component. The annual average percentage change between 2016 and 2022 was -7.76%. This was a statistically significant change indicating that cigarette have actually become more affordable in Brazil.
- Brazil's overall score has been decreasing since 2016. It reached its lowest score in 2022 due to a reduction in the cigarette price score. The rest of the component scores remained unchanged in 2022 in compared with 2014.
- Brazil should update its cigarette taxes to recover its capacity to effectively reduce tobacco consumption. The current Constitutional Amendment discussion in Congress is a great opportunity to enhance the current tax structure and increase cigarette prices, reducing consumption and increasing revenues.

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.

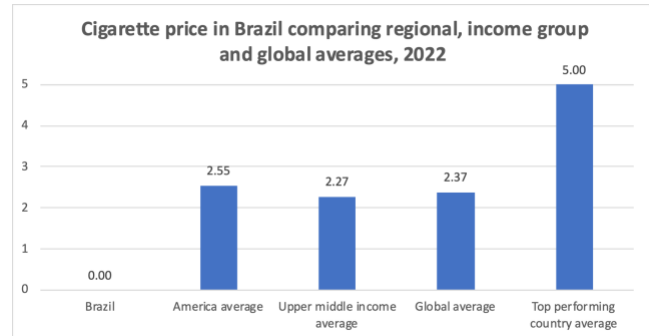
By implementing more effective cigarette tax policies, Brazil would improve the health of its population, while raising additional tax revenue for the government.

Country Findings

Cigarette Price

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

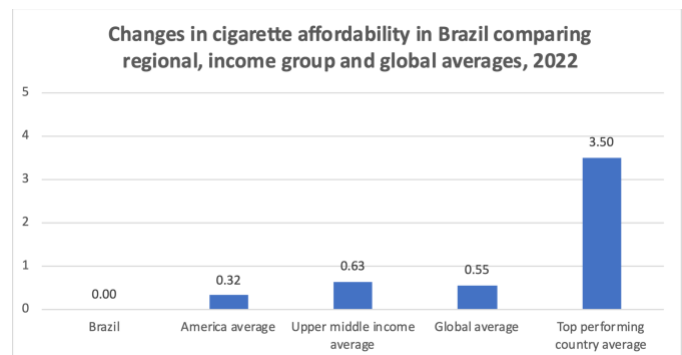
Price for 20-cigarette pack of most sold brand in 2016 was BRL 6.24 (\$Intl 2.93). The price decreased to 5.25 (\$Intl 2.22) in 2020. From 2014 to 2020, Brazil received a score of 1 out of 5 in the cigarette price component. Despite a slight price increase in 2022, cigarette prices remain low, with the price at BRL 5.50 (\$Intl 2.15). When converting the price using 2018 prices, this is equivalent to \$Intl 1.87, resulting in Brazil scoring zero points for cigarette pricing in 2022.



Change in Cigarette Affordability

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

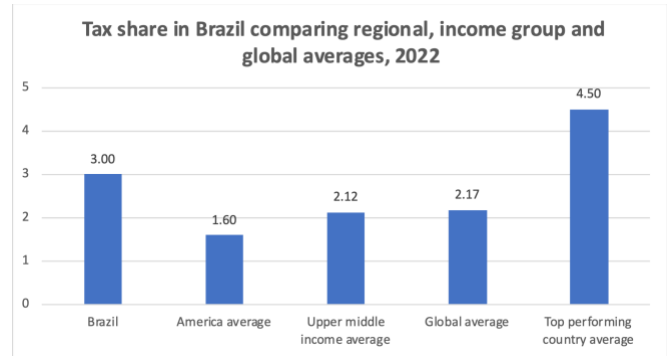
Brazil has not updated the cigarette prices since 2016, resulting in zero score in this component, with an annual average percentage change of -7.76% between 2016 and 2022. The negative change was statistically significant, indicating an increase in cigarette affordability. The affordability score together with the price score discussed above suggest cigarettes are becoming more affordable to most Brazilians.



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.

Brazil scored 3 points out of 5 in 2022. The excise tax share, however, is only 37.27% of price of the most sold brand, leaving significant room for improvement to reach the minimum 70% recommendation. Also, because tax share is greatly affected by price, the low prices mean that a higher tax share score overstates the effect.

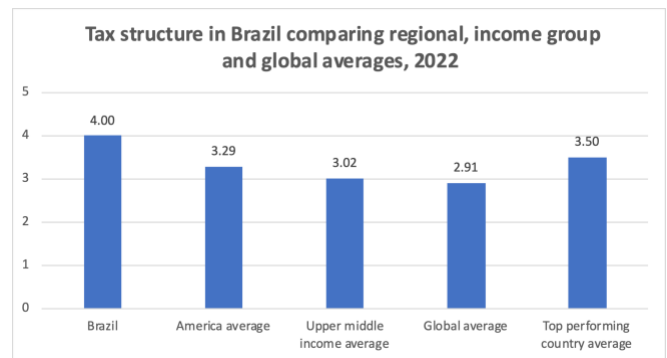


Tax Structure

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, Brazil received 4 points out of 5. The country scored higher than the income group, regional, and global averages as a result of its mixed excise tax structure with greater reliance on the specific tax. To attain the highest score in the tax structure component, Brazil

should implement automatic adjustments to its specific tax component to account at least for inflation and income growth.



Scores Over Time

Brazil's overall score has been decreasing since 2016. It reached to its lowest score in 2022 due to cheaper cigarette price and lack of improvement in specific component in the tax structure which results in failure to reduce affordability over time. Many of the component scores remained unchanged in 2022 insince 2018, signifying room for improvement.

Brazil's scores over time, 2014-2022					
Score Component	2014	2016	2018	2020	2022
Cigarette Price	1.00	1.00	1.00	1.00	0.00
Changes in cigarette affordability	3.00	3.00	0.00	0.00	0.00
Tax share	1.50	2.50	3.50	3.00	3.00
Tax structure	1.00	5.00	4.00	4.00	4.00
Overall score	1.63	2.88	2.13	2.00	1.75

Policy Implications and Recommendations

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

- Brazil should significantly raise the tax on cigarettes to **increase the price of cigarettes**. A new excise tax structure is currently being discussed as part of a Constitutional Amendment, which is a great opportunity to incorporate the effective measures implemented by Brazil until 2016. At the same time, the reform is an opportunity for the government to strive for excise taxes to account for at least 70% of retail prices.
- The new tax structure on cigarettes will also include a specific tax component. To improve the tax structure, Brazil should implement an **automatic adjustment to the specific tax** to outpace inflation and economic growth.
- A solid tax structure with regular and sufficient tax increases will reduce cigarette affordability in Brazil repositioning Brazil as a global leader on fiscal policies on tobacco products.