

Centro de Investigación Económica y Presupuestaria, A.C.
Adrian Garcia Gomez | adriangarcia@ciep.mx

1 | INTRODUCTION.

The 2020 Economic Package includes an Amendment to the Tax Law (SHCP (2019)) that proposes an IEPS Tax Update to tobacco products. Based on CIEP estimations, a tax increase on cigarettes results in reducing sales and collecting more public revenue, which can be used to address health problems caused by tobacco consumption.

2 | POLICY IMPLICATIONS.

- Increasing taxes on tobacco means reducing consumption, and thus, a decrease in medical expenses incurred due to tobacco consumption-related diseases.
- Increasing taxes on tobacco results in higher tax collection that should be used to address health problems caused by tobacco consumption-related diseases.

3 | EVIDENCE

The Special Tax on Production and Services (IEPS) on tobacco products was first introduced in 1981 and has undergone several amendments over time. The most recent amendment was introduced in 2011, when an *ad valorem* component and a specific component were included. The *ad valorem*¹ component accounted for 160% over the manufacturing price while the specific component was of \$0.35 MXN per cigarette.

The 2020 Economic Package leaves the *ad valorem* component unchanged while the specific component is updated based on the cumulative inflation for the 2011-2019 period. This will change the specific component of \$0.35 MXN per cigarette for \$0.4944 MXN per cigarette. CIEP estimated the impact of these measures on tax collection and consumption. For the purposes of estimations, CIEP estimated a demand price elasticity of -0.424.

The results of these estimations show that under the update, the tax burden of the packs of cigarettes would represent 67.2% of the final product price, instead of the original 65.4%. Consequently, the price would increase by 7.90% and cigarette sales would be reduced by 3.4%. Additionally, IEPS tax collection on tobacco products would increase by 7.7% while VAT collection would increase by 4.3%. This would result in a total tax collection increase of 7.0%, IEPS and VAT inclusive.

¹ It refers to a tax rate on value.
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CHART 1. Tobacco

2018

Collection Amounts in Million Pesos

Item	Status Quo	Economic Package	Growth
Elasticity	N/A	-0.424	N/A
Final Sale Price	48.77	52.62	7.90%
VAT	6.73	7.26	7.90%
Price with Mark-Up	42.04	45.37	7.90%
Retail Mark-Up	5.48	5.92	7.90%
Price with IEPS	36.56	39.45	7.90%
IEPS	25.19	28.08	11.75%
Factory Price	11.37	11.37	0.00%
IEPS Tax Collection	47,611	51,292	7.7%
VAT Tax Collection	12,714	13,259	4.3%
Total Tax Collection	60,325	64,551	7.0%
Sales (Millions of Packs)	1,890	1,827	-3.4%
Tax % Over Price	65.4%	67.2%	2.6%

Created by CIEP with information retrieved from INEGI (2018b).

The results are shown in Chart 1 1.

4 | FINAL REMARKS.

The IEPS Tax update on tobacco products for 2020 would result in an increase in tax collection, which in turn would reduce future health expenditure incurred due to tobacco consumption-related diseases. The resources obtained should be used in the health system in order to create a more efficient public policy focused not only on reducing consumption, but also on having more appropriate expenditures on healthcare and prevention.

LITERATURE

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