

Tobacco Taxes in Mexico

Based on *The Economics of Tobacco and Tobacco Taxation in Mexico* by Hugh Waters, Belén Sáenz de Miera, Hana Ross, and Luz Myriam Reynales Shigematsu.

Tobacco use in Mexico

- Approximately one-fifth (19%) of Mexicans 20 years of age and older smoke (30.4% of men and 9.5% of women).
- Smoking rates among adolescents are alarmingly high—ranging by region from 13% to 28%.

Impact of tobacco use in Mexico

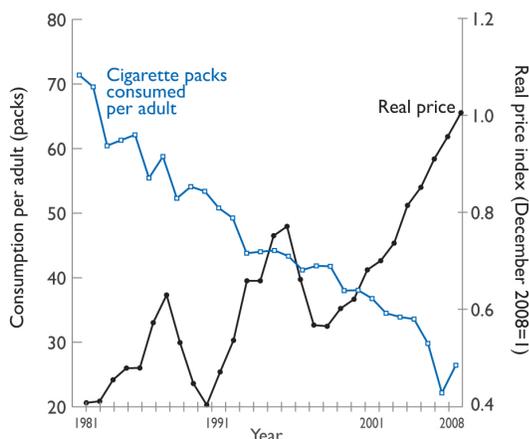
- Smoking kills 25,000 to 60,000 people each year in Mexico.
- Nearly 11 million adult non-smokers—25% of men and 22% of women—are exposed to secondhand smoke. Up to 60% of youth aged 13-15 are exposed to secondhand smoke in public places.
- In 2008, healthcare costs for treating tobacco-related diseases in Mexico were estimated at 75.2 billion pesos (5.7 billion USD). This estimate is based on total health expenditures, and assumes that tobacco-related treatment costs represent 10% of all healthcare costs.

Higher taxes reduce smoking

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases. Higher prices discourage youth from initiating cigarette smoking and encourage current smokers to quit.

In Mexico, as the real price of cigarettes has increased, consumption has decreased.

Cigarette Consumption and Real Price (1981-2008)



Raising tobacco taxes is a win-win situation for Mexico. Increasing tobacco taxes will increase tobacco tax revenues while reducing smoking and its negative health and economic effects.

Tobacco taxes in Mexico

Cigarette taxes in Mexico are low when compared internationally.

- Mexico imposes an excise tax called the Special Tax on Products and Services (STPS) and a Value-Added Tax (VAT). The VAT applies to nearly all goods and services.
- The STPS includes an ad valorem and a specific tax.
 - The ad valorem component of the STPS on cigarettes is 160% of the price from wholesaler to retailer.
 - A specific tax on cigarettes is being phased in: 0.80, 1.20, 1.60, and 2 pesos per pack of 20 cigarettes in the years 2010, 2011, 2012, and 2013, respectively. The tax is not automatically adjusted for inflation.
- In November 2009, the VAT was increased from 15% to 16% of the price to the consumer.
- Total taxes on a cigarette pack add up to 62.8% of the price.

Tobacco taxes save lives and increase government revenue

Raising tobacco taxes in Mexico will reduce tobacco consumption, save lives and increase government revenues.

The impact of four tax scenarios on tobacco consumption, lives saved and government tax revenue is presented in Table 1.

Raising the specific tax component of the STPS to 20 pesos per pack by 2013 (Scenario 4 in Table 1) would increase total tax to 75% of retail price, prevent close to 1 million smokers from dying prematurely and result in STPS excise tax revenues of 41 billion pesos in 2013.

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Table 1: Impact of taxes on lives saved and government revenue

	Scenario 1¹ (Current law)	Scenario 2²	Scenario 3³	Scenario 4⁴
Specific tax	Gradual increase to 2 pesos in 2013	Immediate increase to 2 pesos in 2010	Gradual increase to 2 pesos in 2013	Gradual increase to 20 pesos by 2013
Ad valorem Tax in 2013	160%	160%	350%	160%
Total tax, including VAT as % of final price by 2013	64%	64.3%	75.3%	75.2%
Reduction in number of smokers	290,000	460,000	2.6 million	2.8 million
Lives saved	100,000	160,000	900,000	980,000
STPS excise tax revenue in 2013	33.9 billion	34.3 billion	41.6 billion	41.7 billion
STPS excise tax revenue for 2010 to 2013	123.7 billion	127.6 billion	152 billion	155 billion

1. A gradual increase in the specific tax of 2 pesos per packet, without adjustments for inflation. The specific tax would increase by 0.80, 1.20, 1.60, and 2.00 pesos per pack in the years 2010, 2011, 2012, and 2013, respectively. Maintain ad valorem tax of 160% (current law since January 2010).

2. Immediate implementation of specific tax of 2 pesos per pack in 2010, with adjustments for inflation. Maintain ad valorem tax of 160%.

3. Increase the specific tax to 0.80, 1.20, 1.60, and 2.00 pesos per pack in the years 2010, 2011, 2012, and 2013, with adjustments for inflation. Increase the ad valorem rate (from 160% to 350%) so that total tax is equal to 75% of total price by 2013.

4. Increase the specific tax so that total tax is equal to 75% of total price by 2013. Maintain the ad valorem tax of 160%.

Recommendations

- **Increase excise taxes substantially** so total tax (excise plus VAT) reaches 75% of retail price—compatible with international best practices and characteristic of countries with successful tobacco control policies.
- **Increase reliance on specific tobacco taxes** over ad valorem taxes. Specific taxes are easier to administer and tend to reduce the difference in prices among brands, discouraging the tendency to substitute toward cheaper cigarettes when taxes are increased.
- **Adjust specific taxes upwards for inflation** by administrative order. Otherwise the taxes will lose their value over time.
- **Strengthen tobacco tax administration.** Successful tobacco tax administration will depend on comprehensive registration and licensing of all commercial producers, importers, and wholesale retailers.
- **Consider earmarking part of the additional tobacco tax revenue** to fund public health efforts to reduce tobacco consumption, fund other health services and strengthen mechanisms to combat illicit trade in tobacco products.