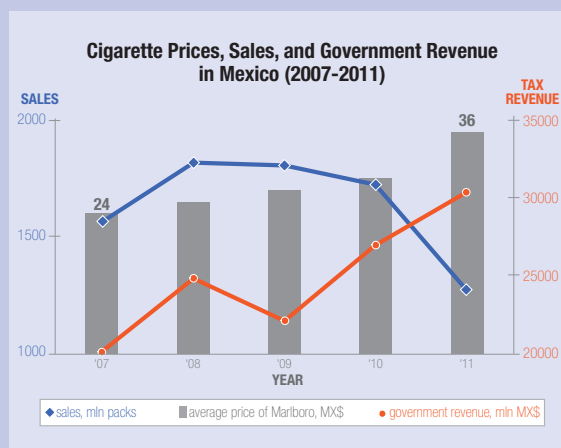


TOBACCO TAX SUCCESS STORY MEXICO

FCTC ARTICLE 6

Price and tax measures are an effective and important means of reducing tobacco consumption... Each party should... adopt... tax policies and... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

Between 2009 and 2011, the specific tobacco tax in Mexico was raised to 7 pesos per pack of 20 cigarettes—raising total taxes for a pack of Marlboro to 69% of the retail price. During the same period, tobacco sales dropped by 30% and government revenue increased from tobacco taxes by 38%.



The most effective method for reducing tobacco consumption is to increase the price of tobacco products through tax increases. Higher tobacco prices encourage cessation among existing tobacco users, prevent initiation among potential users, and reduce the quantity of tobacco consumed among continuing users.

Sources

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Tobacco Use

Almost 11 million (16%) of Mexican adults (age 15+) smoke. Almost 25% of men and 8% of women smoke. Among youth (age 13-15) in Mexico City, over 27% smoke cigarettes.

Tax Structure

Tobacco products in Mexico incur an excise tax called the Special Tax on Products and Services (STPS), which includes a specific and ad valorem tax. For manufactured cigarettes, the ad valorem rate is based on the wholesale price. Products also incur VAT.

Tax Change

In 2009, tobacco products were subject to an ad valorem rate of 160%. There was no specific tax. Total taxes, including 15% VAT, amounted to 61.4% of retail price.

In January 2010, Mexico added a specific tax of 80 cents per pack of 20 cigarettes, which was legislated to rise to 2 pesos per pack by 2013. VAT was raised from 15% to 16%.

In January 2011 in place of the 2010 incremental increases, the specific tax was raised to 7 pesos per pack effective immediately.

After the increase in 2011, total taxes for a pack of Marlboro amounted to 69% of the total retail price.

Public Support. A public opinion poll conducted in 2010 found that 7 out of 10 Mexicans support increasing tobacco taxes.

Industry Reaction. Immediately following the 2011 tax increase, the tobacco industry claimed that government revenue was lower than expected due to increases in illicit trade. However, a review of cigarette sales to retailers showed that the industry built up inventory in late 2010 to avoid paying the increased taxes in early 2011, thereby causing the reduction in expected government revenue.

Impact of Tax Increase

Tax and Price

Between 2009 and 2011, the specific tax was increased to 7 pesos per pack. The average price of a pack of Marlboro increased 36% from MX \$28 to MX \$38.

Sales

Cigarette sales has declined by almost 30% from 1.81 billion packs in 2009 to 1.27 billion in 2011.

Government Revenue

Government revenue from tobacco taxes increased 38% from MX \$22 billion in 2009 to MX \$30 billion in 2011, even as sales declined.