

# Cigarette Tax Scorecard: Spotlight on Paraguay

## Key Messages

- In the Tobacconomics Cigarette Tax Scorecard, Paraguay scored only 0.50 out of 5 possible points. This is significantly lower than the averages of its region, income group, or the world, suggesting ample room for improvement.
- Of the four components used to calculate the overall score, Paraguay received the most points in tax structure, with a score of 2 points. Still, Paraguay's uniform ad valorem excise tax structure is far from the optimal structure, a uniform specific tax that adjusts for inflation and growth.
- Paraguay scored 0 points in all three of the other components: cigarette price, affordability change, and tax share. Cigarettes were only ₡2,062 (\$Intl 0.80) in 2018, there was no reduction in their affordability, and the total tax share of price was only 17% (excise tax share was only 8%).
- Scores in Paraguay have not changed since 2016, highlighting the need to update the cigarette tax policies.

## 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.

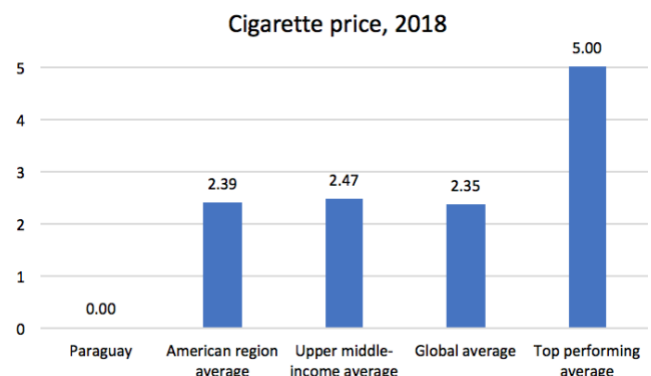
Significantly improving the cigarette tax policies in Paraguay is essential to improve the health of its population, while raising additional tax revenue and providing additional tools to the tax administration to reduce evasion and illicit flows.

## Country Findings

### Cigarette Price

Price is a key determinant of cigarette use. Although less than proportionately, as price increases, demand for cigarettes decreases.

In 2018, Paraguay scored 0 point out of 5, as the price for a 20-pack of the most-sold brand was only ₡2,062 (\$Intl 0.80). This is significantly lower than the average price in similar countries as well as globally.



## Change in Cigarette Affordability

To reduce demand, prices must be increased enough through tax increases to reduce the affordability of cigarettes. Furthermore, they should be regularly updated for inflation and income growth.

Paraguay did not score any points in this component in 2018. Over the 6-year period from 2012 through 2018, there was no change in the affordability of cigarettes.

## Tax Share

The tax share of cigarette price must be high enough so that governments are able to increase their tax revenue after raising cigarette prices.

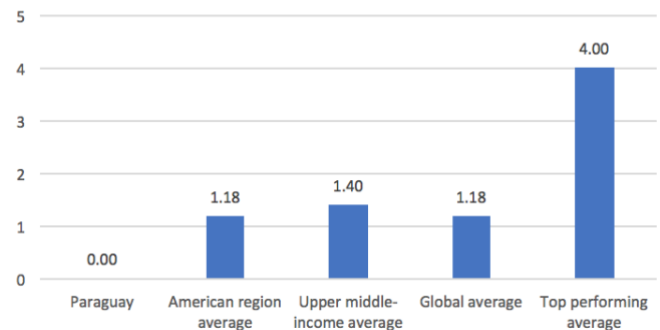
Paraguay received 0 points out of 5 in 2018. The total and excise tax share of price were only 17% and 8%, respectively. Significant improvement is needed to reach the recommended 75% total tax share and the 70% excise tax share.

## Tax Structure

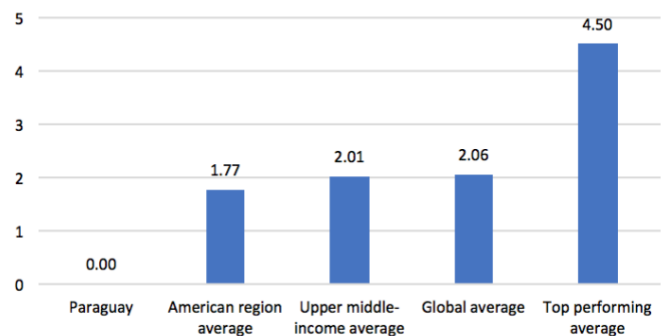
The structure of an excise tax greatly determines its ability to meet public health and revenue goals. A simple, uniform specific tax structure is the most effective way to decrease tobacco use, while maximizing tax revenue.

In this component, Paraguay scored 2 out of 5 points for its uniform ad valorem tax structure. These types of structures are particularly vulnerable to tobacco industry manipulation through pricing. Although this was Paraguay's highest score, it was still lower than the region, income group, and global average.

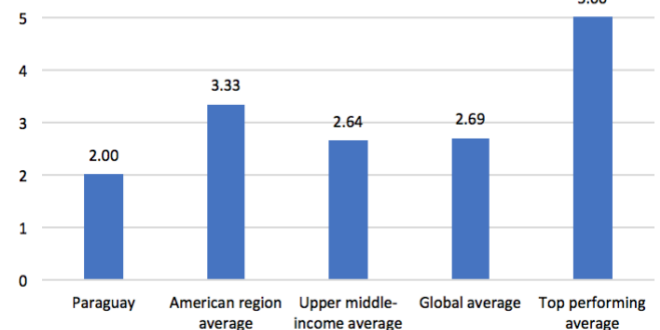
Affordability change, 2018



Tax share, 2018

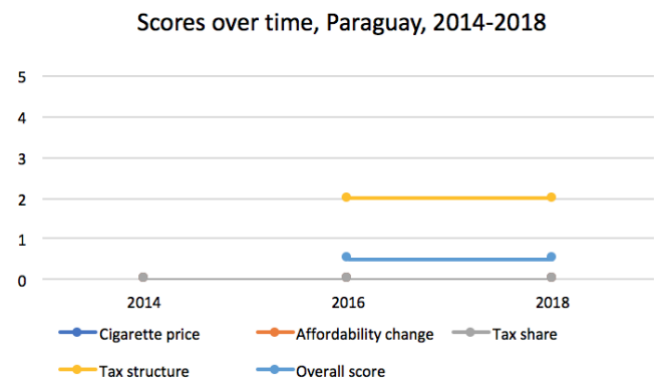


Tax structure, 2018



## Scores Over Time

Between 2014 and 2018, Paraguay's overall scores and its component scores have not changed. There were not sufficient data on the price of cigarettes in the country in 2014. The lack of updates to Paraguay's cigarette tax policies in recent years demonstrates missed opportunities to improve both population and fiscal health.



## Policy Implications and Recommendations

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

- Paraguay should significantly increase the excise tax on cigarettes to **increase the price of cigarettes** from \$2,062 (\$Intl 0.80) per pack of 20 cigarettes.
- In order to reduce affordability of cigarettes over time, Paraguay should **significantly increase tobacco excise taxes**.
- The total tax share of the price should be increased from 17% to at least 75% of the retail price of cigarettes and the **excise tax share should be increased from 8% to at least 70% of the retail price**.
- In order to improve its tax structure, Paraguay should replace its uniform ad valorem tax structure with **a uniform specific excise tax on cigarettes and regularly update this tax** to account for inflation and income growth.