

# TOBACCO TAXES IN MEXICO

A MEANS TO FUND HEALTH CARE AND CREATE JOBS

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## INTRODUCTION

The tobacco industry in Mexico is a tiny economic sector accounting for just 0.01 percent of jobs in the country. Nevertheless, tobacco consumption represents a huge economic burden as the government is left to shoulder the resulting public health cost while tobacco taxes contribute very little. Given the size of the sector in the economy, an increase in tobacco tax would not lead to a significant loss of employment in the country – on the contrary, it could create more work in other more dynamic sectors than the tobacco industry. In addition, this measure would enable the government to increase the resources needed to address tobacco-related diseases.

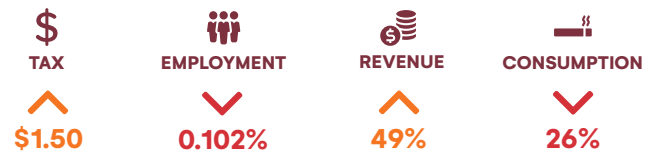
## IMPACT OF THE TOBACCO EXCISE TAX IN MEXICO

Since early 2020, the specific component of the Excise Tax on Production and Services (IEPS) has been set at 0.4944 pesos per unit (or 9.88 pesos per pack of 20 cigarettes), meaning that total tax accounts for 70 percent of the retail price of a pack of cigarettes. However, this percentage is insufficient to bring about an effective reduction in consumption (WHO, 2015).

**How does an increase in excise tax affect the economy?**

The tobacco sector is marginal with respect to other production sectors in Mexico and contributes little to job creation.

**Figure 1. Impact from a tax increase on tobacco**

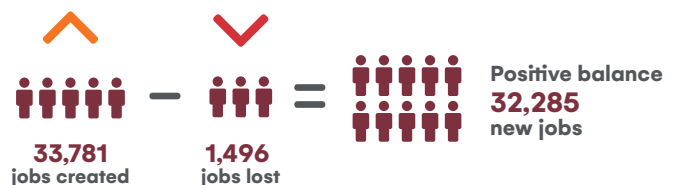


Source: CIAD.

A tax reform of 1.50 pesos per cigarette would lead to the loss of just 0.102 percent of jobs nationally. At the same time, revenue from IEPS on tobacco would increase by 49 percent, while consumption would fall by 26 percent (CIAD, 2021).

However, the minimal loss of employment can be compensated for if the government invests revenue from the IEPS on tobacco to cover tobacco-related costs in the health sector. In addition to reducing cigarette consumption, this tax reform would also create 33,781 jobs across different sectors of the economy.

**Figure 2. Impact of IEPS revenue investment in the health sector**

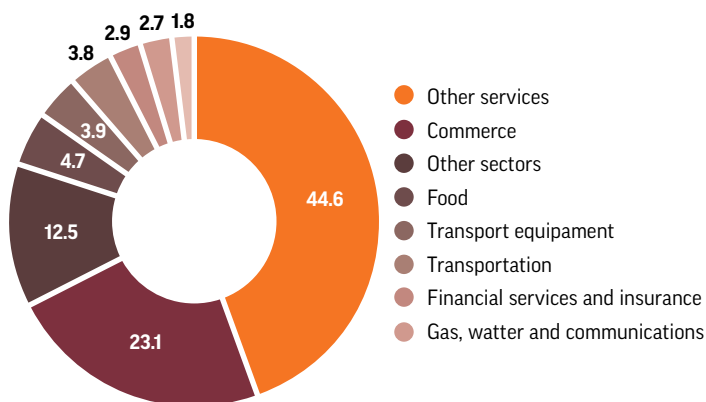


Source: CIAD.

## Which sectors of the economy would see the most jobs created?

The economic spillover from investing tobacco IEPS in the health sector would open up new jobs in 25 production sectors mainly in other services –health, education, real estate and housing, business support– (44.6%), commerce (23.1%), other sectors (12.5%), food (4.7%), and transport equipment (3.9%).

**Graph 1. Job creation by sector as a result of IEPS revenue investment (percentage distribution)**



Source: CIAD.

Other sectors that would see an increase include plastic and rubber (1.7%), clothing (1.4%), metal products (1.3%), other manufacturing (1.3%), beverages (1%), wood and paper (1%), among others, totalling an amount of 12.5%.

Furthermore, 93.7 percent of sales in the tobacco sector are final, so there is very little interaction between the tobacco industry and other sectors (just 6.3 percent are intermediate sales). There are also other positive impacts on the economy. With households spending 37.4 percent less on tobacco, consumers direct this money toward other services with a greater impact, such as education, health, pharmaceuticals, clothing, and transport.

## ALLOCATING TOBACCO EXCISE TAX CAN BE DONE

Goods that have an adverse impact on health are subject to excise tax (this occurs with alcohol, sugary beverages, and cigarettes, among others). Allocating this revenue enables the government to allocate resources for a specific purpose and understand first hand what resources are needed.

Since 2014, revenue from the IEPS on sugary drinks has been used to fund prevention and control programs for obesity and diabetes and to provide access to drinking water. However, this has not yet occurred with the IEPS raised from tobacco.

## CONCLUSIONS

Smoking is an ongoing problem in Mexico and the tobacco industry poses an ever-present threat to the health of the Mexican people. The World Health Organization has reported that an excise tax on tobacco is the most effective way to reduce consumption while providing a substantial source of revenue for governments.

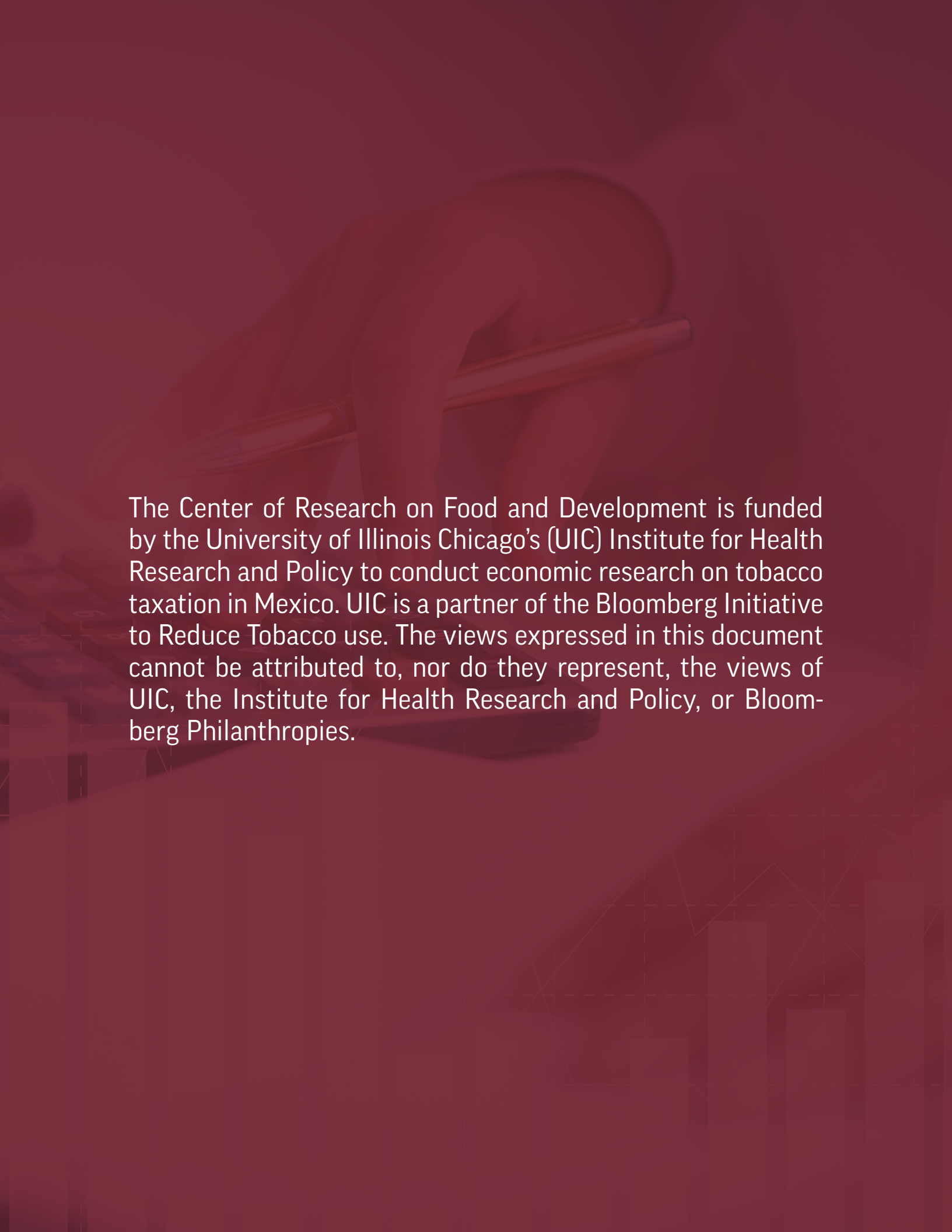
An increase in the specific component of the IEPS to 1.50 pesos would bring tobacco excise tax revenue up to 0.39 GDP points (far beyond what was achieved by the current reform, with increased revenue only from 0.20 to 0.22 percent of GDP).

Promoting this initiative would meet the WHO recommendation and alleviate the burden on the health sector by providing funding for tobacco-related diseases, while creating jobs across a range of sectors of the economy, such as in commerce and health care. This would all be made possible through a 49 percent increase in current tobacco revenue levels.

To achieve this, the government should promote further tobacco tax reform and assign this revenue to improve health and hence the quality of life of the most vulnerable and those hardest hit by smoking related diseases.

## REFERENCES

- World Health Organization (2015). WHO report on the global tobacco epidemic, 2015: raising taxes on tobacco. (Fifth Report). Retrieved from [https://apps.who.int/iris/bitstream/handle/10665/178574/9789240694606\\_eng.pdf?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/178574/9789240694606_eng.pdf?sequence=1)
- CIAD (2021). A general equilibrium analysis of the macroeconomic impacts of tobacco taxation. Technical report, February, Sonora-Mexico.

A person is shown from the chest up, holding a lit cigarette. The image is heavily stylized with a dark red color scheme and a white grid pattern overlaid on the background. The person's face is partially obscured by the grid and the cigarette.

The Center of Research on Food and Development is funded by the University of Illinois Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Mexico. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.