

## Cigarette Tax Scorecard: Spotlight on Indonesia

### Key Messages

- In 2020, in the second edition of the Tobacconomics Cigarette Tax Scorecard, Indonesia scored 2.38 out of 5 points. This is higher than the average score of countries in its region and income group, yet much lower relative to top-performing countries.
- Of the four components used to calculate the overall score, Indonesia performed best in the cigarette price and affordability change components, receiving 3 out of 5 points in each. The price of a pack of 20 cigarettes of the most-sold brand is 30,625 Indonesian Rupiah (\$Intl 6.22), and affordability was reduced by 3.31% on average annually between 2014 and 2020.
- Indonesia scored only 1 point for its tax structure, which represents an opportunity for improvement. Instead of the optimal uniform specific excise tax, the country utilizes a complex, tiered specific excise tax structure.
- The overall score in Indonesia increased between 2014 and 2020 due to a reduction in the affordability of cigarettes. The other component scores improved only slightly or remained unchanged.

### 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.

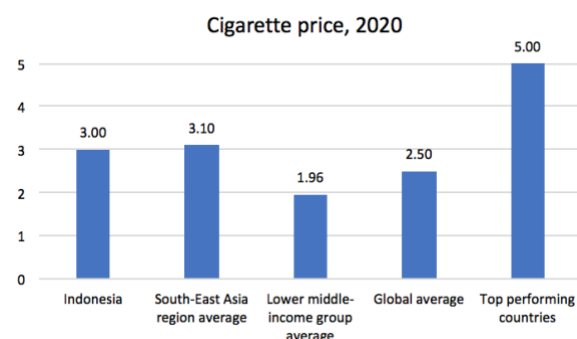
By implementing more effective cigarette tax policies, Indonesia would improve the health of its population, while raising additional tax revenue for the government.

### Country Findings

#### Cigarette Price

Price is a key determinant of cigarette use— as the price increases, demand decreases.

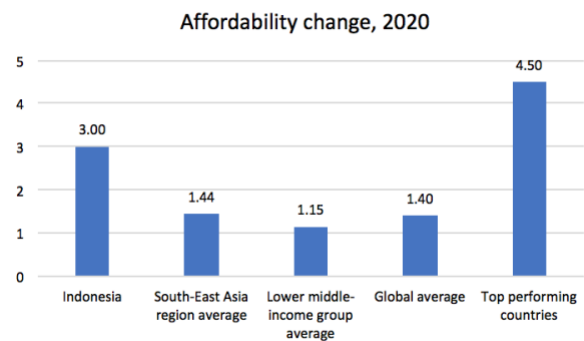
In 2020, Indonesia scored 3 points out of 5 in this component. A 20-pack of the most-sold brand is 30,625 Indonesian Rupiah (\$Intl 6.22). This is less than the recommended minimum of 49,236 Indonesian Rupiah (\$Intl 10.00).



## Change in Cigarette Affordability

To reduce demand, cigarettes must become less affordable. As cigarettes become less affordable, consumers buy fewer and many will stop buying them altogether. As part of this effort, at a minimum, cigarette prices should be updated regularly for inflation and income growth.

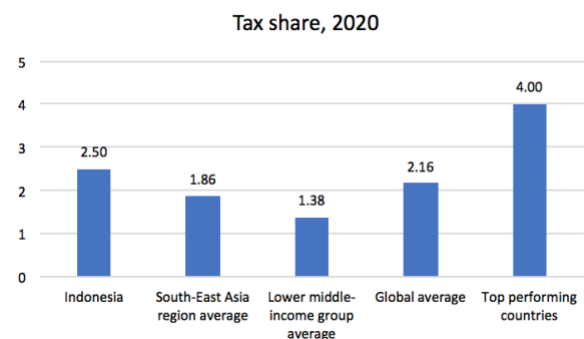
Indonesia significantly reduced the affordability of cigarettes by 3.31% on average each year between 2014 and 2020, earning 3 points in this component out of 5. Larger reductions are needed to reach top performing countries.



## Tax Share

A high tax share of price is generally a good indicator of cigarette tax effectiveness and is essential to raise government tax revenues from cigarettes.

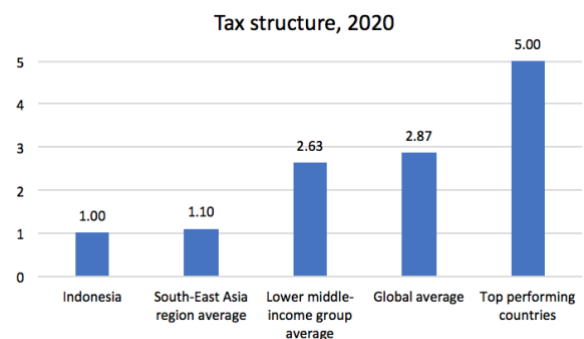
Indonesia scored 2.50 points out of 5 in 2020. The total tax share of price is 62% and the excise tax share is 48%. This is lower than the recommended 75% and 70% total and excise tax share of price, respectively.



## Tax Structure

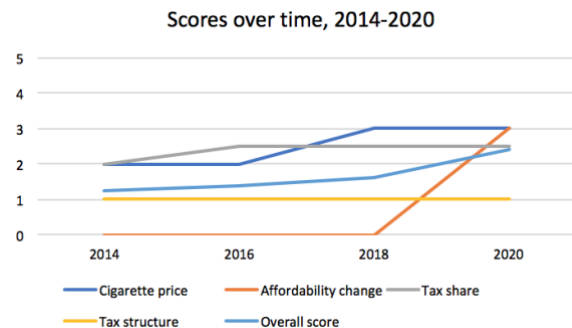
Tax structures vary in their effectiveness when it comes to reducing tobacco use and collecting tax revenues. Uniform specific excise tax systems that at least adjust annually for inflation are generally the most effective and easiest to administer.

Indonesia scored only 1 point for its tiered specific excise tax system, which is much less effective than a uniform specific excise tax.



## Scores Over Time

Indonesia's overall score increased slightly between 2014 and 2020. Improvements in the overall score were driven by the price and affordability components. While both changes were due to a 2020 tax increase, the affordability of cigarettes has also declined in response to pandemic-related economic slowdown. The tax structure, on the other hand, remained unchanged and represents the most significant opportunity for improvement of Indonesia's cigarette tax policy.



## Policy Implications and Recommendations

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

- Indonesia should significantly increase its excise tax to **raise the price of cigarettes to at least 49,236 Indonesian Rupiah (\$Intl 10.00)**.
- Indonesia should aim to **increase the total tax share of price and the excise tax share to at least 75% and 70%**, respectively.
- Indonesia should simplify its complex tiered tax structure with a **uniform specific excise tax structure with regular increases to outpace inflation and economic growth**.