

# There Is Room to Increase Tobacco Taxes in Argentina

## KEY MESSAGES



**Government can increase tobacco taxes to make cigarettes less affordable and boost tax revenues.** Reforms to the current tax structure can be implemented through different tax designs. Higher tax collection and lower consumption can be obtained by simply increasing the ad valorem rate of the current internal tobacco tax, but also by modifying the current tax structure through the implementation of a specific fixed tax per pack.



**Using its statutory power, the Ministry of Economy can reduce cigarette consumption by approximately 11 percent and increase the total tax collection on tobacco products by about 10 percent (an increase of 0.05 percent of GDP).** Moreover, simulations show that increasing the ad valorem rate of the internal tobacco tax (II) from 70 percent up to 75 percent would increase cigarette prices by 18 percent.



**A tax reform in line with the best practices on tobacco taxation** requires a tax discussion in Congress. Implementing an II tax with a specific fixed component of about \$100 per pack plus a 20 percent ad valorem rate **would increase the retail price by 42 percent, and consumption would drop by 26 percent.** This would generate an increase of around 15 percent in total tax collection (an increase of about 0.08 percent of GDP).

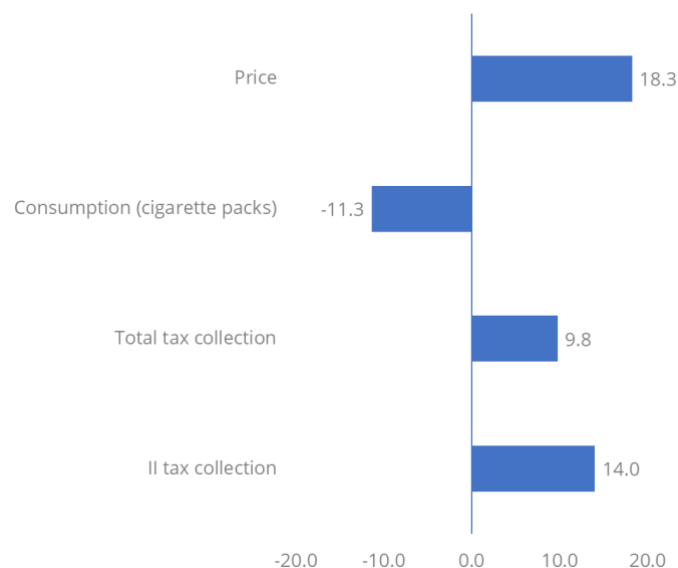
## WHY INCREASE TOBACCO TAXES?

Tobacco kills millions and burdens millions more with disability and illness. Tobacco use imposes high economic costs in terms of direct medical care as well as losses in productivity. The most effective and cost-effective policy to reduce tobacco consumption is to increase tobacco taxes. Through increased tobacco taxes, governments discourage tobacco consumption, promote a healthier and more productive population, and increase tax revenues. This Policy Brief analyzes relevant aspects of potential tax reforms in Argentina. Specifically, CEDLAS developed a set of tax simulations that allows evaluation of potential tobacco reforms (CEDLAS, 2022). Two different reform scenarios are presented here focusing on cigarette consumption, tobacco tax burden, and tobacco tax collection.

## INCREASING TOBACCO TAXES BY DECREE

Current legislation in Argentina allows for an increase of the ad valorem Internal tax on cigarettes (II) from 70 percent up to 75 percent by decree of the Executive Power, without consideration by the National Congress. This reform would increase the retail price by 18.3 percent (Figure 1). This price increase would decrease cigarette consumption by approximately 16.5 million packs per month. That is an 11.3 percent drop in consumption. The average monthly consumption was around 145.5 million packs in May 2021. The total tax burden on cigarettes would increase from 76.6 percent to 80.3 percent, and total tax collection on tobacco products would increase by around 10 percent (an increase of 0.05 percent of GDP).

**FIGURE 1.** Effects of increasing the ad valorem rate of the II tax from 70 percent to 75 percent – percentage change in price, consumption, and tax collection



Source: Authors' elaboration based on Cruces et al (2022) and the CEDLAS tobacco tax simulation

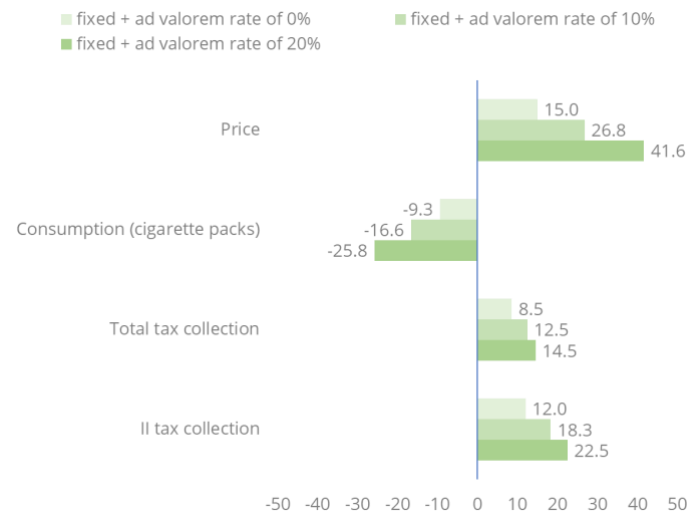
## REFORMING INTERNAL TAXES ON CIGARETTES

Alternatively, the government of Argentina can modify the structure of the II tax. This possibility requires a discussion in the National Congress. In line with best practices on tobacco taxation (WHO, 2012), a specific fixed internal tax of \$99.37 per pack is simulated (replacing the ad valorem rate by a fixed specific component). In this scenario, the retail price would increase from \$147.69 to \$169.87, which represents a 15-percent increase (Figure 2). That would generate a drop in

consumption of 9.3 percent. The resulting total tax burden would be 79.7 percent of the retail price, with the II tax representing 58.8 percent. This reform would generate an increase in the II tax collection of 12 percent and an increase of 8.5 percent in the total tax collection. Under this structure, tobacco tax collection would represent 2.2 percent of total tax collection and 0.54 percent of GDP.

Additionally, alternative tax scenarios are simulated. If the specific fixed tax is combined with an ad valorem rate of 20 percent, the retail price would increase by 41.6 percent, resulting in a drop in consumption of 25.8 percent. The total tax burden as a percentage of the retail price would be 85.5 percent. The newly raised II tax collection would increase by 22.5 percent while the total tax collection would increase by 14.5 percent. Under this structure, tobacco tax collection would represent 2.3 percent of total tax collection and 0.58 percent of GDP.

**FIGURE 2.** Effects of reforming the II tax into a specific fixed tax plus an ad valorem component – percentage change in price, consumption, and tax collection



Source: Authors' elaboration based on Cruces et al. (2022) and the CEDLAS tobacco tax simulation

## CONCLUSION AND POLICY RECOMMENDATIONS

Increasing tobacco taxes is an effective tool to reduce tobacco consumption with positive effects on health, labor productivity, and tax collection.

Overall, there is enough room for the government of Argentina to raise cigarette consumption tax rates to increase the resulting revenue.

Different types of tax reforms can be implemented in Argentina, either simply by increasing the ad valorem rate of the internal tobacco tax (II) or by modifying the structure of the II tax.

Depending on the magnitude of the increase in tobacco taxes, retail prices would likely increase between 15 percent and 41.6 percent. Declines in consumption would range from 9.3 percent up to 25.8 percent. The total tax burden on cigarettes would increase from 76.6 percent in the current pre-reform situation up to 85.5 percent. Tax collection can be increased from 8.5 percent up to 14.5 percent with respect to the current situation.

## REFERENCES

- CEDLAS. (2022). *On the analysis of tobacco tax reforms in Argentina*. Draft Report.
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**This brief summarizes policy analysis outcomes from the report “On the analysis of tobacco tax reforms in Argentina”, elaborated by CEDLAS.**