

Cigarette Tax Scorecard: Spotlight on China

Key Messages

- In 2022, in the third edition of the Tobacconomics Cigarette Tax Scorecard, China scored 0.88 out of 5 points. This is lower than the average scores of its region and country income group, and the global average.
- Among the four components used to calculate the overall score, China received the most points in tax share component, with a score of 1.50 points.
- China scored zero points in the affordability change component. Cigarettes became more affordable between 2016 and 2022.
- China scored 1 point each in the cigarette price and tax structure components. Cigarettes cost only 16.34 CNY (\$Intl 3.46) per pack in 2022 and China continues to use a highly problematic tiered mixed excise tax structure.
- China's overall score remained largely constant between 2014 and 2022. Although the tax share of price increased slightly between 2016 and 2018, it declined in 2020.

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.

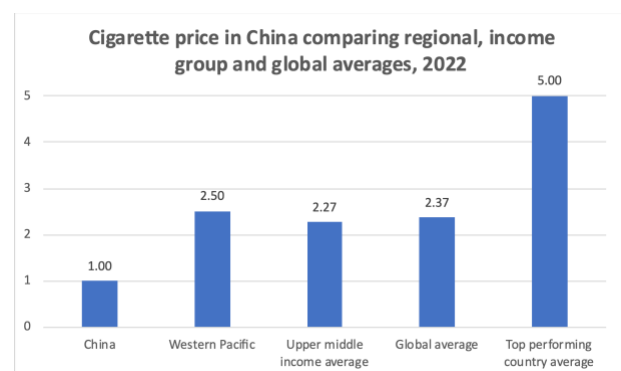
By implementing more effective cigarette tax policies, China would improve the health of its population, while raising additional tax revenue for the government.

Country Findings

Cigarette Price

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

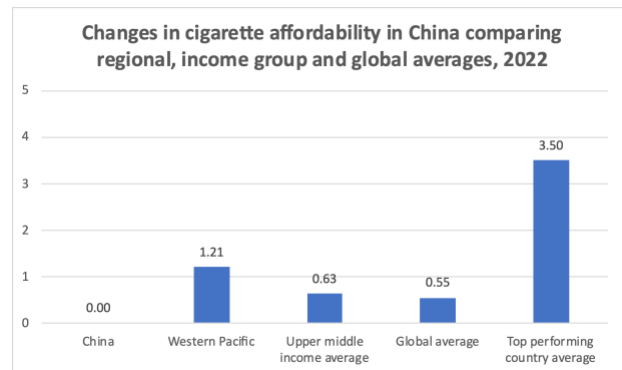
China scored 1 point out of 5 in this component and cigarette prices remain low with the price of a 20-pack of the most-sold brand at 16.34 CNY (\$Intl 3.46) in 2022. This is significantly less than the recommended minimum of 47.23 CNY (\$Intl 10).



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 taxes should be updated regularly for inflation and income growth.

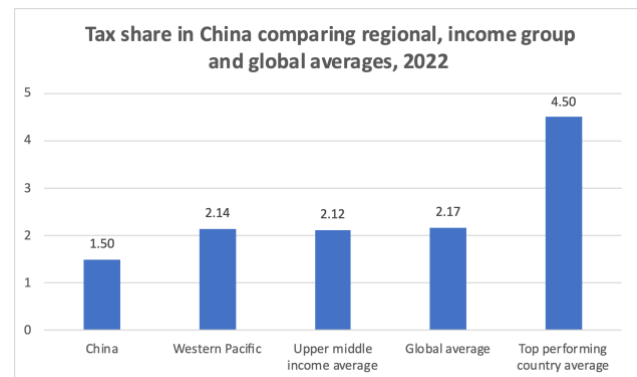
China scored zero in this component, with an annual average percentage change of -3.79% between 2016 and 2022. The negative change was statistically significant, indicating that cigarettes became more affordable. The affordability score together with the price score discussed above suggest that cigarettes are affordable to most Chinese citizens.



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.

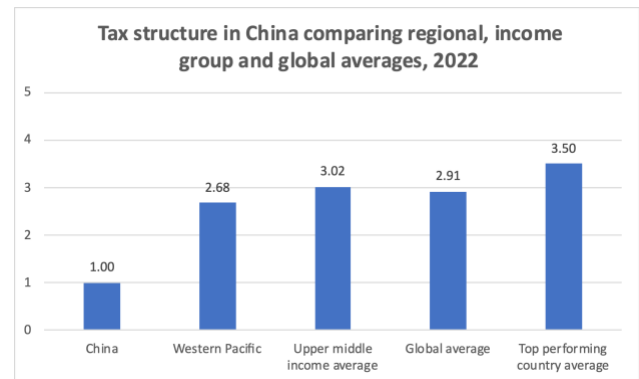
China scored 1.50 points out of 5 in 2022. The excise tax share is only 34.45% of price, leaving significant room for improvement to reach the 70% minimum recommendation. Also, because tax share is greatly affected by price, the low prices mean that a higher tax share score overstates the effect.



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. In this component, China received only 1 point out of 5. The country scored lower than the income group, regional, and global averages as a result of its tiered mixed excise tax structure.

Tiered structures generally mean large price ranges that provide opportunities for smokers to switch to a cheaper cigarette when prices increase. Tiered structures also give tobacco companies more opportunities to avoid paying taxes. In addition, the mixed tax structure does not rely more on the specific tax component, a best international practice, and the excise tax is not adjusted automatically on an annual basis to account for inflation, another best practice.



Scores Over Time

China's overall score was relatively consistent from 2014 to 2020. There was an increase in the tax share score between 2016 to 2018, before declining in 2020. China would greatly benefit from reducing cigarette affordability, improving the tax structure, higher cigarette prices, and thereby increasing the tax share of price.

Score Component	2014	2016	2018	2020	2022
Cigarette Price	1.00	1.00	1.00	1.00	1.00
Changes in cigarette affordability	0.00	0.00	0.00	0.00	0.00
Tax share	1.50	2.00	2.00	1.50	1.50
Tax structure	1.00	1.00	1.00	1.00	1.00
Overall score	0.88	1.00	1.00	0.88	0.88

Policy Implications and Recommendations

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

- To improve its tax structure, China should replace its tiered mixed tax structure with a **uniform specific excise tax on cigarettes** or a hybrid structure (both ad valorem and specific taxes) that relies more on the specific tax.
 - These specific taxes must be adjusted annually to outpace inflation and economic growth.
 - Such an improved tax structure with regular and sufficient tax increases will reduce cigarette affordability in China.
- Significant tax increases will almost certainly **increase the price of cigarettes**.
- At the same time, the government should be striving for excise taxes to be at least 70% of retail prices.