

Cigarette Tax Scorecard: Spotlight on Costa Rica

Key Messages

- In 2022, in the third edition of the Tobacconomics Cigarette Tax Scorecard, Costa Rica scored 2.13 out of 5 points. This is higher than the average score of countries in its region and country income group, and slightly above the global average.
- Among the four components used to calculate the overall score, Costa Rica received the most points in the tax structure component, with a score of 4 points. It uses a mixed, uniform excise tax with the specific tax automatically adjusted for inflation; although the ad valorem tax does not use the retail price as the base, which is the international best practice.
- In contrast, Costa Rica scored zero points in the change in affordability component. The annual average percentage change between 2016 and 2022 was -0.96%.
- Prices are also low: cigarettes cost only CRC 2,000 (\$Intl 5.40) on average.
- Costa Rica's overall score decreased from 2014 to 2020 mainly due to its failure to reduce cigarette affordability over time, before the overall score slightly increased in 2022.

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.

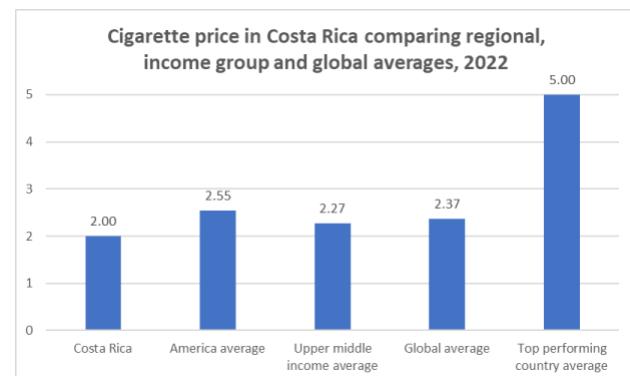
By implementing more effective cigarette tax policies, Costa Rica would improve the health of its population, while raising additional tax revenue for the government.

Country Findings

Cigarette Price

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

Cigarette prices remain low in Costa Rica, which scored 2.00 points out of 5 in this component, as the price of a 20-pack of the most-sold brand is only CRC 2,000 (\$Intl 5.40) in 2022.



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.

Costa Rica scored zero in this component, with an annual average percentage change of -0.96% between 2016 and 2022. The negative change was not statistically significant, indicating there was no change in cigarette affordability in this period. The affordability score together with the price score discussed above suggest that cigarettes are affordable.

Tax Share

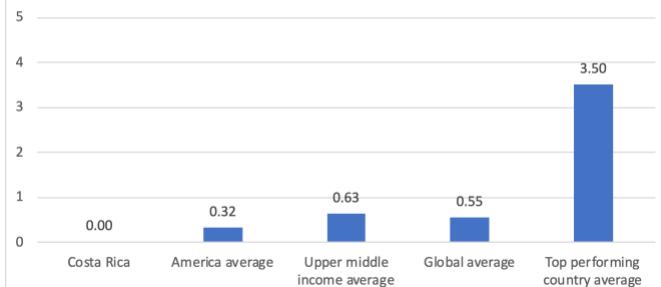
A high tax share of price is generally a good indicator of cigarette tax effectiveness and is essential to raise government tax revenues from cigarettes.

Costa Rica scored 2.50 points out of 5 in 2022. The excise tax share is only 45.80% of price, leaving significant room for improvement to reach the 70% minimum benchmark recommendation. Also, because tax share is greatly affected by price, the low prices mean that a higher tax share score overstates the effect.

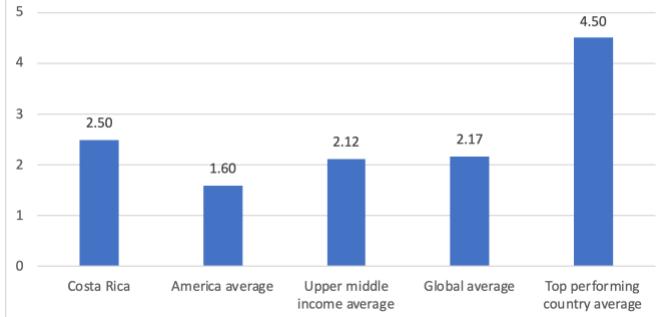
Tax Structure

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.

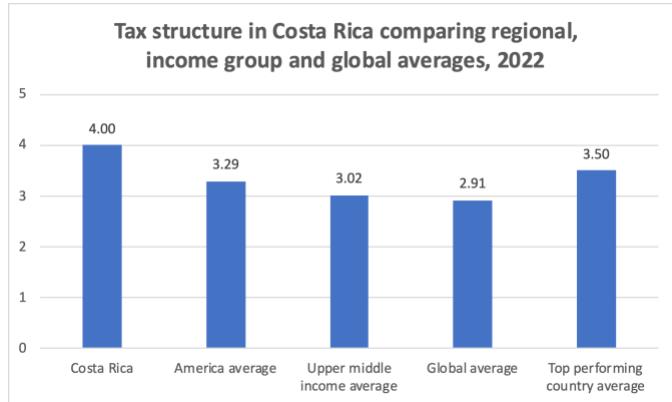
Changes in cigarette affordability in Costa Rica comparing regional, income group and global averages, 2022



Tax share in Costa Rica comparing regional, income group and global averages, 2022



In this component, Costa Rica received 4.00 points out of 5. The country scored higher than the income group, regional, and global averages as a result of its mixed excise tax structure with greater reliance on a specific tax. To attain the highest score in the tax structure component, Costa Rica should implement retail price to be used as base of the ad valorem component in the mixed excise regime.



Scores Over Time

Costa Rica's overall score was decreasing between 2014 and 2020 largely due to failure to decrease cigarette affordability over time. It reached to its lowest score in 2020 as a result of a decrease in the tax share component score. The cigarette price and tax structure scores remained unchanged in between 2014 and 2022. Although there was a slight increase in overall score in 2022, the scores signified room for improvement.

Costa Rica's scores over time, 2014-2022					
Score Component	2014	2016	2018	2020	2022
Cigarette Price	2.00	2.00	2.00	2.00	2.00
Changes in cigarette affordability	4.00	0.00	0.00	0.00	0.00
Tax share	2.50	2.50	2.50	2.00	2.50
Tax structure	4.00	4.00	4.00	4.00	4.00
Overall score	3.13	2.13	2.13	2.00	2.13

Policy Implications and Recommendations

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

- Costa Rica should significantly increase the tax on cigarettes to **increase the price of cigarettes**. At a minimum tax increases need to outpace inflation and income growth.
- At the same time, the government should strive for excise taxes to account for at least 70% of retail prices.
- To improve its tax structure, Costa Rica could either implement a **uniform specific excise tax** or if it continues to use a hybrid structure, it should use the **retail price as the base of the ad valorem tax**.
- A solid tax structure with regular and sufficient tax increases will reduce cigarette affordability in Costa Rica.