

(4)

00927-17: Budget 2018- Tobacco Products Tax

To: Minister	Author: Liam Sweetman
Status: For Review by Minister	Owner: Sub_FIN Ministers Office
Purpose: For Decision	Reviewers: Niall O'Sullivan, Gerry Kenny, John Hogan
Division/Office: Tax Division	
Decision By:	

Action Required

Options around Tobacco Products Tax for Budget 2018

Executive Summary

- The Tobacco Products Tax (TPT) on a 20 pack of cigarettes was increased by 10c in Budget 2014, by 40c in Budget 2015 and by 50c again in each Budgets 2016 and 2017, with a pro-rata increase on other tobacco products.
- In addition, Budget 2015 provided for an additional increase of 20c on a 25g pack of roll-your-own (RYO) tobacco.
- Receipts from TPT to end July 2017 are €426m. This is €96m (18%) below forecast and €392m (48%) behind that same period last year. The irregularity of these figures is highly influenced by frontloading the release of products. This occurred in 2016 in advance of the introduction of the EU Tobacco Products Directive last year, and is expected to happen this year in advance of new plain packaging regulations. Overall, tobacco receipts of €1,221m for 2017 were forecast at the beginning of the year.
- Surveys conducted by the Revenue Commissioners indicate a reduction in the consumption of illicit cigarettes from 16% in 2009 to 10% in 2016.
- The percentage of the population smoking has fallen from 28.3% in 2003 to 18.7% in 2016. Tobacco Free Ireland targets a reduction to less than 5% by 2025.
- The Revenue Commissioners have advised that market trend forecasts are tentative in the context of front-loading, and that increases in excise may not lead to increased yields.
- Options for revenue raising measures for Budget 2018 are provided.

Comments

- (15/09/2017 16:19:56) Margaret Fitzgerald: Submitted to the Minister's Office by Margaret Fitzgerald on behalf of the Secretary General

Detailed Information

1. Background

1.1 Excise duty on a 20 pack of cigarettes was increased by 10c in each Budgets 2013 and 2014, by 40c in Budget 2015, and by 50c in each Budgets 2016 and 2017; bringing the price of the most popular price category (MPPC) to €11.30 per pack.

1.2 In Budget 2015 it was decided to increase the duty on a 25g pack RYO tobacco by an additional 20c on top of the pro rata increase (of 40c imposed on 20 pack of cigarettes) with a view to equalising the rate imposed on Roll-Your-Own (RYO) tobacco and cigarettes. This decision accorded with one of the recommendations made by the Department of Health in their policy document *Tobacco Free Ireland*. This decision also served to protect TPT receipts, as the quantity of RYO released for consumption in Ireland has increased 175% since 2008, as consumers have shifted to cheaper and more lightly taxed products. It may be prudent to consider further additional increases on RYO above and beyond any pro rata increase provided for.

1.3 There have been calls to increase the minimum excise duty to protect revenues in the event of tobacco manufacturers introducing product at the lower end of the market, particularly in the context of the standardisation of packaging. However there is no evidence of a significant move of product towards this lower end of the market, so an increase in the minimum excise duty is not a priority at this time.

2. Cross-border comparisons

2.1 Ireland currently imposes the highest rate of excise duty on tobacco in the European Union (EU), with the total excise duty per 1000 cigarettes at €336.15. The lowest tobacco excises in the EU are Lithuania's €85.31 and Bulgaria's €85.90 duty per 1000 cigarettes. In the case of a 20 pack of cigarettes in the current most popular price category (MPPC) of €11.30, the excise duty component is €6.84, and the VAT component is €2.11. This amounts to €8.95 tax per 20-pack, or 79.2% of the price. The rate of excise duty on Roll-Your-Own (RYO) tobacco is currently €310.189 per kg, or €9.31 per 30g pack of RYO.

2.2 The most recent cross-border price survey carried out by Revenue indicates that while the price of an indicative brand of cigarettes is €0.40 cheaper in the State than in Northern Ireland, the VAT and duty imposed on the product is €0.26 more here than in Northern Ireland. (To note, this survey was conducted on 25th May 2017 and is based on the then exchange rate of

0.8655. The Revenue Commissioners plan to conduct another survey towards the end of September 2017, in advance of the Budget).

2.3 The table below indicates the price of the MPPC following each Budget and trade increase over the last six years:

Budget	VAT & Duty Increase	Trade Increase	Price (€)	Tax Content (€)	Tax as % of Price
2011	0c	10c	8.65	6.75	78%
2012	44.3c	10.7c	9.20	7.21	78.4%
2013	10c	10c	9.40	7.34	78.1%
2014	10c	10c	9.60	7.48	77.9%
2015	40c	0c	10.00	7.87	78.7%
2016	50c	0c	10.50	8.37	79.7%
2017	50c	30c	11.30	8.95	79.2%

3. Consumption Trends

3.1 The percentage of the population reporting smoking, as measured by the HSE National Tobacco Control Office, has fallen from 28.3% in June 2003 to 18.7 % in 2016. The number of smokers consuming a quantity greater than 20 cigarettes a day has also fallen. Correspondingly, the number of cigarettes cleared for consumption fell 42.4% between 2008 and 2016. Between 2008 and 2016 RYO tobacco clearances increased by 175% as more price-sensitive tobacco consumers moved to RYO due to the fall in disposable incomes occasioned by the recession. However, RYO still represents a very small percentage of the overall tobacco consumption in Ireland - accounting for some 10% in excise from tobacco products.

4. Non-Irish Duty Paid and Illicit Cigarettes

4.1 The consumption figures above apply only to tobacco products upon which Irish duty has been paid. Results from the latest Ipsos MRBI survey conducted on behalf of Revenue and the HSE National Tobacco Control Office indicate that 10% of cigarette consumption in Ireland in 2016 was illicit, while an additional 8% of cigarette consumption was legal product purchased abroad. This represents a loss to the Exchequer in 2016 of some €170 million in excise duty and VAT, assuming that the illicit cigarettes consumed displaced the equivalent full tax paid quantity of cigarettes. The survey has been conducted since 2009, and the results below indicate a steady downward trend in the illicit trade:

Year	Illicit non duty paid	Legal non-Irish duty paid	Total
2009	16%	5%	21%
2010	15%	9%	24%
2011	15%	7%	22%
2012	13%	6%	19%
2013	12%	5%	17%
2014	11%	6%	17%
2015	12%	6%	18%
2016	10%	8%	18%

5. Government and EU Public Health policy and Market Implications

5.1 In March 2013, the Government published *Healthy Ireland*, a Framework document outlining public health objectives to 2025. Recognizing that smoking is the leading cause of preventable death in Ireland, accounting for nearly 19% (or 5,200) of deaths annually, the document outlined a preliminary objective of reducing smoking prevalence and smoking initiation by 1 percentage point per annum. In October 2013 the Department of Health published *Tobacco Free Ireland, a Report of the Tobacco Policy Review Group*, confirming a target of less than 5% smoking prevalence by 2025, which implies a 74% reduction in the number of citizens smoking between 2013 and 2025. *Tobacco Free Ireland* also proposed TPT increases in five consecutive Budgets and the equalisation of the tax treatment of RYO and cigarettes.

5.2 The commencement order for the Public Health (Standardised Packaging of Tobacco) Act 2015 was signed in March 2017. This Act standardises the packaging of tobacco products manufactured for sale in Ireland, removing all forms of branding including trademarks, logos, colours and graphics from packs. Tobacco products manufactured for retail sale in Ireland must comply with these standardised packaging requirements from end September 2017, while retailers have been given a year from this date to clear stock of old-style, non-compliant products. The measure comes in addition to the new EU-wide packaging standards as part of the Tobacco Products Directive (TPD), which were commenced in May 2016.

5.3 An implication of the transposition of these regulations was the fluctuation of excise receipts throughout the year 2016 due to front-loading of products for release. Tobacco

companies front-loaded the release of tobacco products from tax warehouses in the first half of 2016 in order to clear stock of the old style, non-TPD compliant packs, which could continue to retail until May 2017. At the end of June 2016, revenue net receipts in respect of tobacco products were up €261 million when compared to the same period in 2015. However, end of year cumulative receipts for 2016 overall were only up €16 million on 2015, indicating a major drop-off in the second half of the year.

5.4 It is expected that a similar trend is occurring currently, with the introduction of standardised packaging. As with 2016, a spike increase in TPT revenues against profile immediately ahead of the September deadline is expected, following with a major drop-off in volumes released (and receipts) in the months immediately following. As such, trends are increasingly harder to predict in this context, and the Revenue Commissioners have indicated that projections for next year are highly tentative.

5.5 The transposition of this TPD has also brought about changes for RYO tobacco products, which now must comply with a minimum pack size containing at least 30g of tobacco. This could have implications for consumer behaviour in this country, where traditionally much smaller 12.5g packs would have been popular. As the measure came into effect at end of May 2017, any substantive impact on the RYO market and consumption patterns will be seen over time.

6. Pre-Budget Submissions

6.1 Imperial Tobacco have requested that the MED (Minimum Excise Duty) not be raised. Japan Tobacco Ireland have requested that the Department commit to a multi-year plan of modest, predictable excise increases. Both have asked for a cautious approach to any increase in excise of RYO until full effects of TPD2 minimum pack size are understood.

6.2 The Irish Heart Foundation (IHF) and Irish Cancer Society (ICS) have recommended a tobacco price escalator of CPI+5% apply to cigarettes (approx. 50c increase each year), and have proposed a levy on the profits of the tobacco manufacturers, similar to the Bank levy introduced in Budget 2014. The introduction of a levy on the profits attributable by the tobacco companies in Ireland would be in recognition of the high profit margins enjoyed by tobacco firms and the harm caused by their products. ASH Ireland have requested a €1 increase on the price of a pack of 20 cigarettes, and propose an additional 50c litter levy on each pack sold. Both the joint IHF and ICS submission and ASH have also recommended that excise duty on roll your own tobacco continue to be increased until it is equal to that on cigarettes.

7. Options

7.1 The estimated yield in a full year of a range of increases in VAT-inclusive duty on cigarettes (with pro-rata increases on other tobacco products) is as follows:

Increase (per pack of 20 cigs)	Yield	Additional for 50% on RYO	Total
10c	€12.4m	€0.5m	€12.9m
20c	€24.7m	€1.0m	€25.7m
30c	€36.9m	€1.6m	€38.5m
40c	€49.1m	€2.1m	€51.2m
50c	€61.2m	€2.6m	€63.8m
60c	€73.2m	€3.1m	€76.3m
70c	€85.1m	€3.6m	€88.7m
80c	€97.0m	€4.1m	€101.1m
90c	€108.8m	€4.6m	€113.4m
100c	€120.5m	€5.1m	€125.6m

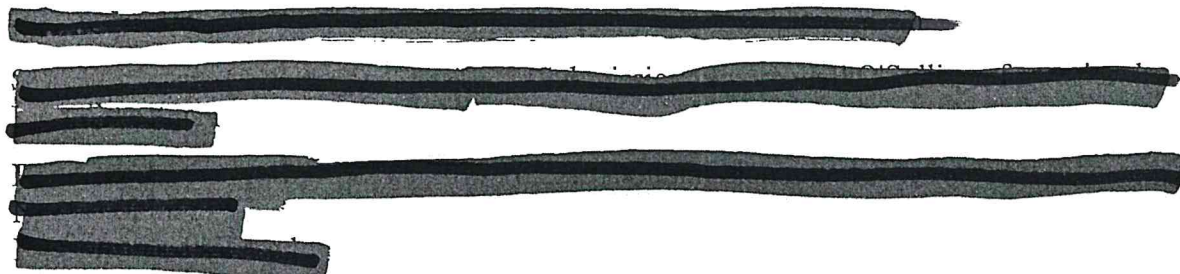
7.2 It should be noted the Revenue Commissioners have expressed concerns that increases in excise may not lead to increased yields, as consumers are further incentivised to exit the tobacco products market in Ireland. Therefore the above yield projections could be significantly affected by market elasticity. For example, in the context of a 25c increase in excise, Revenue's Ready Reckoner has indicated that yields could change within the range of an €18million decrease and a €31 increase. It is also worth noting again that market trends are increasingly harder to predict in the context of front-loading, and thus projections for next year are highly tentative.

7.3 You may wish to discuss with officials.

Related Submissions

There are no related Submissions.

Action Logs



[REDACTED]