

(4)

# 00774-16: Budget 17#23: Tobacco Products Taxation

<b>To:</b> Minister	<b>Author:</b> Gareth Walsh
<b>Status:</b> For Review by Minister	<b>Owner:</b> Sub_FIN Ministers Office
<b>Purpose:</b> For Decision	<b>Reviewers:</b> Ambrose Murray, Gerry Kenny, Gary Tobin
<b>Division/Office:</b> Tax Division	
<b>Decision By:</b>	

## Action Required

Budget 2017 - Options around Tobacco Products Tax

## 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 in Budget 2016 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 August 2016 are €878m, this is €192m (28%) ahead of forecast. We understand this to be the result of frontloading by the industry in advance of the introduction of the EU Tobacco Products Directive. Overall tobacco receipts are forecast at €1,154m for 2016.
- Surveys conducted by the Revenue Commissioners indicate a reduction in the consumption of illicit cigarettes from 16% in 2009 to 12% in 2015, though this is slightly up from 11% in 2014.
- The percentage of the population smoking has fallen from 28.3% in 2003 to 19.2% in 2015.
- Options for revenue raising measures for Budget 2017 are provided.

## Comments

- (16/09/2016 16:06:00) Gary Tobin: Minister, this is an annual submission to be considered in the context of the Budget.

## Detailed Information

## 1. Background

**1.1** Excise duty on a 20 pack of cigarettes was increased by 10c in Budgets 2013 and 2014, by 40c in Budget 2015 and by 50c in Budget 2016, bringing the price of the most popular price category (MPPC) to €10.50 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 almost quadrupled since 2008, as consumers have shifted to cheaper and more lightly taxed products. It may be prudent to continue the policy of imposing additional increases on RYO given the duty imposed on cigarettes is still some 48% higher than on an equivalent amount of RYO.

**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 in this direction so an increase in the minimum excise duty is not a priority at this time.

## 2. Cross-border comparisons

**2.1** Ireland imposes the second-highest rate of excise duty on tobacco in the European Union (EU), after the UK. The total excise duty per 1000 cigarettes is €316.49 in Ireland, compared to €353.19 in the UK. The lowest tobacco excises in the EU are Bulgaria's €82.32 duty and Lithuania's €85.31 duty per 1000 cigarettes. In the case of a 20 pack of cigarettes in the current most popular price category (MPPC) of €10.50, the specific excise duty component is €5.44, the ad valorem excise duty component is €0.97, and the VAT component is €1.96. This amounts to €8.37 tax per 20-pack, or 79.7% of the price. The rate of excise duty on Roll-Your-Own (RYO) tobacco is currently €291.683 per kg, or €7.29 per 25g 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 €0.69 cheaper in the State than in Northern Ireland, the VAT and duty imposed the product is €0.08 more here than in Northern Ireland. (Exchange rate 0.8614, 18 August 2016)

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

Budget	VAT & Duty Increase	Trade Increase	Price (€)	Tax Content (€)	Tax as %

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%

### 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 19.2 % in 2015. 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 34.5% between 2008 and 2015. Between 2008 and 2015 there was a near quadrupling in the consumption of RYO tobacco, 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.

### 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 12% of cigarette consumption in Ireland in 2015 was illicit, while an additional 6% of cigarette consumption was legal product purchased abroad. This represents a loss to the Exchequer in 2015 of some €192 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%	20%
2010	14%	9%	23%
2011	14%	7%	21%
2012	13%	6%	19%

2013	11%	5%	16%
2014	11%	6%	17%
2015	12%	6%	18%

## 5. Government Public Health policy

**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 Public Health (Standardised Packaging of Tobacco) Act 2015 provides that all forms of branding shall be removed from tobacco products. It was expected that this measure would come into force in May 2016, alongside the introduction of new EU-wide packaging standards as part of the Tobacco Products Directive (TPD). However while the TPD came into force in May 2016, there has been a delay in the implementation of standardised packaging in Ireland. The implementation of the TPD led to a frontloading from the tax warehouse of tobacco products made using the pre TPD standards, which may be sold until 20 May 2017, leading to an increase in TPT revenues against profile. Since May there has been a fall-off in the clearing of tobacco products stock out of tax warehouses. When the Dept. of Health provide a commencement date for the introduction of standardised packaging in Ireland, it is possible that a similar trend may occur.

## 6. Pre-Budget Submissions

**6.1** ITMAC have requested no further excise duty increases. PJ Carroll have requested that a multi-year plan be designed in relation to tobacco taxation, which takes into account economic indicators such as inflation, household income, market decline etc. Both have also recommended that more resources be assigned to efforts to combat the illicit trade.

**6.2** The Irish Heart Foundation and Irish Cancer Society 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. The IHF and ICS 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 a pack of cigarettes in the MPPC (with pro-rata increased on other tobacco products is as follows (assuming no large behavioural changes):

<b>Increase (per pack of 20 cigs)</b>	<b>Yield</b>	<b>Additional for 50% on RYO</b>	<b>Total</b>
<b>10c</b>	€13.2m	€0.8m	€14.0m
<b>20c</b>	€26.4m	€1.5m	€27.9m
<b>30c</b>	€39.4m	€2.3m	€41.7m
<b>40c</b>	€52.4m	€3.1m	€55.5m
<b>50c</b>	€65.2m	€3.8m	€69.0m
<b>60c</b>	€78.0m	€4.6m	€82.6m
<b>70c</b>	€90.7m	€5.3m	€96.0m
<b>80c</b>	€103.3m	€6.1m	€109.4m
<b>90c</b>	€115.9m	€6.8m	€122.7m
<b>100c</b>	€128.3m	€7.6m	€135.9m

**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.

**7.3** You may wish to discuss with officials.

## Related Submissions

There are no related Submissions.

## User Details

### Users with access to Submission

Gareth Walsh  
Sub\_FIN Sec Gens Office  
Sub\_FIN Ministers Office

### Read receipt list

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## Action Logs

**Created:** 31/08/2016 12:31:16: Submission created by Gareth Walsh

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(5)

# 00763-16: Alcohol Products Tax options Budget 17#9

<b>To:</b> Minister	<b>Author:</b> Ciaran Conroy
<b>Status:</b> Completed	<b>Owner:</b> Ciaran Conroy
<b>Purpose:</b> For Decision	<b>Reviewers:</b> Ambrose Murray, Gerry Kenny, Gary Tobin
<b>Division/Office:</b> Budget & Economics Division	
<b>Decision By:</b>	

## Action Required

Budget 2017 - Options Around Alcohol Products Tax

## Executive Summary

- Receipts from Alcohol Products Tax to August 2016 at €756m are €39m up on the same period in 2015 and 2% ahead of profile. In 2015, alcohol products tax raised €1,137m and is expected to raise €1,170m in 2016.
- Budgets 2015 and 2016 imposed no excise increase following Budgets 2013 and 2014 which contained significant increases in excise duties on beer, spirits and wine.
- The drinks industry have called for a 15% reduction in excise rates across all alcohol products.
- The excise component of a pint of beer, as a percentage of the retail price, remains lower than in 2003.
- Ireland imposes the highest rate of excise in the EU on wine and sparkling wine and the third highest on spirits and beer.
- The consumption of alcohol per capita has decreased from a high of 14.2 litres of alcohol per annum in 2002 to 10.9 litres per annum in 2015. Consumption in 2016 is expected to be 11.1 litres per adult.
- A Budget 2017 increase of 10c on a pint of beer and cider, 10c on a glass of spirits and 50c on a bottle of wine would yield €138.2 million in a full year.
- The Department of Agriculture, Food and the Marine has requested the microbrewery excise relief to be amended to be provide for expanding breweries within the sector.



## Comments

- (22/09/2016 16:56:47) Gary Tobin: Minister, this submission gives you revenue raising options if you need them. One specific issue to note is that the Minister for Agriculture has concerns around the excise relief for micro-breweries. A possible solution is outlined in section 5.6 of this note for your consideration.

## Detailed Information

### 1. Budgets 2010-2016

**1.1** Excise duties on alcohol remained largely unchanged between 1993 and 2010. However, Budgets 2010-2014 saw significant changes:

- In Budget 2010 excise duty on all alcohol products was reduced by 20% (VAT inclusive);
- In Budget 2013 excise on wine was increased by €1 per bottle, beer and cider were increased by 10c a pint and spirits by 10 cent a glass (VAT inclusive); and
- In Budget 2014 excise on wine was increased by €0.50 per bottle, beer and cider were increased by 10c a pint and spirits by 10 cent a glass (VAT inclusive).
- In Budgets 2015 and 2016 excise duty on alcohol products was unchanged.

**1.2** The yield from alcohol products tax in 2015 was €1,137m which is marginally less than the €1,140m received in 2014. The project yield for 2016 is €1,170m.

**1.3** While there have been increases in excise duty in recent years, excise duty as a proportion of the pint in the on-trade is still lower than in 2003. This is not the case with wine sold in the off-trade which has seen significant increases as the table below shows.

Pint - Stout (4.2% ABV)				Bottle – Wine (12.5% ABV)			
Year	Excise	Price	Excise % of Price	Year	Excise	Price	Excise % of Price
2003	€0.47	€3.38	14.0	2003	€2.05	€9.07	22.6
2009	€0.47	€4.09	11.6	2009	€2.46	€9.54	25.8
2010	€0.37	€3.96	9.5	2010	€1.97	€9.07	21.7
2011	€0.37	€3.95	9.5	2011	€1.97	€9.09	21.6
2012	€0.37	€4.00	9.4	2012	€1.97	€8.94	22.0
2013	€0.46	€4.18	10.9	2013	€2.78	€9.99	27.8



2014	€0.54	€4.30	12.6	2014	€3.19	€10.52	30.3
2015	€0.54	€4.30	12.6	2015	€3.19	€10.68	29.9
2016	€0.54	€4.32	12.4	2016	€3.19	€10.50	30.3

**1.4** Ireland imposes the highest rate of excise on wine and sparkling wine in the European Union (EU), and the third highest on beer and spirits.

## **2. Pre-Budget Submissions**

**2.1** The Drinks Industry Group of Ireland (DIGI), Licensed Vintners Association (LVA), and IBEC have requested a 15% reduction of excise duty across all alcohol products.

**2.2** NOffLA has requested that excise on wine is reduced by 50c a bottle to bring it into line with that of beer and cider citing the fact that excise on a bottle of wine is more expensive per unit of alcohol than the equivalent on beer.

**2.3** NOffLA is also seeking the re-introduction of the prohibition on below cost selling, which was removed following the abolition of the Groceries Order in 2006 - this would be a matter for the Department of Jobs, Enterprise and Innovation, in the first instance.

**2.4** The Minister for Agriculture, Food and the Marine has requested an increase in the threshold for excise relief for microbreweries, and also an examination of the excise bands applicable to cider with a view to incentivising the production of craft cider.

**2.6** Alcohol Action Ireland have sought, at a minimum, the retention of excise duty at current levels.

## **3. Recent Consumption Trends**

**3.1** While 2014 and 2015 have seen an increase in sales of beer and wine, consumption of alcohol has been on a downward trend since 2002. The consumption of alcohol per capita of the adult population has decreased from a high of 14.2 litres of alcohol per annum in 2002 to 10.6 litres per annum in 2013. This has increased in 2013 and 2014 to 11 litres and fell slightly to 10.9 litres in 2015. It is expected to be 11.1 litres in 2016. It is stated Government policy to reduce alcohol consumption to the OECD average of 9.2 litre litres in 2020. There has also been a shift towards wine: in 2000 44.3 million litres of wine were purchased, compared to nearly 80 million litres in 2014. The combination of reduced consumption overall, and societal

changes resulting in a shift towards wine, a drink more often consumed in the home, has had a greater impact on the on-trade.

**3.2** The issue of below cost selling by the multiples to drive footfall into their shops has been raised as an issue of concern for both the on-trade and small independent off-licences as they struggle to compete.

#### **4. Minimum Unit Pricing**

**4.1** The Public Health (Alcohol) Bill has provided for a Minimum Unit Price of €1 per 10 grams of alcohol in a drink. This should deal with the issue of below cost selling of alcohol at the lowest levels. The on-trade welcome the move while NOffLA cautiously support it but believe it will result in a race to bottom where multiples will sell branded products at the minimum allowable price. MUP was legislated for in Scotland and immediately challenged by the Scottish Whisky Association. The Scottish courts referred the case to the European Court of Justice who decided that if it could be demonstrated that a minimum unit price was more effective than excise increases in producing the desired health goals it could be legal. It referred the case back to the Scottish courts to decide upon. A judgement by the Scottish courts is expected next month. It would be of concern, from a cross-border trade point of view, if Northern Ireland decides against introducing a MUP or does so at a lower rate than Ireland.

#### **5. Excise relief for microbreweries**

**5.1** EU Directive 92/83/EEC allows reduced rates of, or relief from, excise on beer of up to 50% for microbreweries producing under 200,000 hectolitres (hl) per annum. Finance Act 2005 provided for relief of 50% on excise duty in respect of breweries producing up to 20,000 hectolitres (hl) the limit was extended to 30,000 in Budget 2015. This applies to any microbrewery within the European Union so that importers releasing European beer for Irish consumption produced by a microbrewery producing 30,000hl or less can avail of the relief. It is possible in legislation to define both the size of the qualifying brewery and the amount of beer to which the relief would qualify. At present, with the relief stopping at 30,000hl this presents a tax relief cliff which some micro-breweries are facing as any production in excess of that ceiling would result in the loss of the entire relief.

**5.2** The 2005 relief was well received and was seen as a positive step in encouraging small business. The number of breweries has increased significantly from 25 in 2013 at a cost of just over €1.1m to 94 microbreweries availing of the relief at a cost of €4 million in 2015. However, it is worth noting that of those 94 microbreweries, 37 are claiming from outside the State. However, this only represent 10% of the overall cost of the relief.

**5.3** In Budget 2016 you also provided that the relief be available upfront to improve the cash flow of these small businesses.

### **Microbreweries ceiling**

**5.4** The Minister for Agriculture, Food and the Marine has written to you outlining the growth in the craft beer sector, and the corresponding growth in direct and indirect employment as a result. To facilitate the continued growth in this sector and to avoid any microbrewery breaching the ceiling and thus losing all the relief, he has requested an increase in the qualifying ceiling for the microbrewery excise relief from 30,000 hectolitres to 50,000 hectolitres.

**5.5** The below table indicates the production levels of the microbreweries claiming relief in 2014. It is notable that EU microbreweries availing of the relief, on average, tend to be larger than those claiming from within the State. Should the limit be increased to 50,000hl, as well as facilitating the growth of Irish micro-breweries, this would also encourage more micro-breweries from outside the State to avail of this relief in Ireland. In 2015, data shows that 57 microbreweries in Ireland claimed relief, up from 51 in 2014 and 37 EU microbreweries claimed relief which is up by over 50% on the 23 that claimed in 2014. While foreign claims still only account for 10% of the total cost of the scheme, it represents a cost to the taxpayer without any benefit in terms of employment. Therefore caution is recommended before increasing the ceiling.

<b>Volume Hectolitres</b>	<b>Irish Micro-breweries</b>	<b>EU Micro-breweries</b>	<b>Total Microbreweries</b>
<b>&gt;20,000</b>	1	2	3
<b>10,000 - 20,000</b>	0	5	5
<b>5,000 - 10,000</b>	1	8	9
<b>1,000 - 5,000</b>	16	13	29
<b>100 - 1,000</b>	13	3	16
<b>&lt;100</b>	20	3	23

**5.6** A way to allow for the growth in production of microbreweries nearing the relief ceiling without incurring any additional cost to the Exchequer would be to separate the size of the qualifying brewery from the relief which they can claim. In practice this could mean that a

qualifying micro-brewery could produce 40,000hl and claim relief on 30,000hl. This could be an interim measure to allow for a review of this sector.

### Review of relief for microbreweries

5.7 As you have agreed previously we intend to undertake a review of this sector with a view to providing a stable and certain tax environment allowing for microbreweries to expand and gradually grow out of dependence on reliefs in the future. This will include an examination of introducing a tiered system of reduced rates in respect of excise duty on beer depending on the number of hectolitres produced. It is expected that this review will be complete and recommendations made in advance of next year's Budget.

## 6. Budget 2017

6.1 Increases in excise duties on alcohol products, similar to those applied in Budget 2014 (i.e. 10c on a pint of beer and cider, 10c on a glass of spirits and 50c on a bottle of wine) would yield €138.2 million in a full year.

6.2 The following table shows the estimated effect of a range of VAT inclusive increases:

	Full Year	Full Year	Full Year	Full Year
	5c	10c	15c	20c
<b>Beer (per pint)</b>	€34.6m	€68.7m	€102.5m	€135.7m
<b>Spirits (1/2 glass)</b>	€16.9m	€33.2m	€48.9m	€63.9m
<b>Cider (per pint)</b>	€4.8m	€9.5m	€14.1m	€18.7m

	Full Year	Full Year	Full Year	Full Year
	25c	50c	75c	100c
<b>Wine (Bottle)</b>	€14.6m	€28.2m	€40.8m	€52.4m

6.3 To reduce the excise rate on all alcohol products by 15% as called for by the alcohol industry would cost the Exchequer an estimated €160m. A reduction in the rates by 15% would lead to excise on beer being lower than it was in 1994.

**6.4** To reduce the excise on wine by 50c per bottle as suggested by NOffLA would cost €33m in a full year.

**6.5** You may wish to discuss with officials.

## Related Submissions

There are no related Submissions.

## User Details

### Users with access to Submission

Ciaran Conroy  
Sub\_FIN Sec Gens Office  
Sub\_FIN Ministers Office

### Read receipt list

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## Action Logs

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**Completed:** 28/09/2016 11:38:07: Submission completed on behalf of the Minister's Office by Rosemary Kearney