

Costing brief

National Health and Hospitals Network — Prevention — increasing the excise and excise-equivalent customs duty on tobacco products

Revenue (\$m)	2009-10	2010-11	2011-12	2012-13	2013-14
Australian Taxation Office	230.0	985.0	1,015.0	1,040.0	1,090.0
Australian Customs and Border Protection Service	25.0	260.0	270.0	280.0	290.0
Total	255.0	1,245.0	1,285.0	1,320.0	1,380.0
<i>Related expense (\$m)</i>					
Department of the Treasury	25.0	115.0	115.0	120.0	130.0

The Government increased the excise and excise-equivalent customs duty on tobacco products by 25 per cent on and from 30 April 2010. This measure increased the excise on tobacco in stick form not exceeding 0.8 grams actual tobacco content in weight from \$0.26220 per stick to \$0.32775 per stick, and the excise on other tobacco (for example loose leaf tobacco) from \$327.77 per kilogram of tobacco content to \$409.71 per kilogram of tobacco content. The Government also increased the excise-equivalent customs duty on comparable imported tobacco products by the same amount.

This measure forms part of the Government's National Health and Hospital Network package.

Key Points

- The rate of excise applying to tobacco and tobacco products are set out in the *Excise Tariff Act 1921*.
- Item 5 of the Schedule to the *Excise Tariff Act 1921* set out the rates of duty for Tobacco, cigars, cigarettes and snuff.
- On 30 April 2010, the rates of tobacco excise increased from:
 - 26.22 cents to 32.775 cents per stick for cigarettes. The 'per stick' excise applies to all cigarettes with a tobacco content up to and including 0.8 grams per cigarette.
 - \$327.77 to \$409.71 per kilogram for other tobacco products. The excise per kilogram applies to all other tobacco products, including cigarettes containing more than 0.8 grams of tobacco, loose leaf tobacco, cigars and non-smoking tobacco.
- After the increase, excise on a packet of 25 cigarettes amounts to \$8.19 or \$9.83 on a pack of 30 cigarettes.
 - Per stick excise does not vary with the price of a packet of cigarettes (because it is calculated per stick) however, the GST is affected by price (varying the percentage of tax per packet of cigarettes).

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- Rates of duty for imported goods, including tobacco and tobacco products are set out in the *Customs Tariff Act 1995* – questions about imported tobacco products should be directed to officials from the Australian Customs and Border Protection Service.

Costing details:

Data

- Historical tobacco clearances from the Australian Tax Office and Australian Customs and Border Protection Service.

Key assumptions

- Tobacco excise and customs collections beyond the forward estimates period were assumed to be constant. The growth in population and the indexation applied to excise were assumed to be offset by the natural decline in per capita smoking consumption.
- The demand response to the excise change was assumed to occur immediately upon the policy announcement. Whilst many smokers that cease smoking will quit over time, this may be balanced by an initial over-response effect as smokers quit immediately following the policy change and then recommence smoking shortly after.
- Price elasticity of demand given by -0.42. This estimate is used frequently in the literature and is consistent with TAD modelling.

Methodology

- Projected collections are based on a number of sticks of tobacco (or kilograms of loose leaf tobacco) multiplied by the per stick (kg) excise or excise equivalent rate.
- The excise rates were increased by 25 per cent from the date of announcement, and the projected tobacco clearances were reduced by approximately 6 per cent from the date of announcement and the same base multiplied by rate costing was applied.
- The approximate 6 per cent reduction in clearances was based on a 25 per cent increase in excise increasing the price of tobacco by approximately 15 per cent. Given an elasticity of demand of -0.42, this 15 per cent increase in price was shown to have an approximate impact on clearances of -6 per cent.

Distributional impacts

- Approximately 3 million Australians are smokers. A pack-per day (25s) smoker paid approximately \$2,400 per year in excise prior to the increase. Assuming full cost pass-on, this figure has risen to approximately \$3,000.
- Given higher smoking rates in lower and fixed income households, this will have a more significant impact on these households. A pack per day smoker on the minimum wage (after tax) currently spends approximately 17 per cent of their income on tobacco. Following the 25 per cent tobacco excise increase, the percentage of income spent on tobacco by a pack per

day smoker on the minimum wage would increase to 20 per cent. Having to spend an increased proportion of income on cigarettes should provide a significant incentive to quit or reduce tobacco consumption.

- Studies have found that teenagers and young adults are significantly more responsive to price. The economic literature on price elasticity of demand for smoking offers estimates of approximately -0.8 for teenage smokers compared to -0.1 for smokers in their late 20s, and a continuing reduction from then. See for example Harris and Chan (1998).

Compliance impacts

- The compliance impacts for this policy are expected to be minimal.

Reliability of estimates

- The reliability of the estimates is *moderate*. Projected collections are based on a long time-series. However, the impacts of the excise increase are uncertain. Whilst the estimated price elasticity of demand is based on a solid empirical footing, it is probably more appropriate for incremental increases in price.