



Australian Government

The Treasury

COSTING MINUTE

Date: 20/10/2009
Ref: CQAU 2009-211
File:

To: Katherine Tuck, Australia's Future Tax System
Cc: Jason McDonald, Australia's Future Tax System

TITLE Changes to tobacco excise

SUMMARY OF PROPOSAL

Intent of the proposal

The AFTS panel is examining a number of changes to the taxation of tobacco to increase the base and rate of tobacco excise.

Current taxation treatment/problem

Currently in Australia, cigarettes and cigars that contain less than 0.8 grams of tobacco each are taxed on a 'per stick' basis, regardless of how much tobacco the stick contains. From 1 August 2008 the excise was \$0.2545 per stick or \$6.36 on a pack of 25. Excise rates are indexed twice a year in line with the CPI. Since wages generally rise more quickly than consumer prices, this means that excise will fall as a proportion of average wages over time.

Other tobacco products — including cigars and cigarettes containing more than 0.8 grams of tobacco, rolling tobacco and smokeless tobacco — are subject to excise at a per kilo rate equivalent to the per stick tax on 0.8 gram sticks. From 1 August 2008, this amounted to \$318.14 per kilo. The main features of the existing excise system have been in place since 1999.

Proposed taxation treatment

The first proposal is for a one-off increase in tobacco excise of 10 per cent. That is the per stick excise rate would rise by 10 per cent from 1 July 2010. Excise equivalent customs duty would also rise by the same amount. This would be additional to indexation increases in Feb and Aug 2010.

The second proposal is to change the indexation of tobacco excise from CPI indexation to wages indexation. Since by convention, all AFTS proposals are being costed with date of effect 1 July 2010, this should start from the regular 6 monthly indexation point in Aug 2010. Use the ABS's wage price index.

The third proposal is to abolish inbound duty free for tobacco, though retaining a de minimis threshold of 25 cigs or equivalent amount of other tobacco products.

ELEMENTS AND OPTIONS

Elements

| Element ID | Description |
|------------|---|
| A | Abolish the inbound duty free concession for tobacco, though retaining a de minimis threshold of 25 cigarettes or equivalent amount of other tobacco products. |
| B | Change the indexation of tobacco excise from CPI indexation to wages indexation. Since by convention, all AFTS proposals are being costed with date of effect 1 July 2010, this should start from the regular 6 monthly indexation point in Aug 2010. Use the ABS's wage price index. |
| C | A one-off increase in tobacco excise of 10 per cent. That is the per stick rate would rise by 10 per cent from 1 July 2010. This would be additional to indexation increases in Feb and Aug 2010. |

Options examined

| Option ID | Option | Assumed start date | Was a Departmental Impact Assessment sought? | Was a Tax Regulation Impact (preliminary assessment) sought? |
|-----------|-----------|--------------------|--|--|
| 1 | A & B & C | 01/07/2010 | No | No |

FINANCIAL IMPLICATIONS

IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET (\$m)

| Option ID | Year of Maturity | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-----------|------------------|---------|---------|---------|---------|---------|
| 1 | 2012-13 | - | - | 760 | 890 | 1020 |
| | <i>Revenue</i> | - | - | 760 | 890 | 1020 |

- Nil

IMPACT ON UNDERLYING CASH BALANCE (\$m)

| Option ID | Year of Maturity | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-----------|------------------|---------|---------|---------|---------|---------|
| 1 | 2012-13 | - | - | 760 | 890 | 1020 |
| | <i>Revenue</i> | - | - | 760 | 890 | 1020 |

- Nil

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

The reliability of this costing is moderate. The accuracy of option A is highly sensitive to assumptions regarding the Price elasticity of Demand. Option B is dependent upon forecasts of wages and the CPI.

COSTING DETAILS

Methodology

Option A costs projected excise revenue based on RAU collections forecasts with and without the excise increase.

Option B applies RAU Average Weekly Earnings forecasts.

Option C has been costed prior in CQAU 2009 150 and the output from that was used directly to cost this option. For insight into the methodology used to cost this option please refer to this costing.

Data

Forecasts of AWE, CPI and tobacco excise collections.

Assumptions

The demand for tobacco is characterised by a non-linear demand curve with a constant PED given by -0.42.

ADDITIONAL INFORMATION

Departmental impacts

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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