

# TAX BRIEFING NOTE

## TOBACCO DUTY

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JANUARY 2023

### What is it?

Tobacco duty is a levy paid on tobacco products. Different systems operate for cigarettes, cigars, hand-rolling tobacco, tobacco for heating and other products.<sup>1</sup>

Since May 2017, cigarettes have been subject to a minimum duty of £347.86 per 1,000 (or £6.96 for a pack of 20). Above a retail price of £10.28 for 20, a further duty of 16.5 per cent applies to the additional retail value above that level. Cigars, hand-rolling tobacco and other tobacco products are all subject to a flat duty per kg of product. From October 2021, they are £327.92/kg for cigars, £302.34/kg for hand-rolling tobacco, £270.22/kg for tobacco for heating and £144.17/kg for other products. Tobacco duties were frozen in 2022 but policy is to increase them by the RPI index of inflation plus a fixed percentage.

### What's the problem with it?

Tobacco duty is needlessly complicated, economically distortionary and morally oppressive. It is also associated with large 'grey' markets caused by attempts to avoid or evade high rates in the UK.

The relationship between public expenditure and tobacco consumption is weak for two reasons. First, many smokers do not acquire lung cancer or other major health problems due to smoking, so the case for charging all smokers with the public spending costs of those problems is weak. Secondly, smokers who do suffer major health problems due to smoking are more likely to die prematurely, reducing expenditure on state pensions and other age-related benefits. A premature death is obviously a cost to smoking, but it is a cost borne by the individual smoker, not other taxpayers.

HMRC's estimates the illicit trade to account for 34 per cent of hand-rolling tobacco consumption in 2020-21 and 9 per cent of cigarette consumption.<sup>2</sup> This tax disincentive to avoid legitimate tobacco products puts at risk the health of smokers.

There also is no good reason why the rate of duty should differ between tobacco products. If the aim is to raise revenue then income taxes and VAT offer much more efficient routes which do not distort consumption patterns. But if the aim is to distort consumption patterns and reduce tobacco consumption then there should be no tax implication to whether the tobacco comes in a bag, a cigarette, a cigar, or any other form.

### What should be done?

1. Freeze overall tobacco duty rates with any rises in lower rates at least matched by cuts in higher rates.
2. Tax tobacco at a uniform, single rate, by abolishing the needlessly complicated four elements to duty on cigarettes and separate rates for cigars, hand-rolling tobacco, tobacco for heating and other products with a single rate per kilogram of tobacco (although for administrative simplicity this rate could be applied per 1,000 cigarettes as approximately equivalent).

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<sup>1</sup> HM Revenue & Customs, *Tobacco Products Duty*, 27 October 2021, [www.gov.uk/guidance/tobacco-products-duty](http://www.gov.uk/guidance/tobacco-products-duty), (accessed 9 November 2022).

<sup>2</sup> HM Revenue & Customs, *3. Tax gaps: Excise (including alcohol, tobacco and oils)*, 23 June 2022, [www.gov.uk/government/statistics/measuring-tax-gaps](http://www.gov.uk/government/statistics/measuring-tax-gaps), (accessed 9 November 2022).