Increasing the tax on tobacco products is one of the most effective ways of reducing smoking as part of a comprehensive tobacco control strategy, leading to lower uptake of smoking and higher levels of cessation\(^1\).

Research from Action on Smoking & Health (ASH) highlights that the total cost of tobacco use to society in England is £13.8 billion a year in each\(^2\). By comparison, tobacco duty receipts in England in 2013/14 were only £7.6 billion\(^3\).

Low income groups are more likely to respond to price rises by quitting smoking, leading to a reduction in health inequalities\(^4\).\(^5\).

Despite cumulative tax rises in the period, the illicit market share for cigarettes has more than halved since 2000-01, and for rolling tobacco reduced by more than a third, since 2004-05\(^6\).\(^7\).

**Recommendations:**
- Introduce an annual tobacco tax escalator on cigarettes of 5% above inflation and a tax escalator on rolling tobacco of 10% above inflation. A minimum consumption tax for tobacco products should also be introduced.
- Ensure that the specific tax component on manufactured tobacco is set at the maximum allowed within the European Union (EU), currently 76.5%\(^8\).
- Introduce a levy on tobacco manufacturers and importers\(^9\), based on market share (clearances) with the money being hypothecated to fund tobacco control activities; including gold standard stop smoking services, mass media campaigns and initiatives to tackle the illicit trade.
- The tobacco industry should be required to provide data on its sales, marketing strategies, profitability and expenditure on lobbying activities in the UK.
- The UK Government should advocate for a revision of the EU Tobacco Tax Directive\(^10\) to enable the introduction of a price capping mechanism. Placing a cap on profits made by tobacco manufacturers and importers would enable the excess profits to be transferred from the manufacturer to Government\(^11\).

**Background**

Raising tobacco taxes is one of the most effective ways of reducing tobacco consumption, something the tobacco industry itself admits\(^12\). There is strong evidence that increasing the price of tobacco products has a pro-equity effect on smoking behaviour in adults\(^13\).\(^14\). A similar observation has been made regarding interventions to create progressive equity impact among young people\(^15\). The UK has the second highest total tax on cigarettes (87.3% of WAP) in the EU. Tobacco prices in the UK are the second highest in the EU, after the Republic of Ireland\(^16\).

A tripling of the excise tax on tobacco in most lower and middle income countries would raise cigarette prices by about 100% and reduce tobacco consumption by about 40%\(^17\). Evidence shows that in high income countries, high prices on tobacco (achieved largely by tax policy) lead to lower smoker initiation, increased levels of cessation and reduced consumption among current smokers\(^18\). A report by *Health England* found that, of 14 different preventative public health interventions, a 5% tobacco tax increase was the second most effective in terms of strength of evidence, cost effectiveness and impact among disadvantaged groups (an increase in tax on alcohol was the most effective)\(^19\). A 2013 global study noted that although tobacco taxes consume a larger proportion of the income of both smokers on lower incomes and young smokers, the relative responsiveness of these groups to price changes mean that they disproportionately benefit from tax rises which influence a reduction in consumption or quitting\(^20\).\(^21\). Implementing tax policies in order to reduce tobacco consumption is also mandated under Article 6 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) to which the UK is a Party\(^22\).

In the UK, based on HM Revenue & Custom (HMRC) estimates of elasticity of demand, an increase in tobacco tax of 5% above inflation would lead to an estimated fall of 334,000 smokers; a reduction of 0.7 percentage points based on 2013 figures\(^23\). A cross-sectional study of 52 countries across the European region found that, on average, cigarette smoking consumption decreases 5%-7% for a 10% increase in the real price of cigarettes\(^24\).

**Recent history of tobacco duty in the UK**

A tobacco duty escalator of 5% was introduced in 1997, but was removed in 2001\(^25\). After seven years of at inflation tax increases, and moderate rises in 2009 and 2010, the duty escalator was reintroduced in 2011 at 2% above inflation\(^26\). Duty
was increased by 5% above inflation in the 2012 Budget, equivalent to a price rise of 37p per pack\textsuperscript{27}. In the 2013 Budget the duty rise reverted back to 2% above inflation\textsuperscript{28}.

We believe that a tobacco tax escalator on cigarettes of 5\% above inflation, and a tax escalator on rolling tobacco at 10% above inflation should be introduced. The Government should further ensure that the specific tax component is set at the maximum allowed under the EU regulations, which is currently 76.5\% of the total tax burden on the weighted average retail selling price (WAP)\textsuperscript{29}.

**The cost of tobacco use to the UK**

In its joint submission to the 2014 budget, ASH and the UK Centre for Tobacco & Alcohol Studies calculated the benefit accruing from increases in tax revenues and reductions in smoking related costs from a tax induced 5\% year-on-year increase in the WAP of cigarettes. Based on generally accepted international and UK estimates of elasticity of demand of -0.4 for consumption and -0.25 for prevalence, the public finances would benefit by up to £485 million in the first year and £7.4 billion over the next five years\textsuperscript{30}.

Cancer Research UK commissioned analysis shows that tobacco control budgets in England have been robust since transition, but need to be monitored ahead of expected cuts. Tobacco control or smoking cessation budgets had been cut in 7\% of local authorities despite ring-fenced public health budgets. While only a minority, the author notes, ‘...if public health budgets can be cut when they are protected by a ring-fence, there is clearly a risk that many more budgets may suffer when this ring-fence is removed’\textsuperscript{42}. Modelling by the Local Government Association estimates that a funding gap in Local Government expenditure, opening up in 2015/16, could grow to £12.4 billion by 2019/20\textsuperscript{12}.

In December 2014 HM Treasury launched a consultation on the potential design for a levy on tobacco manufacturers and importers\textsuperscript{13,34}. Based on a principle that the tobacco industry should be accountable for the negative externality they create, a levy on tobacco manufacturers and importers based on market share (clearances) provides a mechanism to source new funding for gold standard stop smoking services, mass media campaigns and efforts to tackle the illicit trade. We believe that the levy should operate to a target of £500m per annum, which equates to approximately one pence per cigarette sold.

**Tobacco tax and health inequalities**

Tobacco tax is often considered a regressive tax, because poorer people spend a greater proportion of their income on tobacco than those who are more affluent\textsuperscript{35}. Furthermore, smoking rates tend to be higher among lower socio-economic groups so these groups may be disproportionately affected by increases in tobacco tax. However, people on low incomes are also more likely to respond to price increases by reducing their consumption. Evidence shows that price rises are one of the most effective tobacco control measures in tackling health inequalities, with tax increases leading to higher quit rates among the young and those on lower incomes in particular\textsuperscript{36,37}. Thus, tax increases could actually reduce the overall tax burden on people with low incomes\textsuperscript{38}.

We support sustained increases in tobacco tax in order to reduce the affordability of tobacco products provided that, at the same time, the Government continues to provide investment for other measures to reduce smoking prevalence.

Among the policy recommendations from the *Pricing Policies and Control of Tobacco in Europe*, a collaborative three year project funded by the European Commission, was to tax rolling tobacco at the same level as manufactured cigarettes in order to mitigate the problem of switching as a result of price variance\textsuperscript{39}. While the overall rate of smoking in the UK has decreased in over the past four decades, the proportion of smokers using rolling tobacco has increased significantly since the 1990s: in 2012, 38\% of men and 24\% of women smokers reported using rolling tobacco compared with just 18\% of men and 2\% of women in 1990\textsuperscript{40}.

**Tobacco industry pricing strategies**

The effectiveness of tobacco taxation is only fully realised if it leads to a narrowing of the gap between the highest and lowest priced tobacco products. Tobacco industry pricing strategies have undermined policies to reduce health inequalities. In recent years ‘Ultra Low Price’ (ULP) cigarette brands have proliferated in the UK market\textsuperscript{41}. Examining the real price of individual ULP brands shows that some have fallen by as much as 5\%\textsuperscript{42}, giving smokers access to cheaper tobacco. Research shows that between 2006 and 2009 the ULP market doubled\textsuperscript{43}. There has been an increase in the sales volumes of economy brand cigarettes and the use of rolling tobacco which is undermining efforts to reduce smoking rates\textsuperscript{44}. Accessible and independent data on tobacco sales, revenue and smuggling are needed to counter industry strategies which undermine public health policies\textsuperscript{45}. 


Tobacco taxes and the illicit trade
The price of duty-paid tobacco products is not the most important factor in determining levels of illicit trade. Research which has plotted tobacco tax rates against the levels of illicit trade across EU countries (where data is available), demonstrates that no correlation appears between higher-tax countries and those with a larger illicit cigarette market.46

HMRC figures show the illicit market share for cigarettes has more than halved since 2000-01, and for rolling tobacco reduced by more than a third, since 2004-05,47,48 despite tobacco taxes having increased in real terms over the last 15 years. The reduction in the market share of illicit tobacco is due in large part to the implementation of successive Government strategies to curb the illicit trade through better enforcement by customs and borders staff, in addition to greater penalties, acting as deterrents49,50. Targeted regional activity such as the North of England Tackling Illicit Tobacco for Better Health programme - which has been a driving force behind the illegal tobacco market hitting a record low in the region51 - is an example of how effective action can be delivered at a local level.

In March 2015, the Government launched a new illicit tobacco strategy, Tackling illicit tobacco: from leaf to light52. Alongside this new strategy other initiatives were announced in the 2015 Budget, including the introduction of a registration scheme for users and dealers in raw tobacco and new measures to tighten anti-forestalling rules, including penalties for non-compliance.53. In implementing its illicit tobacco strategy, the UK must ensure proper coordination with partners at both an EU54 and global level, including through the ratification of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products55.

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