An Roinn Airgeadais
Department of Finance

General Excise Paper

Tax Strategy Group – 22/08

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ALCOHOL PRODUCTS TAX

1.1 Alcohol – Introduction

The current rates and structures of excise duty on alcohol products are harmonised across the European Union through Directives 92/83/EEC and 92/84/EEC ('Alcohol Products Tax Directives'). This section outlines the main policy considerations regarding alcohol products tax as well as recent changes to rates, yields and consumption patterns. It also sets out options for Budget 2023.

1.2 Public Health Policy

Ireland has some of the highest rates of excise duty on alcohol products in the EU. This reflects a long-standing policy to support public health objectives.

Alcohol consumption, in particular problematic drinking behavior is a major social problem. 1,094 alcohol-related deaths were recorded in 2017 – an average of 3 deaths per day. Over 70% of those who died of alcohol-related causes were under 65 years old[1].

The Steering Group Report on a National Substance Misuse Strategy, published in 2012, provides a set of public health policies related to alcohol consumption. The Report made four recommendations relating to excise duty: maintain excise rates at high levels; further increase excise rates for higher alcohol content products; increase the differential between excise rates applied to alcohol content levels in each alcohol product category; and increase the annual excise fee for the renewal of off licenses.

The Government legislated to tackle the harms caused by alcohol in the Public Health (Alcohol) Act 2018. The Minister for Health signed the order to commence 23 sections of the Public Health (Alcohol) Act into operation in November 2018 with additional sections commencing January 2022 when minimum unit pricing was introduced.

The primary policy objectives of the Act are to:

- reduce alcohol consumption to 9.1 litres of pure alcohol per person per annum
- delay the initiation of alcohol consumption by children and young people,

[1] See Health Research Board 'Overview Series 11t' publication, April 2021 https://www.hrb.ie/fileadmin/2._Plugin_related_files/Publications/2021_publications/2021_HIE/Evidence_Centre/HRB_Alcohol_Overview_Series_11.pdf

- reduce the harms caused by the misuse of alcohol, and
- regulate the supply and price of alcohol in order to minimise the possibility and incidence of alcohol related harm.

These objectives were developed in recognition of the fact that alcohol consumption in Ireland remains high, causing harms to health and generating significant costs for the State. The principles guiding the objectives are that the harms caused by alcohol make it unlike other grocery products, that consumers should be able to make informed choices about their drinking and that it is time that children and young people's relationship with alcohol was addressed.

The Act proposed to achieve its objectives through the introduction of:

- a minimum price per gram of alcohol of €0.10 to limit the availability of very low cost alcohol
- health labelling of alcohol products;
- the regulation of certain aspects of the advertising and marketing of alcohol;
- separation and reduced visibility of alcohol products in mixed trading outlets;
- the regulation of the sale and supply of alcohol in certain circumstances.

1.2.1 MINIMUM UNIT PRICING

Minimum Unit Pricing is intended to address the health harms associated with harmful alcohol consumption by preventing the sale of very low priced alcohol. The policy is similar to the policy instituted in Scotland in 2018.

The Government Decision in 2013 approved the implementation of a minimum unit pricing regime for alcohol products under the then Public Health (Alcohol) Bill to be subject to a similar provision being introduced simultaneously in Northern Ireland. Section 11 (1) of the Public Health (Alcohol) Act sets out the minimum price per gram of alcohol at €0.10.

Partly in recognition of the delays preventing the introduction of minimum unit pricing in Northern Ireland, in May of last year the Government approved the introduction of Minimum Unit Pricing with effect from January 2022.

It is currently too early to properly evaluate its efficacy in reducing alcohol deaths or its effect on the Exchequer.

1.3 The re-introduction of Duty Free between Ireland and Great Britain

Following the ending of the Brexit transition period on 31st December 2020, duty free shopping returned for passengers travelling between the UK and the EU. The Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2020 provided for duty free shopping for passengers travelling between Great Britain and Ireland. Such a development was unavoidable and raises concerns around the wider availability of low priced tobacco and alcohol products in the State and the negative impact on the Government's public health policy. With the gradual return towards pre-pandemic levels of travel this year due to the removal of restrictions related to Covid-19, the coming months may illustrate the extent of duty free shopping between Ireland and the UK.

1.4 Alcohol Products Tax Directive

The Alcohol Products Directive 92/83/EEC relates to the harmonization of the structures of excise duties on alcohol and alcoholic beverages. On 29 July 2020 the Council amended this Directive through Directive 2020/1151. The new rules were applied from 1 January 2022. Mandatory changes transposed into Irish law effected the following:

- Updated the definition of CN code[2] under section 73 of the Finance Act 2003 to reference the new Commission Implementing Regulation (EU) 2018/1602;
- Provided mandatory exemptions from excise duty on alcohol that has been denatured, provided certain conditions are met;
- Provision for certification (and self-certification) for small independent breweries across the EU confirming the brewery's production for the year in order to improve the cross border functionality of the existing relief for small breweries.

The revised Directive also provides for optional transpositions including to effect the following:

- An increase in the threshold for low strength beer from 2.8% to 3.5%;
- The option for Member States to provide excise relief to small cider producers (and producers of other products) on similar terms to microbrewers with a much lower volume cap upon which claims can be made.

[2] The Combined Nomenclature (CN) is **the EU's eight-digit coding system, comprising the Harmonised System (HS) codes with further EU subdivisions**. It serves the EU's common customs tariff and provides statistics for trade within the EU and between the EU and the rest of the world.

1.5 Relief for micro producers of cider

The new EU Structures Directive 2020/1151 through Article 13a effectively permits all EU Member States to grant up to 50% excise relief on excise rates to independent small producers of other fermented products such as cider, perry, and other fermented beverages. This means that excise relief (similar to that applied to microbreweries) may now be extended to small producers of cider producing less than 15,000 hectoliters (hl) of product annually.

As part of Budget 2022, the Minister for Finance announced his intention to bring forward legislation to provide excise relief for small cider producers in the 2022 Finance Bill. As the new Directive provision, Article 13a, is structured differently to the provision for small beer producers (under Article 4), the existing relief in Irish legislation for beer cannot be simply extended to cider. While the Directive allows for the inclusion of other fermented beverages, the diversity of products in the applicable CN codes and the technical difficulties arising out of monitoring the products, are such that there is an argument for restricting the relief to cider and perry. It is due to this complicating factor that it is necessary to provide a separate new relief rather than extend the existing relief. To this end, work is underway to bring forward a new relief broadly modelled on the existing relief arrangements for beer but compatible with the amended legislation for the forthcoming Finance Bill.

Information from Revenue indicates that as few as 16 Irish producers of cider or perry, with a combined output in the region of 13,000hl, may be in a position to avail of the relief, with the majority producing less than 1,000hl. Taking into account potential future growth of these businesses, it may be worth considering options which set the production threshold above the current production levels.

1.6 COVID-19 excise support

In August 2020, the Government introduced a support package of measures for Vintners impacted by COVID-19 restrictions including a provision to waive excise duty for on-trade liquor licenses on renewal in 2020 until 30 September 2021 (this was then extended to end September 2022). At the outset of the pandemic, Revenue also put measures in place that allow alcohol products, on which excise tax has been paid but which have spoiled due to premises closures, to be returned to a tax warehouse. The excise duty previously paid on the alcohol was refunded or remitted by agreement with the returning trader's local Revenue control officer.

1.7 Recent Changes to Rates, Yield, Consumption and Prices

RECENT YIELD CHANGES

The table below indicates yield from 2013 to 2021 by alcohol product type:

Table 1: APT Yields 2013-2021

Year	Wine (€m)	Beer (€m)	Spirits (€m)	Cider/Perry (€m)	Total (€m)
2013*	302	358	290	52	1,002
2014*	355	425	302	59	1,140
2015	355	417	311	54	1,137
2016	380	430	338	59	1,207
2017	382	424	353	61	1,220
2018	376	430	372	61	1,239
2019	378	421	373	60	1,232
2020	425	351	374	53	1,203
2021	385	351	389	51	1,176

*Rate Change

RECENT RATE CHANGES

The table below indicates changes in the main rates of duty and their incidence on the representative alcohol product since 1993, when the current structure of the Alcohol Products Tax came into effect. The last rate changes were made in 2014.

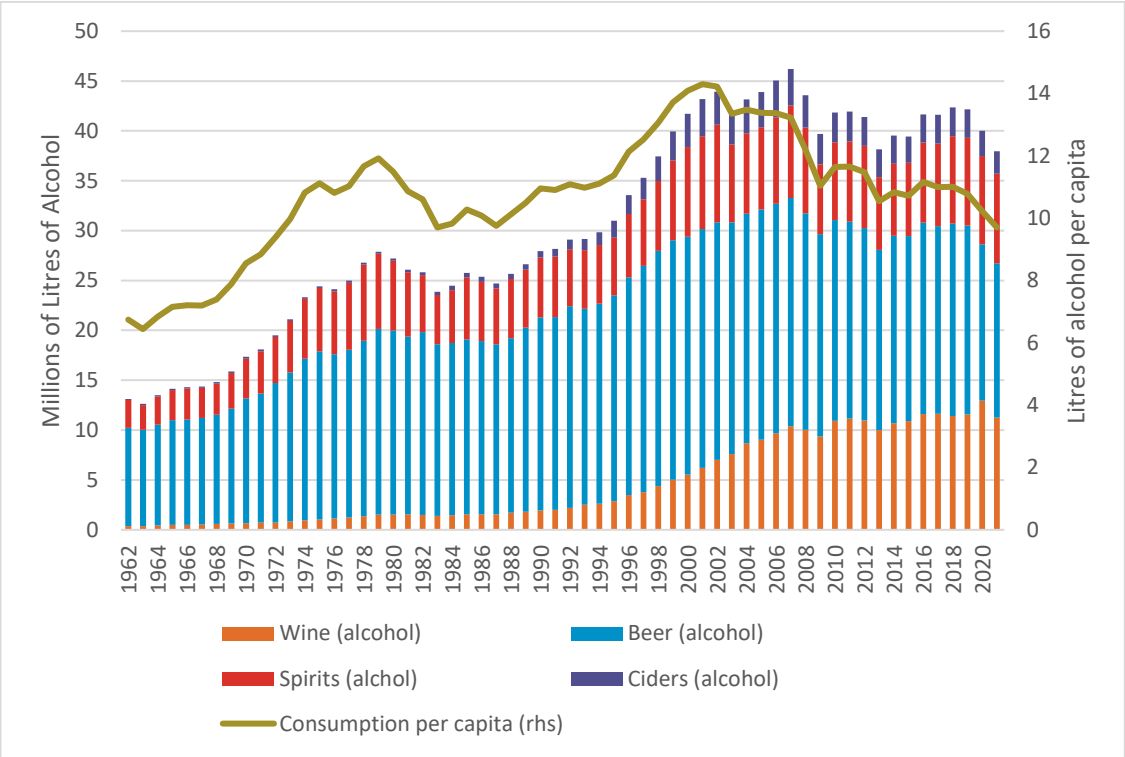
Table 2: Impact of rate changes on excise charged by product type

Year	Beer (4.3% ABV Pint) (€m)	Still Wine (12.5% ABV bottle) (€m)	Spirits (40% ABV glass) (€m)	Cider (4.5% ABV Pint) (€m)
1993	0.45	1.94	0.39	0.22
1994	0.49	2.05	0.39	0.25
2002	0.49	2.05	0.39	0.47
2003	0.49	2.05	0.55	0.47
2009	0.49	2.46	0.55	0.47
2010	0.38	1.97	0.44	0.37
2013	0.47	2.78	0.52	0.46
2014	0.55	3.19	0.60	0.54

CHANGES TO CONSUMPTION PATTERNS

Graph 1 below indicates the total nominal quantity of pure alcohol by product released for Irish consumption, and the associated per capita consumption of *pure* alcohol. Consumption per capita had been steadily declining since 2000. In recent years it has slightly increased again, standing at 11.01 liters per capita in 2018 but decreasing to 10.78 in 2019 and 10.1 in 2020. It should be noted that the figures below do not capture alcohol products purchased outside the State and do capture alcohol products consumed in the State by foreign visitors.

Graph 1 - Nominal consumption of alcohol products (lhs) and litres of alcohol consumed per capita (black line rhs), 1962 to 2021



Source: Revenue quarterly updates for alcohol and population over 15 per census

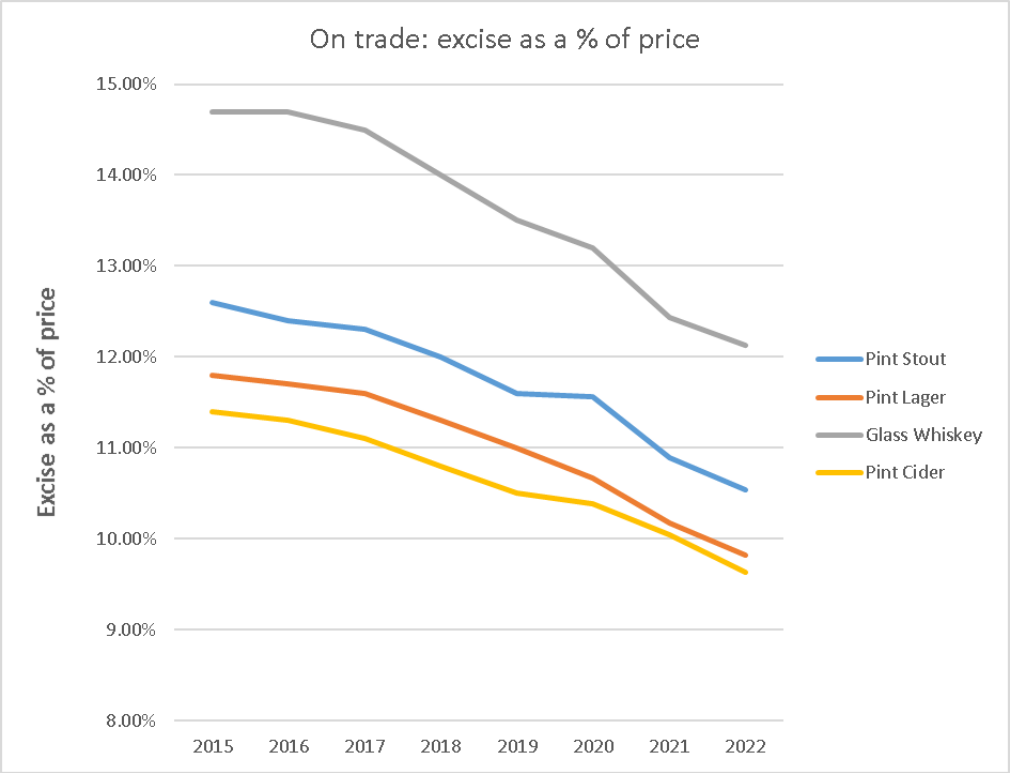
Graph 1 also highlights changes in consumer tastes over the period, with a significant increase in wine consumption. This has had implications for the pub trade, as over 80% of wine is purchased in the off-trade. Given that excise duty on alcohol is largely unchanged as a proportion of price over the years, it is unlikely that tax is the driving factor in consumption changes. In this regard, the consumption, and composition of consumption, of alcohol products is driven by factors such as personal disposable income, individual consumer preferences, and the availability of alcohol products, the pricing strategies of retailers and publicans, and cultural changes.

RECENT RETAIL PRICE DEVELOPMENTS – ON TRADE

Graph 2 below illustrates the trend in excise duties as a percentage of the national average price of the representative pint of stout, pint of lager, pint of cider and glass of whiskey sold in

the on-trade. Since 2014 excise duty as a percentage of the retail price has fallen across all these products.

Graph 2: Recent trends in excise duties as a percentage of on-trade prices

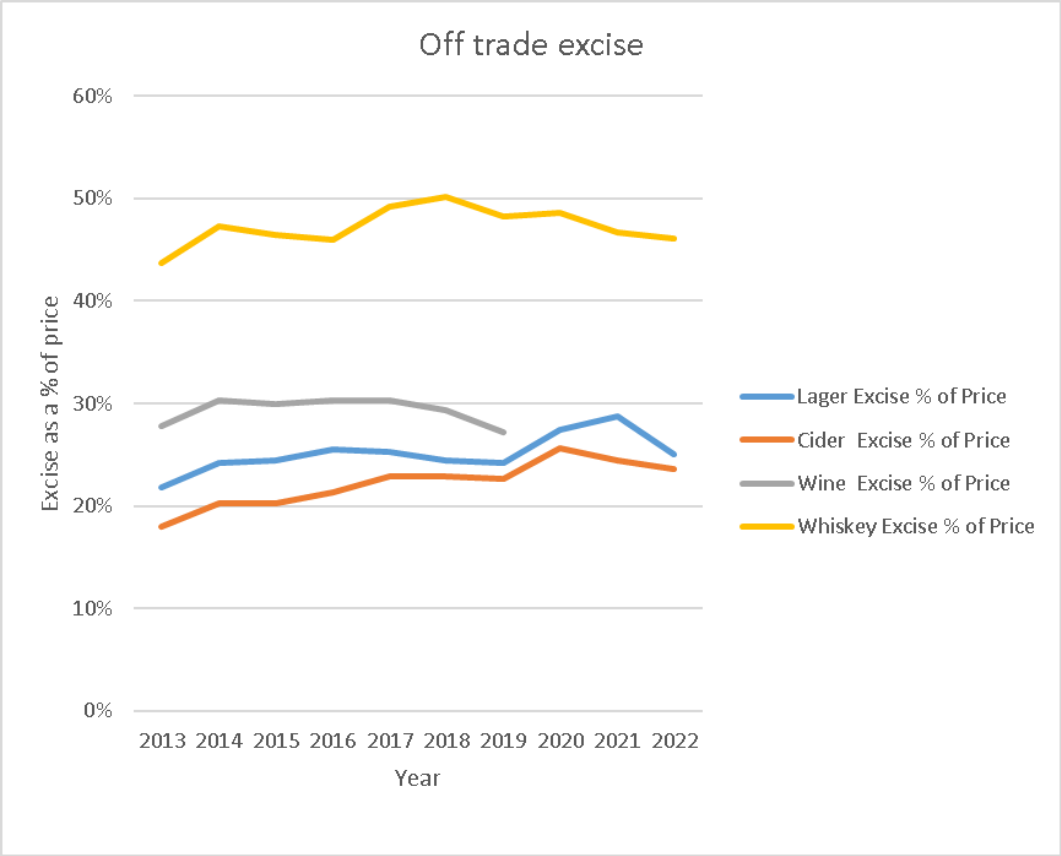


Note: 2022 data in the graph above is based on April 2022 CSO data.

RECENT RETAIL PRICE DEVELOPMENTS – OFF TRADE

Graph 3 below illustrates the trend in excise duties as a percentage of the national average price of the representative can of lager, can of cider, bottle of wine and bottle of whiskey sold in the off-trade. Broadly speaking, the trend has been relatively flat since 2014.

Graph 3: Trends in excise duties as a percentage of off-trade prices



Note: 2022 data in the graph above is based on April 2022 CSO data.

1.8 Cross-Border Trade

Price differences between this jurisdiction and Northern Ireland are determined by (i) VAT and excise rates in both jurisdictions, (ii) exchange rates, and (iii) the pricing strategies of retailers. The current UK VAT rate for alcohol products is 20% compared to the Irish rate of 23%. Given that the UK imposes similarly high rates of excise duty on alcohol products, the most important determinant of price differentials is usually the exchange rate.

The results of the most recent cross-border price survey carried out by the Revenue Commissioners in selected comparable alcohol products is contained in the 2021 General Excise TSG Paper. It should be noted that this survey dates from 15 August 2019 as there has not been another carried out since the Covid-19 pandemic.

It remains too early to gauge the impact the introduction of Minimum Unit Pricing will have on cross-border trade and exchequer receipts. It is clear however, that its introduction has resulted in price differentials on alcohol products across the border which might lead to an increase in cross-border trade, undermining the tax take from alcohol sales. Evidence will be assessed as it becomes available.

1.9 Microbreweries

EXCISE RELIEFS FOR MICROBREWERIES

Article 4 of the Alcohol Products Tax Directive (EU Directive 92/83/EEC) provides for the application of reduced rates, or relief, of excise duty of up to 50% of the national rate of excise duty in respect of breweries producing up to 200,000hl of beer per annum. The purpose of the availability of excise reliefs for microbreweries is to promote competition and diversity within the beer market and to help regional development.

Ireland exercised the option to apply reduced rates of excise to qualifying microbreweries in Budget 2005 and the terms of the microbreweries relief has been enhanced since its inception, including by enabling microbreweries to claim the relief by way of remission rather than repayment.

The current rate of relief is 50% on the standard excise duty, which is the maximum relief permitted by the Directive (equivalent to €0.27 on a 4.3% ABV pint). Relief may be claimed on up to 30,000 hl of beer. Independent microbrewers producing up to 50,000 hl are eligible to claim relief[3].

The table below shows the total relief claimed and number of claimants for each year from 2011 to 2021.

[3] Certain other qualifying criteria apply. These are outlined on the website of the Revenue Commissioners.

Table 3: Overview of Microbrewery Relief Scheme 2011-2021

	Total Volume Beer (HL) availed of relief	Total Repaid /Remitted (€)	Number of Claimants
2011	17,865	420,304	17
2012	33,219	840,651	20
2013	34,001	1,112,897	25
2014	64,606	2,334,409	54
2015	90,390	3,994,745	73
2016	90,710	4,089,194	71
2017	125,447	5,655,152	86
2018	128,423	5,789,252	90
2019	136,224	6,140,972	85
2020	128,579	5,796,332	85
2021	140,009	6,595,625	81

As the microbrewery relief is already set at the maximum permissible rate under EU rules and the current production threshold ensures that all microbreweries are included, there is no clear rationale to enhance this scheme further at this time.

1.10 Budget Options

The Drinks Industry Group Ireland (DIGI) and the National Off License Association have called in their pre-budget submissions for a 7.5% reduction in alcohol excise in Budget 2023 with a further 7.5% reduction in Budget 2024, and that this should be the start of a programme of annual excise reductions to gradually bring Irish alcohol excise into line with lower EU levels (see Appendix 1 which gives the excise rate per hectoliter of wine beer spirits across the EU). It considers that this will help the drinks and hospitality sector to rebuild commercial activity in all areas of the country and to recover employment. The following table shows the estimated effect of a range of VAT inclusive increases or decreases in excise duties yield for beer, spirits and cider, and the estimated effect of a range of VAT inclusive increases in excise duties yield for still and sparkling wine.

Table 4: Budget Options

	1c	2c	3c	4c	5c	10c	15c	20c
Beer (per pint) (€m)	6.2	12.5	18.7	24.9	31.1	61.8	92.3	122.4
Spirits (1/2 glass) (€m)	4.6	9.1	13.6	18.1	22.6	44.5	65.8	86.3
Cider (per pint) (€m)	0.8	1.7	2.5	3.3	4.2	8.3	12.4	16.5

	5c	10c	15c	20c	25c	50c	75c	100c
Wine (per bottle) (€m)	3.2	6.3	9.4	12.4	15.4	29.7	43.1	55.5
Sparkling Wine (per bottle) (€m)	0.06	0.13	0.19	0.25	0.31	0.61	0.90	1.17

Notes: these figures assume no change in consumer behaviour, including in relation to cross border purchases.

Appendix 1

Beer		Wine (Still)		Wine (Sparkling)		Spirits	
€ per HL per degree of alcohol of finished product		€ per hectolitre of product		€ per hectolitre of product		€ per hectolitre of pure alcohol	
FINLAND	38.05	IRELAND	424.84	IRELAND	849.68	FINLAND	5,035.00
IRELAND	22.55	FINLAND	421	FINLAND	421	SWEDEN	4,926.80
SWEDEN	19.27	SWEDEN	249.68	BELGIUM	256.32	IRELAND	4,257.00
ESTONIA	12.7	LITHUANIA	164.67	SWEDEN	249.68	BELGIUM	2,992.80
GREECE	12.5	DENMARK	151.3	DENMARK	196.32	GREECE	2,450.00
SLOVENIA	12.1	ESTONIA	147.82	LITHUANIA	164.67	LITHUANIA	2,025.00
LATVIA	8.2	LATVIA	111	ESTONIA	147.82	DENMARK	2,015.56
FRANCE	7.68	NETHERLANDS	88.3	GERMANY	136	ESTONIA	1,881.00
ITALY	7.48	BELGIUM	74.91	LATVIA	111	FRANCE	1,802.67
LITHUANIA	7.11	POLAND	38.72	NETHERLANDS	88.3	LATVIA	1,724.00
DENMARK	6.55	MALTA	20.5	CZECHIA	86.93	NETHERLANDS	1,686.00
NETHERLANDS	6.48	FRANCE	3.91	SLOVAKIA	79.65	POLAND	1,396.46
CYPRUS	6	GREECE	0	HUNGARY	45.74	PORTUGAL	1,386.93
CROATIA	5.29	BULGARIA	0	POLAND	38.72	MALTA	1,360.00
BELGIUM	5.01	CZECHIA	0	MALTA	20.5	SLOVENIA	1,320.00
AUSTRIA	5	GERMANY	0	ROMANIA	10.72	GERMANY	1,303.00
MALTA	4.83	SPAIN	0	FRANCE	9.68	AUSTRIA	1,200.00
POLAND	4.77	CROATIA	0	AUSTRIA	0	CZECHIA	1,198.08
HUNGARY	4.5	ITALY	0	GREECE	0	SLOVAKIA	1,080.00
PORTUGAL	3.8	CYPRUS	0	BULGARIA	0	LUXEMBOURG	1,041.15
SLOVAKIA	3.59	LUXEMBOURG	0	SPAIN	0	ITALY	1,035.52
CZECHIA	2.97	HUNGARY	0	CROATIA	0	SPAIN	958.94
SPAIN	2.26	AUSTRIA	0	ITALY	0	CYPRUS	956.82
LUXEMBOURG	1.98	PORTUGAL	0	CYPRUS	0	HUNGARY	926.35
GERMANY	1.97	ROMANIA	0	LUXEMBOURG	0	CROATIA	793.34
BULGARIA	1.92	SLOVENIA	0	PORTUGAL	0	ROMANIA	748.45
ROMANIA	1.87	SLOVAKIA	0	SLOVENIA	0	BULGARIA	562.43
EU Average	8.02	EU Average	70.25	EU Average	107.88	EU Average	1,780.12

*Figures as at 01/07/2021. Taken from Ted-B database.

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TOBACCO PRODUCTS TAX

2.1 Tobacco Introduction

The current rates and structures of excise duty on tobacco products are harmonised across the European Union through Directive 2011/64/EU ('Tobacco Products Tax Directive').

The main policy considerations regarding the Tobacco Products Tax are:

- Public Health Policy and Regulatory Changes;
- Recent Changes to Rates and Yields;
- Illicit Tobacco;
- Non-Irish Duty Paid Products including Cross-Border Issues;
- Minimum Excise Duty and Market Trends and
- Tobacco Products Tax Directive and Novel Products.

2.2 Public Health Policy and Regulatory Changes

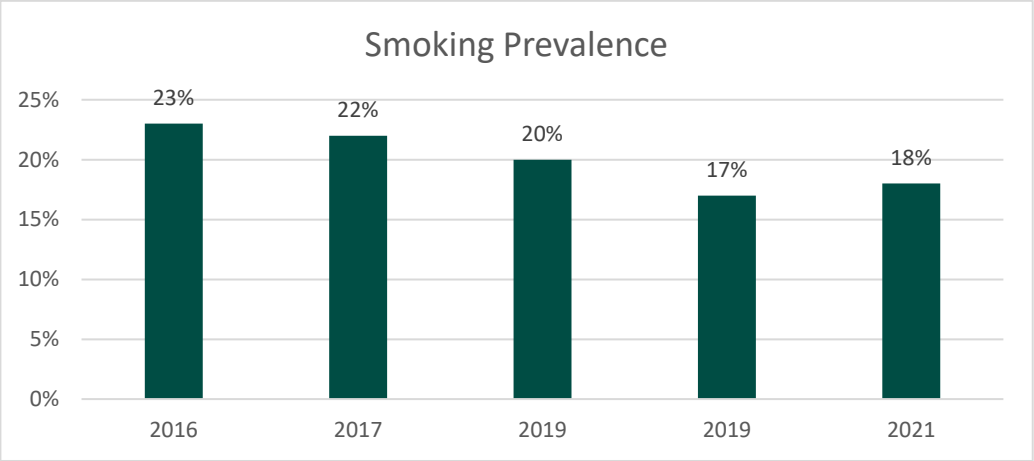
The Programme for Government set a smoking prevalence target of less than 5% of the population smoking by 2025. The Department of Health indicate that smoking remains the leading cause of preventable death in Ireland, accounting for over 4,500 deaths annually[4]. It is estimated that one out of every two long-term smokers will die of a disease related to their tobacco use.

The Healthy Ireland Survey report[5] which was commissioned by the Department of Health and published in late 2021, showed that the prevalence of smoking in Ireland dropped from 23% in 2016 to 18% in 2021 (Graph 4). This figure of 18% is a slight increase on the 17% observed in the 2019 Healthy Ireland Survey. The prevalence of smoking among those aged 25 to 34 has decreased by 6% since 2019, making this survey the first time this cohort haven't had the

[4] https://www.hse.ie/eng/about/who/tobaccocontrol/news/state-of-tobacco-control-report-2022.pdf
[5]https://www.drugsandalcohol.ie/35296/1/Healthy%20Ireland%20survey%202021%20summary%20of%20findings.pdf

highest rate of smokers. The 2021 survey found that it is now those aged between 45 and 54 who record the highest prevalence of smoking.

Graph 4: Smoking Prevalence in Ireland (2016-2021) Healthy Ireland Survey



In Tobacco Free Ireland, the Department of Health made a number of recommendations in relation to fiscal policy, including raising excise duty on tobacco products over a five year period and reducing the price differential between Roll Your Own (RYO) and cigarettes. The 2020 Annual Report [6] published in September 2021, outlined the increase in price and minimum excise duty on tobacco products in Budget 2021 as a key achievement. The Programme for Government[7] outlines a similar commitment to increase the excise duty on tobacco over the coming years to further discourage smoking.

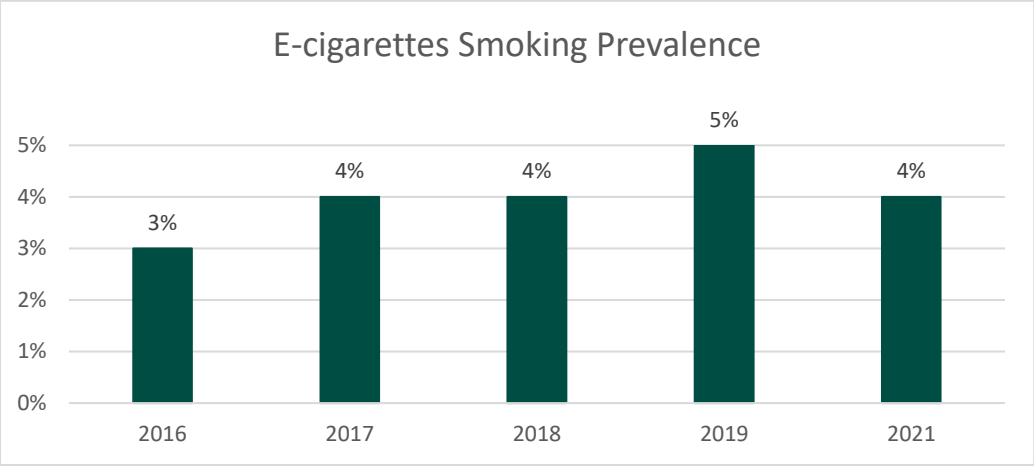
E-cigarettes smoking has decreased slightly since the Healthy Ireland survey in 2019, from an estimated 5% in 2019 to 4% in the 2021 survey (Graph 5). It is noted that research tends to find that e-cigarette usage among those who are current smokers is slightly higher than the general population, with the Healthy Ireland Survey 2021 reporting that 6% of smokers and 3% of non-smokers use e-cigarettes. Additionally, the prevalence of e-cigarettes smoking in those aged 25 and under remains high with 14% having used e-cigarettes at some point.

A Heath Research Board (HRB) review[8] into the use of e-cigarettes found that adolescents who had tried e-cigarettes were between three and five times more likely to begin smoking cigarettes compared to those who had never tried an e-cigarette. The Programme for

[6] https://www.gov.ie/en/publication/8aaf0-tobacco-free-ireland-2020-annual-report/
[7] https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/
[8] https://www.hrb.ie/news/press-releases/single-press-release/article/new-health-research-board-evidence-shows-e-cigarettes-are-associated-with-adolescents-starting-to-sm/

Government outlines plans to introduce a targeted taxation regime to specifically discourage 'vaping' and e-cigarettes (see Section 2.7).

Graph 5: E-Cigarettes Smoking Prevalence in Ireland (2016-2022)



2.3 Recent Changes to Rates and Yields

Ireland has some of the highest rates of duty on tobacco products, including on cigarettes and roll-your-own (RYO) tobacco in the EU. This reflects a long-standing policy of levying high rates of excise duty on tobacco products to meet public health targets. Excise duty on tobacco products has increased consistently in the budget over the past 20 years, with the exception of Budgets 2005, 2006 and 2010. Rate increases of €0.50 on 20 pack cigarettes (Most Popular Price Category) have been implemented in each of the last 7 budgets with pro rata or higher increases applied to RYO. The impact of the escalation of the high excise policy can be seen from the fact that the average price of tobacco has increased by about 31.79% between March 2017 and March 2022.

The rate of duty on RYO tobacco is currently €418.01 per kilogram, or €12.54 per 30g pack. The price of a pack of 20 cigarettes in the most popular price category (MPPC) now stands at €15.30), with a tax content of €11.88 split between €9.02 of excise duty and €2.86 in VAT.

The table below shows the tax increase, trade increase and tax content of the MPPC of a pack of 20 cigarettes following each of the past ten budgets. As can be seen, while the tax content has increased significantly over the period the tobacco trade have increased their own margins to maintain the trade content of a pack of 20 at around 21% of the retail price.

Table 5: Changes to rates and tax content from Budget 2014 to Budget 2022

Budget	Tax Increase	Trade Increase	Tax Content	Tax content as % of price
Budget 2014	10c	10c	€7.47	77.8%
Budget 2015	40c	0c	€7.87	78.7%
Budget 2016	50c	0c	€8.37	79.7%
Budget 2017	50c	30c	€8.95	79.2%
Budget 2018	50c	20c	€9.52	78%
Budget 2019	50c	30c	€10.06	79%
Budget 2020	50c	30c	€10.65	79%
Budget 2021	50c	30c	€10.97	78.3%
Budget 2022	50c	30c	€11.80	78.7%

The tax content relates to the period immediately post Budget whereas the trade increases normally take place following any budget increase.

The table below shows receipts from Tobacco Products Tax (TPT) since 2014, broken down by cigarettes and RYO. Stripping out the front loading effects of regulatory changes in recent years (resulting in an artificially high level of receipts in 2017 and an artificially low level of receipts in 2018), it can be seen that receipts have remained stable at around €1.1 billion per annum, with successive rate increases compensating for reductions in the volumes released for consumption. RYO receipts have increased significantly, but this is from a low base and RYO receipts formed formed just 12.9% of total receipts in 2021.

Table 6: Tobacco Products Tax Yield from 2014 to 2022

Year	Cigarettes (€m)	Other Smoking Tobacco (€m)	Total (€m)
2014*	881	102	984
2015*	938	145	1,082
2016*	973	124	1,098
2017*	1,241	156	1,397
2018*	646	103	749
2019*	1,011	125	1,136
2020*	1,040	161	1,201
2021*	1,137	181	1,318
2022*#	1,129	200	1,329

*Rate Change

#2022 figures are current Revenue forecasted estimates (June 2022)

Forecasting yields has become increasingly difficult with continued irregularities and fluctuations in tobacco clearances and tax receipts, and market trends towards 'big box' cigarettes. While overall yields have continued to rise since 2014, past issues such as front-loading (spurred by regulatory deadlines) and projected decreases in smoking prevalence

have created uncertainty. In this environment, the Revenue Commissioners have previously indicated that further increases in excise duties may not lead to increased revenue yields.

2.4 Illicit Tobacco Market

2.4.1 PREVALENCE

IPSOS MRBI conduct an annual survey, on behalf of the Revenue Commissioners and the National Tobacco Control Office of the Health Service Executive, with the aim of estimating the extent of the non-Irish duty paid tobacco trade in Ireland. The most recent survey[9] indicates that 22.7 million of cigarette packs consumed in the State in 2021 were illicit.

The total cigarette consumption in Ireland in 2021 is estimated to be 3.4 billion (168 million packs). At an illicit rate of 13%, approximately 453 million illegal cigarettes (22.7 million packs) are consumed in Ireland.

The resulting consumption of illegal cigarettes represents a notional loss to the Exchequer of approximately €264 million in 2021 (Excise & VAT). This is viewed as a notional loss in Exchequer revenue as it assumes that the illegal cigarettes consumed displaced the equivalent full tax paid quantity of cigarettes, which is unlikely to be the case.

[9] https://www.revenue.ie/en/corporate/documents/research/tobacco-surveys-2021.pdf

Table 7: Annual Illicit Tobacco Survey

Year	Illegal Cigarettes	Notional tax loss* (€m)
2014	11%	214
2015	12%	192
2016	10%	170
2017	13%	229
2018	13%	211
2019	15%	242
2021	13%	264

IPSOS MRBI has also been surveying the extent of the illicit market for RYO since 2013. It found that illicit RYO packs were 9% of all packs consumed in 2016, 15% in 2017, 21% in 2018, 12% in 2019 and 13% in 2021. This survey has a higher margin of error than the cigarette survey. Nonetheless, this indicates a significant increase in the proportion of illicit RYO since 2016. According to Revenue, the notional loss to the Exchequer from 13% of illegal RYO packs in 2021 is €21m (Excise & VAT).

2.4.2 REVENUE ENFORCEMENT

Revenue seized approximately 60.7 million cigarettes with a value of approx. €43.5m in 2021. This compares to 48.2 million seized cigarettes with a value of approx. €32.8m in 2020. In addition, Revenue seized 38,246kg of tobacco with a value of approx. €24.1m in 2021, an increase on the 7,189 kg seized at a value of €4.2m in 2020. The quantity of cigarettes and tobacco seized since 2010 and the estimated value of those seizures is outlined in the table below.

Table 8: Revenue seizures of illicit tobacco 2018 to 2022

	Cigarettes			Other Tobacco		
Year	**No. of Seizures**	**Quantity (€m)**	**Estimated Retail Value (€m)**	**No. of Seizures**	**Quantity (kg)**	**Estimated Retail Value (€m)**
2018	3,963	68	41	1,376	1,915	1
2019	3,263	13.4	8.6	1,470	3,564	2
2020	3.132	48.2	32.8	1,304	7.189	4.2
2021	4,889	60.7	43.5	1,692	38,246	24.1
2022#	1,992	20.5	15.4	610	1,214	0.9

#End June 2022

2.5 Non-Irish Duty Paid Cigarettes & Cross Border Comparison

As a high excise Member State, there is clearly an incentive for some smokers to bring in non-Irish duty paid tobacco products into Ireland from other Member States which have significantly lower tobacco taxes.

The 2021 IPSOS MRBI survey has found that the level of non-Irish duty paid cigarettes has remained broadly stable in the period 2016-2021 at 8-9%, while it was found to be 5-6% in the period 2015-2017. The survey also found that the level of non-Irish duty paid RYO products has fallen slightly to 5% in 2021, from 7% in the period 2018-2019. (See Section 2.7 for EU proposals).

2.5.1 CROSS BORDER COMPARISON

The UK Government announced in Budget 2020 that it will continue to increase tobacco duties by 2% above the rate of inflation (based on RPI) each year until the end of the current parliament and for RYO by 6% above the rate of inflation (based on RPI) this year[10]. This 2% increase was announced again in the UK Autumn Budget in September 2021, along with an additional increase of 4%, to 6% above RPI inflation for RYO and an increase of 1%, to 3% above RPI inflation for Minimum Excise Tax (MET) for this year[11].

There is currently little incentive to bring non-Irish duty paid cigarettes from Northern Ireland into the State as there remains a very marginal price differential between them. The results of the most recent cross-border price survey carried out by the Revenue Commissioners on tobacco products is contained in the 2021 General Excise TSG Paper. It should be noted that this survey dates from August 2019 as there has not been another carried out since the Covid-19 pandemic.

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf

[11] https://www.gov.uk/government/publications/changes-to-tobacco-duty-rates/changes-to-tobacco-duty-rates#:~:text=As%20announced%20at%20Autumn%20Budget,above%20RPI%20inflation%20this%20year.

2.6 Minimum Excise Duty (MED)

The Minimum Excise Duty (MED) is an available tax policy tool which can be useful in supporting public health objectives by ensuring that the cheapest cigarettes on the market are priced at a particular minimum level which reflects their underlying health risks. It can also support fiscal sustainability. By its nature increasing the MED would impact greatest on the heaviest smokers of the cheapest cigarettes. There is evidence that 'big box' cigarettes packs would be more affected by any increase in the MED as they are often the best value for money when measured on a per cigarette basis.

The 2018 General Excise Tax Strategy Paper[12] addressed the issue of the growth in the market share of value and large pack cigarettes and set out an option for increasing the MED as a policy tool to support public health objectives.

The MED was then increased in Budget 2019 and Budget 2020. Currently the MED is set at €434.19 per 1,000 (equivalent to €8.68 per 20 pack or €13.03 per 30 pack). This equates to a price trigger point of €11.50 per 20 pack as a result of applying the Minimum Excise Duty (MED) (i.e. a 20 pack costing less than €11.50 would be taxed as if it were priced at €11.50). The decision in Budget 2021 to increase the MED, allied to the general increase in tobacco excise duty, has ensured that there are no longer 20 pack cigarettes priced in or around €10. The lowest priced cigarettes currently are €12.50.

Those who purchase the cheapest cigarettes are the most price sensitive consumers and a risk directly associated with increasing the MED is that it may spur increased consumption of illicit and non-Irish duty paid cigarettes. The increase in the MED since 2018 has been significant and no cigarette packs are currently priced at or below a trigger price point where the MED is relevant. This suggests that the risks of increasing the MED may be greater than any benefits.

[12] https://assets.gov.ie/5707/170119150040-6986c30878ea485abb4cf47b83c505dc.pdf

2.7 Tobacco Products Tax Directive and Novel Products

The taxation of tobacco products is governed by the Tobacco Products Tax Directive 2011/64/EU. The Directive defines and classifies various manufactured tobacco products according to their characteristics and lays down the relevant minimum rates of excise duty for the different types of products. The Directive aims at ensuring the proper functioning of the internal market and, at the same time, a high level of health protection and to fight against tax fraud, tax evasion and illegal cross border shopping.

Every four years, the European Commission is required to submit a report to the Council on the rates and the structure of excise duties, accompanied – where appropriate – by a proposal for the revision of the Directive. The latest report was prepared by the Commission on 10 February 2020 and on 2 June 2020 the Council approved conclusions setting out its priorities in relation to the review of the Directive. A public consultation, open between 30 March 2021 and 22 June 2021, sought to ensure that all relevant stakeholders had an opportunity to express their views on the current rules and on possible changes to these rules. Officials from the Department of Finance and the Revenue Commissioners have engaged with the Commission on preliminary work.

The Commission Report and the Council concluded that it is necessary to upgrade the EU regulatory framework, in order to tackle current and future challenges in respect of the functioning of the internal market by harmonising definitions and tax treatment of novel products (such as liquids for e-cigarettes and heated tobacco products), including products that substitute tobacco, in order to avoid legal uncertainty and regulatory disparities in the EU. As it stands, E-cigarettes and novel products are currently not included in the Tobacco Products Tax EU Directive. The Report also notes that large price gaps between Member States, (the average price of a pack of cigarettes can range from €2.57 to €11.37) can provide an economic incentive for unintended high levels of cross border shopping, particularly from low excise Member States by residents of high excise Member States.

Ireland welcomes the review of the Directive to ensure that the rules remain fit for purpose, safeguard the proper functioning of the internal market and, very importantly, provide for a high level of health protection.

In February 2021, the EU Commission launched ‘Europe’s Beating Cancer Plan’ with a commitment to take comprehensive action on tobacco to reduce tobacco consumption to less than 5% of the population by 2040. A review of the EU Directive that would include a revision

of EU minima taxation rates, the introduction of harmonised taxation rates, legislation on cross-border purchasing and product regulation among other issues is outlined as a key action in the Plan.

The Department is aware that heated tobacco products are authorised for sale in the State and should any such products launch in the Irish market in advance of any EU legislative developments they will be subject to tobacco products tax at the lower rate applicable for “other smoking tobacco” (currently €301.434 per kilogram).

2.8 Budget Options

The table below (which assumes no increase in the MED) indicates the effects of increasing various levels of duty on cigarettes (with pro rata increases on other tobacco). It also indicates the additional yield from an additional 50% duty increase on RYO on top of the pro rata increase on RYO.

Table 9: Budget Options

Increase (per pack of 20 cigs)	Yield (€m)	Additional for 50% on RYO (€m)	Total Yield (€m)
20c	21.9	0.9	22.8
50c	54.3	2.2	56.5
100c	107.3	4.3	111.6

The Revenue Commissioners have expressed a view that increases in excise may not lead to increased yields, as higher cigarette prices in Ireland could reduce demand due to greater incentives to purchase non-Irish duty paid tobacco products as well as to substitute to other products, such as e-cigarettes. Therefore the above yield projections could be significantly affected by demand elasticity.

BETTING TAX

3.1 Betting Duty – Introduction

Betting duty is chargeable on all bets placed by a person in the State with a licensed bookmaker at a bookmaker's registered premises, irrespective of the means by which a bet is placed. Betting duty is also chargeable on all bets placed by a person in the State with a licensed remote bookmaker by remote means. Betting duty in Ireland is applied as a turnover based tax, whereby the tax charged is based on the amount of the bet placed by customers in the State. Licensed remote betting exchanges are liable for betting exchange duty. The taxation model in the case of betting exchanges is different due to their different business structure. Betting duty for exchanges is paid on the commission charged by them to persons in the State.

The purpose of betting duty is to raise revenues for the State and to account for the negative externalities generated from betting activities – that is, the social costs of problem gambling.

A recent Health Research Board report on Gambling in the Republic of Ireland found that while the incidence of problem gambling has fallen since previous research in 2014, approx. 135,000 lives are still being impacted. The survey found that problem gambling was particularly prevalent among those living in deprived areas and among those with substance abuse disorders[13].

The Programme for Government included a commitment to establish a gambling regulator focused on public safety and wellbeing, covering gambling online and in person, and the powers to regulate advertising, gambling websites and apps. (See Section 3.3)

[13] https://www.hrb.ie/news/press-releases/single-press-release/article/hrb-publish-first-report-on-irish-gambling-trends/://www.hrb.ie/news/press-releases/single-press-release/article/hrb-publish-first-report-on-irish-gambling-trends/

3.2 Rates and Reliefs

Appendix 1 shows the history of betting duty rates and receipts from 1996 to 2021. The betting duty rate was 10% in 1996 and was reduced on several occasions to a low of 1% in 2006. In Budget 2019 the betting duty rate for retail and online operators was increased from 1% to 2% and the duty for betting exchanges also increased, from 15% to 25% of commissions earned on each bet. These increases came into effect on the 1st January 2019.

There are long standing betting duty reliefs for on-course (horseracing and greyhound racing events) bets and for totalisator bets operated by or on behalf of Horse Racing Ireland and Rásaíocht Con Éireann. Budget 2020 introduced a further relief in the form of a tax credit of €50,000 available to all bookmakers and betting exchanges, to be applied on a single undertaking basis. This measure primarily benefits small independent retail bookmakers.

3.2.1 RECEIPTS

A breakdown of betting duty receipts from 2014 to 2020 is provided in the table below.

Table 10: Breakdown of Betting Duty Receipts 2014 to 2022

Year	Retail Betting (€m)	Online Betting (€m)	Betting Intermediary (€m)	Total (€m)
2014	26.16			26.16
2015	27.75	3.00	.32	31.06
2016	28.13	20.75	1.87	50.75
2017	28.96	21.42	1.84	52.22
2018	28.87	21.69	1.78	52.34
2019	51.89	40.62	2.50	95.01
2020	39.02	44.94	2.82	86.77
2021	24.38	60.55	4.20	89.13
2022 Jan to May (Prov.)	22.96	26.59	2.00	51.6

Receipts of €89.13 million for the year 2021 fell short of the forecast of €100 million by €10.87 million for the year. However, receipts with respect to betting activity that took place during 2021 were €92.5 million, which was €10million more than the €83 million take from betting activity that took place in 2020. The Betting Duty receipts are forecast to be in the region of €102 million for 2022

The retail betting market contributed approximately 27% of the total betting duty receipts in 2021. When compared to the contribution of the retail betting market in 2019 (55%), it is evident that the public health restrictions had a great impact on the operations of retail operators. Similar to the UK, the retail betting market is highly concentrated with three firms holding the vast majority of licensed betting shops and potentially a significantly greater share of retail betting turnover. The online market (including betting exchanges) contributed the remaining 73% of the total betting duty receipts in 2021. This increase likely reflects the shift to online betting during the pandemic as well as a general market shift towards online. However, despite these changes, betting duty and betting intermediary duty is still overwhelmingly paid by a very small number of large firms. The top 10th percentile of traders (by turnover) account for over 90% of all betting duty receipts while those at or below the 70th percentile account for less than 2% of all betting duty receipts. This is even more pronounced within the traditional betting sector with the top 10th percentile of traders accounting for over 94% of retail betting duty receipts and holding close to 90% of licenced premises.

3.3 Update on establishment of the gambling regulator

The Programme for Government included a commitment to establish a 'gambling regulator focused on public safety and wellbeing, covering gambling online and in person, and the powers to regulate advertising, gambling websites and apps'. The proposed Gambling authority will be responsible for the prevention of gambling as a source of crime, the regulation and licencing of the industry and the promotion of safe and responsible gambling. As part of its remit in combatting problem gambling, a Social Fund will be established which will support research, information and treatment by health professionals.[14]

In line with this, the Government has approved the Gambling Regulation Bill for priority drafting and publication, and drafting is underway. The Justice Committee has published its findings and recommendations in its pre-legislative scrutiny report on the General Scheme which will now be considered by the Department of Justice. The Department of Justice has also established a Program Board to ensure that the legislation and the operational preparations are progressed in parallel so that the Authority commences operations as soon as possible after enactment. Recruitment of the CEO Designate is also underway through an open Public Appointments Service competition. The Department of Justice are working towards a timeline where the Bill aims to be enacted into law by the end of 2022, with the establishment of the Gambling Regulator in 2023.

[14] https://www.gov.ie/en/press-release/b6268-minister-browne-provides-update-to-cabinet-on-the-establishment-of-a-gambling-regulator/

3.4 Budget Options

As the increase in betting duty was introduced in Budget 2019 and the introduction of the €50,000 relief in Budget 2020, 2020 was the first year where the impact of these changes could be measured. However, due to the pandemic, it has not been possible to fully assess the impact of Budget 2019 and Budget 2020 changes.

Increase betting duty by 0.25% while simultaneously increasing the quantum of tax relief from €50,000 to €65,000 per firm

Increasing the betting duty rate by 0.25% is estimated to raise €9.4m in 2023 and €12.5m in a full year (betting duty is paid quarterly in arrears). A commensurate increase of 3.13% in the betting intermediary duty rate is estimated to raise €0.375m in 2023 and €0.5m in a full year. These estimates are based on the betting market continuing towards normal in 2022 and 2023 and take no account of behavioural changes either amongst providers or consumers of betting services. Simultaneously increasing the quantum of relief from €50,000 to €65,000 per firm would reduce all of the above numbers by approximately €0.25m in 2023.

The Department understands that the additional taxation burden of these two measures combined would be almost exclusively borne by large bookmaking firms.

The proposal to simultaneously increase the quantum of tax relief from €50,000 to €65,000 per firm would principally benefit small independent retail bookmakers whose turnover in 2023 is in excess of €2.5 million.

Revenue have expressed concerns with increasing the betting duty relief amount, including that it would only benefit a very limited number of operators while adding to the State Aid compliance challenge associated with the relief (as it would then be very close to the maximum permissible amount, thus increasing the risk of a breach).

Table 11 below provides an illustration of the impacts on 3 firms - with turnover levels of €5m, €25m and €750m, respectively - with 2019 used as the comparison year as that is the year when the 1% betting duty increase was applied. It shows that the betting duty liability of a betting firm with a turnover of €25m is equivalent in 2019 to what it would be in 2023 should the duty relief be increased to €65,000 and the duty rate by increased by 0.25%.

Table 11: Comparison of betting duty liability for different size firms: 2019 Vs possible 2022 option

2019	€m	€m	€m
Turnover	5.00	25.00	750.00
Betting Duty @2%	0.10	0.50	15.00

2023 (option 1)	€m	€m	€m
Turnover	5.00	25.00	750.00
Betting Duty @2.25%	0.11	0.56	16.88
Less: Tax Credit	0.065	0.065	0.065
Betting Duty	0.05	0.50	16.81

Appendix 2 Breakdown of betting receipts from 1996 to 2020

Year	Rate	€m
1996	10%	51.6
1997	10%	57.8
1998	10%	67.1
1999	5%	67.8
2000	5%	58.9
2001	5%	68.1
2002	2%	48.0
2003	2%	38.4
2004	2%	45.6
2005[15]	2%	45.8
2006	1% payable by industry	54.3
2007	1%	36.4
2008	1%	36.7
2009	1%	31.0
2010	1%	30.9
2011	1%	27.1
2012	1%	27.1
2013	1%	25.4
2014	1%	26.2
2015 (1 August)	1% on bookmakers & 15% of commission on betting intermediaries	31.1
2016	As above	50.7
2017	As above	52.2
2018	As above	52.3
2019	2% on bookmakers & 25% of commission on betting intermediaries	95.0
2020	As above	86.6
2021	As above	89.1
2022 (30th June 2022)	As above	51.6

[15] 2005 yield not comparable with previous years due to change in collection arrangements with some receipts for 2005 now falling to be collected in 2006

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