GENERAL EXCISE PAPER- TOBACCO PRODUCTS TAX, ALCOHOL PRODUCTS TAX AND BETTING DUTY

Tax Strategy Group – TSG 17/07

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INTRODUCTION

1. This paper examines non-environmental excise duties which apply in the State. It outlines the rates that have applied and the revenue yielded from excise duties on tobacco products and alcohol products in recent years. It also examines trends in consumption of these excisable products. It considers both new and ongoing social and economic issues which may affect excise yields or consumption of these products and also puts forward revenue raising options. Finally, the paper includes a review of Betting Duty, in line with a commitment given during the 2016 Finance Act debate in the Dáil. The paper is divided in to three sections:

    Tobacco Products Tax
    Alcohol Products Tax
    Betting Duty

2. Excise duties are taxes levied on specific goods and products. Following the widespread adoption of VAT through membership of the European Union (EU), many excise duties were abolished in Western Europe. The completion of the Single Market of the EU in 1993, on foot of the Single European Act signed in 1986, required the abolition of many of Ireland's remaining excise duties. Accordingly, in Budget 1992, excise duties on large televisions, video players, and soft drinks were removed, with tobacco, alcohol, energy products and vehicles remaining as the primary subjects of excise taxation.

3. While the primary aim of excise duties is to raise revenue for the Exchequer, there are also ancillary objectives, including the deterrence of the consumption of harmful products, and the reflection of the external cost placed on society resulting from the consumption of such products. When excise duties impact on the final price of excisable products, they ensure that at least part of the externalities associated with excisable products are reflected in the market price. In this regard policy towards tobacco and alcohol duties have been increasingly influenced by public health policy in recent years.

4. Sharing a land border with another jurisdiction with different tax rates and a floating currency, creates the possibility of sharp divergences in the relative price of excisable products. Three main variables can contribute to divergence of prices between North and South: (i) VAT and excise, (ii) exchange rates, and (iii) the pricing strategies of retailers. Given that monetary policy is set by the European Central Bank, and given that retailers (and in the case of tobacco products, manufacturers) set their own pricing strategies, the only variables the State can influence are VAT and excise rates. Accordingly, the need to prevent significant cross-border leakage is a feature in determining excise duty policy. The decision of the United Kingdom (UK) to leave the EU has given rise to uncertainty in the markets and has resulted in a drop in Sterling

against the Euro. While the UK remains a full member until such time as it formally leaves, developments will need to be monitored closely as this could give rise to an increase in cross border trade.

Gender and Equality Implications

5. There are no specific gender or equality implications with regard to these tax issues.

Contribution of Excises to Exchequer Returns

6. Total Excise receipts reached €5842m in 2016, up from €5515m in 2015. Receipts from excise duties on all categories of tobacco totalled €1098m, an increase from €1082m in 2015. Receipts from excise duties on all alcohol products totalled €1207m in 2016, an increase from €1,137m in 2015. Betting duty receipts rose from €31.1m in 2015 to €50.7m in 2016. The Betting (amendment) Act 2015 brought Remote Bookmakers and Remote Betting Intermediaries into the tax net from August 2015 and accounts for this significant increase in revenue between 2015 and 2016.

	2014 Receipts	2015 Receipts	2016 receipts	2017 (projected)
Tobacco	€984m	€1,082m	€1,098m	€1,222m
Alcohol	€1,140m	€1,137m	€1,207m	€1,304m
Betting	€26.2m	€31.1m	€50.7m	€53.3m

TOBACCO PRODUCTS TAX

Introduction

7. 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'). Recent changes to rates, yields and consumption patterns are outlined below. In addition, the main policy considerations regarding the Tobacco Products Tax are outlined:

- Uncertainty over forecasts and continued increases in receipts;
- Non-Irish duty paid products including tobacco smuggling and cross-border issues;
- Public health policy and the impact of standardised packaging;
- The Tobacco Products Directive and front-loading
- Minimum excise duty
- The possibility of changes to the Tobacco Products Tax Directive.

Recent Changes to Rates, Yield, and Consumption

Recent Rate Changes

8. As of June 2017, Ireland has the highest rates of duty on tobacco products, including on cigarettes and roll-your-own (RYO) tobacco in the EU (see appendix I). This reflects a long-standing policy of levying high rates of excise duty, relative to our fellow Member States, on tobacco products. Excise duty on tobacco products has increased in 21 of the last 25 budgets. The rate of duty on RYO tobacco is currently €310.189 per kilogram, €9.31 per 30g pack. The price of a pack of 20 cigarettes in the most popular price category (MPPC) now stands at €11.30, with a tax content of €8.95 split between €6.84 of excise duty and €2.11 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 sixteen budgets.

Budget	Tax Increase	Trade Increase	Tax Content	Tax content as % of price
Budget 2003	50c	16c	€4.60	78.4%
Budget 2004	25c	13c	€4.90	78.4%
Budget 2005	0c	10c	€4.93	77.7%
Budget 2006	0c	20c	€5.00	76.4%
Budget 2007	50c	10c	€5.54	77.5%
Budget 2008	30c	10c	€5.88	77.8%
Budget 2009	52.7c	2.3c	€6.42	79.3%
Budget 2009 (supp.)	25c	10c	€6.70	79.4%
Budget 2010	-3.5c	13.5c	€6.71	78.5%
Budget 2011	0c	10c	€6.75	78.0%
Budget 2012	44.3c	10.7c	€7.21	78.4%

Budget 2013	10c	10c	€7.34	78.1%
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%

Recent Revenues

9. Despite a regular decline in consumption of cigarettes per capita (see paragraph 21), the TPT receipts rose in nominal terms from €586m in 1994 and peaked at €1,217m in 2009. Since 2009, yield from the TPT has declined, falling to €1,098m in 2016. Over the period 1994 to 2016, TPT fell from contributing 4.3% of Exchequer tax revenue to 2.3%. Since 2008, there has been an increase in the consumption of RYO tobacco, driven by reductions in disposable income between 2009 and 2013, and by the differentials in price between RYO and cigarettes. Accordingly, receipts from tobacco products other than cigarettes rose from 3.4% of TPT receipts in 2008 to 11.3% of receipts in 2016.

Year	Cigarettes	Other Smoking Tobacco	Total
2005	€1,054m	€26m	€1,080m
2006	€1,071m	€32m	€1,103m
2007*	€1,155m	€37m	€1,192m
2008*	€1,132m	€40m	€1,171m
2009*	€1,155m	€61m	€1,217m
2010	€1,101m	€59m	€1,160m
2011	€1,057m	€69m	€1,126m
2012*	€990m	€83m	€1,072m
2013*	€955m	€109m	€1,064m
2014*	€881m	€102m	€984m
2015*	€938m	€145m	€1,082m
2016*	€973m	€124m	€1,098m
2017#	€1,090m	€132m	€1,222m

*Rate Change (#2017 figures are estimates)

10. It should be noted that forecasting yields is becoming increasingly difficult with continued irregularities and fluctuations in tobacco clearances and tax receipts. While overall yields have continued to rise over the past 3 years, issues such as front-loading (see paragraphs 29-31) and projected decreases in smoking prevalence (see paragraph 21) have created uncertainty. Though accurate forecasting has been hampered by the above-mentioned reasons, the Revenue Commissioners have indicated that further increases in excise may not lead to increased revenue yields.

Recent Retail Price Developments

11. The price of a pack of 20 cigarettes in the MPPC over the last fifteen years has increased from €5.87 in 2003 to €11.30 in 2017. The tobacco industry has imposed price increases of its own in response to duty increases to maintain the industry content of a pack of 20 at around 20.8%. Accordingly, the nominal industry content of the price of a pack of 20 at the MPPC has also increased from Budget to Budget, from €1.27 in 2003 to €2.35 in 2016.

12. There are typically two ways of assessing average tobacco prices in the market, namely the MPPC (the most popular price category), and the WAP (weighted average price). It is essentially a mode vs. mean comparison, with the MPPC representing the price category from which most cigarettes are sold while the WAP is a calculation of the average price across the market.

13. The EU Commission have called for a move towards using the WAP as a point of reference. Citing more transparency of the arrangements and in order to create a level playing field across the tobacco sector, it has been indicated that the MPPC should be replaced by weighted average prices as a reference point for EU minimum requirements.

14. The MPPC has traditionally been considered representative in Ireland's case, with the market dominated by premium 20 stick cigarette packs. It has been suggested recently however, that market shifts towards larger packs have rendered the MPPC a less accurate measure. In 2015, 44.3% of cigarettes purchased were clustered in the MPPC, however this fell to 39.2% in 2016 at the then MPPC of €10.50. With a more varied price market, the WAP may more accurately represent the range of the current market.

15. For 2016, the MPPC stood at €550, while the WAP was €503.50 (both measures are per 1000 cigarettes). In the context of a 20 stick pack of cigarettes, this works out at a MPPC of €11, and a WAP of €10.07 (these are full years for 2016).

Non-Irish Duty Paid Tobacco: Cross-Border Purchases and Tobacco Smuggling

Illegal Tobacco Products

16. Results from the latest Ipsos MRBI survey conducted on behalf of the Revenue Commissioners and the National Tobacco Control Office of the Health Service Executive indicate that 10% of cigarette consumed in the State in 2016 were illicit. This is a reduction from 12% in 2015.

Year	Illegal Cigarettes	Estimated tax loss*	Non-Irish duty Paid
2009	16%	€285m	5%
2010	15%	€249m	9%
2011	15%	€258m	7%
2012	13%	€240m	6%
2013	12%	€212m	5%
2014	11%	€214m	6%
2015	12%	€192m	6%
2016	10%	€170m	8%

*Assuming illegal cigarettes consumed displaced equivalent tax-paid quantity of cigarettes

17. Revenue seized approximately 44.6 million cigarettes with a value of €23.5m in 2016. The quantity of cigarettes and tobacco seized since 2005 and the estimated value of those seizures is outlined below.

	Cigarettes			Other Tobacco		
Year	No. of Seizures	Quantity	Estimated Retail Value	No. of Seizures	Quantity (kg)	Estimated Retail Value
2005	13,397	51.29m	€15.64m	497	1,108	€0.31m
2006	17,266	52.34m	€17.98m	640	2,068	€0.59m
2007	15,481	74.50m	€25.60m	763	1,516	€0.43m
2008	10,191	135.2m	€54.4m	1,100	3,083	€1.10m
2009	10,610	218.53m	€92.06m	1,171	10,451	€3.72m
2010	9,026	178.40m	€75.20m	1,171	3,367	€1.20m
2011	10,581	109.10m	€45.95m	1,500	11,158	€4.00m
2012	8,108	95.60m	€43.30m	1,395	5,277	€1.95m
2013	5,802	40.80m	€18.90m	1,086	4,203	€1.70m
2014	5,852	53.4m	€25.5m	1,014	9,824	€4.20m
2015	5,927	67.9m	€34.41m	1,227	2,364	€1.09m
2016	4,965	44.6m	€23.5m	1,137	1527	€0.74m
2017*	2,337	3.96m	€2.2m	648	820	€0.4m

*End June 2017

18. The reduced level of seizures over recent years reflects somewhat the reduction in illicit cigarettes apparent in the Ipsos MRBI survey. However, the Revenue Commissioners remain vigilant that reductions may be due to changes in smuggling activity. The powers of the Revenue Commissioners to tackle illegal tobacco trade is reviewed on an ongoing basis, with legislative action taken to strengthen these powers brought in recent Finance Acts.

Non-Duty Paid Tobacco Products

19. Ireland currently imposes the highest level of excise duty in nominal terms based on the weighted average prices of cigarettes in the EU (see appendix I). The UK Government announced in Budget 2014 that it will continue to increase tobacco duties by 2% above the rate of inflation (based on RPI) for each year up to and including 2019-20. The table below indicates the differential in price and duty in a 20 pack of cigarettes as measured by the Revenue Commissioners in the May 2017 cross-border survey carried out following the UK budgetary increase in 2017:

Year	Price in this State	Price in N. Irl	Price Difference	Total Tax State	Total Tax NI	Tax Difference	€/£ exchange rate
2010	€8.55	€7.69	€0.86	€6.71	€5.87	€0.84	0.8279
2011	€8.55	€8.05	€0.50	€6.71	€6.23	€0.48	0.8696
2012	€9.10	€9.41	-€0.31	€7.19	€7.28	-€0.09	0.8057
2013	€9.40	€9.46	-€0.06	€7.34	€7.28	€0.06	0.8516
2014	€9.60	€11.14	-€1.54	€7.47	€8.35	-€0.88	0.7911
2015	€10.00	€12.47	-€2.47	€7.87	€9.25	-€1.39	0.7403
2016	€10.80	€11.92	-€1.12	€8.45	€8.95	-€0.50	0.7867
2017	€11.50	€11.90	-€0.40	€9.01	€8.75	€0.26	0.8655

Based on Central Bank's sterling euro exchange rate of 0.8655 (25 May 2017).

20. There is an incentive to bring non-Irish duty paid tobacco products into the State from other States. Under EU law, a person may bring into Ireland tobacco products purchased duty paid in another Member State without paying Irish tax, provided the cigarettes are purchased for the person's own use and are transported and accompanied by that person. Recent surveys by Revenue suggest that some 8% of cigarette consumption in Ireland is accounted for by such purchases abroad. The quantity of cigarettes a person may bring into the State duty free from outside the EU for personal use, or from territories where EU rules on VAT and excise duties do not apply, is limited to 200 cigarettes. From 1 January 2014, Ireland has utilised Article 46 of the EU Excise Directive (2008/118/EU), which has allowed Member States impose a quantitative restriction of 300 on the number of cigarettes that may be brought in from those Member States (Bulgaria, Croatia, Hungary, Latvia, Lithuania, and Romania) that have not yet notified the Commission that they have reached the EU minimum tobacco product tax levels. Those Member States are scheduled to achieve the minimum tax levels by 31 December 2017.

Public Health Policy and Standardised Packaging

Public Health Policy Towards Tobacco

21. The Programme for a Partnership Government commits to making Ireland tobacco free by 2025 (less than 5% of the population smoking). The Department of Health

indicate that smoking remains the leading cause of preventable death in Ireland, accounting for nearly 19% (or 5,200) of deaths annually. It is estimated that one out of every two long-term smokers will die of a disease related to their tobacco use. In October 2013 the Department of Health published *Tobacco Free Ireland: Report of the Tobacco Policy Review Group*, confirming a target of less than 5% smoking prevalence by 2025, which implies a near 74% reduction in the numbers smoking between 2014 and 2025. As figure 1 below shows, smoking prevalence, as measured by a survey carried out by the National Tobacco Control office of the Health Service Executive has fallen from 28.3% in June 2003 to 18.7% in 2016.

Figure 1. Smoking prevalence, 2003-2016

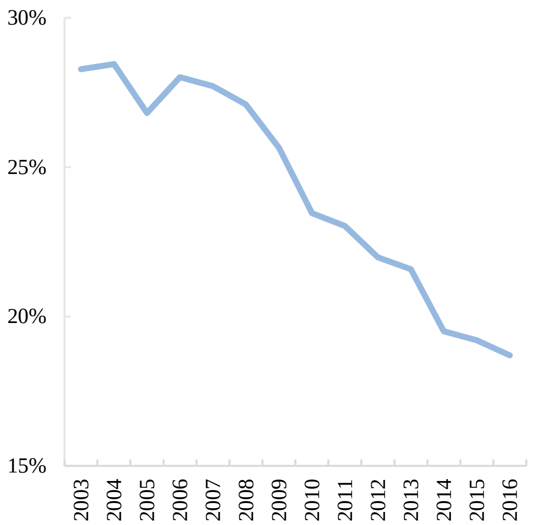
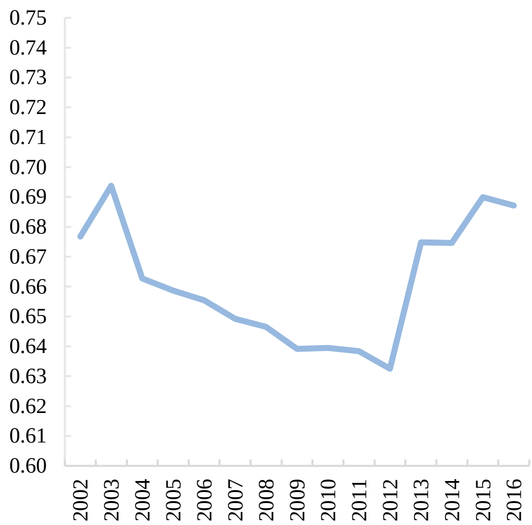


Figure 2. Ratio of excise duty on RYO tobacco to excise duty on cigarettes



22. 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 RYO and cigarettes. **As figure 2 shows**, the differential between RYO and cigarettes (based on the assumption that a 1kg of RYO tobacco equals 1,320 commercially-produced cigarettes) was initially addressed in Budget 2013 with an additional 50c VAT inclusive tax increase applied to a 25g pack of RYO in addition to the pro-rata 10c applied in that Budget. In Budget 2015, the rate of duty on a 25g pack of RYO was increased by an additional 20c in addition to the pro-rate 40c increase applied that Budget. RYO tobacco was increased pro-rata in Budget 2016 and again in Budget 2017.

23. Increasing excise duty on tobacco products is only one of a number of measures that contributes to the overall strategy to reducing tobacco consumption and smoking prevalence. As part of tobacco control policy a range of initiatives have been introduced over the past number of years, including a prohibition on tobacco

advertising, a prohibition on sponsorship, the smoking ban in January 2004, a prohibition on the sale of cigarettes in packs of less than 20 in May 2007 and in July 2009 a ban on the advertising and display of tobacco products in retail outlets. New combined text and picture health warnings were introduced in 2013 and further enhanced in 2016 by new regulations as part of the Tobacco Products Directive (2014/40/EU).

Standardised Packaging

24. The commencement order for the Public Health (Standardised Packaging of Tobacco) Act 2015 was signed in March 2017. This Act standardises the packaging of Tobacco products manufactured for sale in Ireland, removing all forms of branding including trademarks, logos, colours and graphics from packs. Packaging will be of a single, neutral colour and will bear only the brand and variant name in uniform typeface. The purpose of standardised packaging is to decrease the appeal of tobacco products, increase the effectiveness of health warnings on tobacco packaging, and reduce the ability of the packaging of tobacco products to mislead consumers about the harmful effects of smoking.

25. Tobacco products manufactured for retail sale in Ireland must comply with these standardised packaging requirements from end September 2017. Retailers have been given a year from this date to clear non-compliant products. This is common practice in countries where standardised packaging is already in full force, such as Australia, France and the UK.

26. The Revenue Commissioners are satisfied that the proposed standardised packaging of tobacco products will not damage their work to tackle the illicit tobacco trade. Revenue relies on the tax stamp to identify tax paid tobacco products, and the standardised packaging legislation will accommodate the stamp. The tax stamp contains a range of features designed to minimise the risk of counterfeiting.

EU Context

27. Matters relating to tobacco products are governed in the first instance by both the Tobacco Products Directive and the Tobacco Products Tax Directive. The former regulates the manufacture, presentation and sale of tobacco and related products while the latter standardises matters of taxation. Though the Tobacco Products Directive does not relate directly to the taxation of tobacco products, measures enacted under its remit have extensive implications for tobacco product markets, consumption patterns and revenues raised.

Tobacco Products Directive

28. The Department of Health have legislated for the Tobacco Products Directive (2014/40/EU) and the regulations transposing the Directive and came into force in May 2017. The European Union (Manufacture, Presentation and Sale of Tobacco and Related Products) Regulations 2016 include measures for labelling, ingredients, tracking and tracing, cross border distance sales and the regulation of electronic cigarettes, refill containers, herbal products for smoking and novel tobacco products. E-cigarettes and refill containers must now be registered for cross border distance sales. The Directive also brought about new requirements for the size of health warnings on cigarette and RYO packs. Text and image warnings must now be included, together with cessation information, which cumulatively are required to cover 65% of product packaging.

29. An implication of the transposition of these new regulations has been the fluctuation of excise receipts throughout the year 2016 due to front-loading of products for release. The Revenue Commissioners indicated that tobacco companies front-loaded the release of tobacco products from tax warehouses in the first half of 2016, driven by new Europe-wide standards for tobacco products packaging introduced under the Tobacco Products Directive. All packs released for consumption were required to meet the new standards by May 2016, while old style packs could retail until May 2017. It appears the tobacco industry moved old stock out of warehouses in order to clear old style packets before the deadline for new standards of May 2016.

30. At the end of June 2016, revenue net receipts in respect of tobacco products were up €261 million when compared to the same period in 2015. However, end of year cumulative receipts for 2016 overall were only up €16 million on 2015, indicating a major drop-off in in the second half of the year, in large part due to the comparative reduction of product released after front-loading.

31. It is possible that similar front-loading may be experienced again this year, with the Public Health (Standardised Packaging of Tobacco) Act coming into effect. Tobacco product manufacturers may front-load old packs which do not comply with the new standardised packaging regulations before September 2017. It is important to note the potential of such measures to skew actual receipts against forecasts, making it much more difficult to predict trends in excise receipts throughout the year.

32. Furthermore, the transposition of this Directive 2014/40/EU has also brought about changes for RYO Tobacco Products. As per new regulations, the minimum pack size of RYO tobacco must now contain at least 30g of tobacco. There have been suggestions that this could have implications for consumer behaviour in this country, where traditionally much smaller 12.5g packs would have been popular. The measure came

into effect end of May 2017. Any substantive impact on the RYO market and consumption patterns will be seen over time.

Tobacco Products Tax Directive

33. While the above relates to the nature, design, quality and quantity of tobacco products themselves, the taxation of tobacco products is governed separately by the Tobacco Products Tax Directive 2011/64/EU. Enacted in 2011, this codified previous Directives regulating the structure of duties imposed on tobacco products. The 2011 Directive is currently under review by the Commission. The public consultation process as part of this review ended in February 2017 and the Impact Assessment report is scheduled for publication towards the end of this year. The issues highlighted for a possible revision in the Directive have been the potential provision for e-cigarettes, heated tobacco, and other novel products.

34. Electronic cigarettes ('e-cigarettes') are products that deliver a non-medicinal nicotine-containing aerosol by heating a solution (or 'e-liquid') typically made up of propylene glycol, nicotine and flavouring agents. Despite their design, electronic cigarettes do not contain tobacco, and there is no combustion involved. Accordingly, neither e-cigarettes nor e-liquid fall under the harmonised regime for the taxation of tobacco products contained in the Tobacco Products Tax Directive, and may therefore be subject to rates and structures of duty arrived at by each Member State of the European Union.

35. The Department of Health have reserved their position thus far on the health implications of e-cigarette use. In June 2014, the Government approved the drafting of a General Scheme of a Bill to provide for the introduction of a licensing system and other measures in relation to the sale of tobacco products and non-medicinal nicotine delivery systems, including e-cigarettes. The legislation will, inter alia, prohibit the sale of tobacco products from self-service vending machines and temporary or mobile units/containers. It will also prohibit the sale of non-medicinal nicotine delivery systems, including e-cigarettes, by and to persons under 18 years. A public consultation process to obtain views on those measures was conducted early in 2015. The drafting of the General Scheme of the legislation and the Regulatory Impact Assessment is currently underway.

36. Stakeholder opinions differ as to whether e-cigarettes are an effective cessation device, a substitution for tobacco, or even a ‘gate-way’ to tobacco products, particularly for young people. A review commissioned by Public Health England, an agency of the UK Department of Health, indicated that e-cigarettes may be 95% less harmful than cigarettes, and stated that they may be a smoking cessation tool.

37. A number of Member States (such as Hungary, Italy, Latvia, Portugal, Romania and Slovenia) have introduced taxes on e-cigarettes, or on the e-liquid used in e-cigarettes. Broadly speaking, most Member States are awaiting the guidance of their health authorities before committing to a position on the taxation of e-cigarettes. The possibility of imposing such a tax on e-cigarettes or e-liquid in Ireland is considered below under potential revenue raising measures.

38. 'Heated tobacco products' are single use products which operate through the heating of the tobacco contained in them 300 degrees Celsius using an electronic device, and are sold in packs of 20. They have appeared on the market in a number of Member States and have been considered for tax purposes as 'other smoking tobacco'. They have yet to appear on the Irish market but if they were to appear, they could also be treated as 'other smoking tobacco'. However, it would be preferable if, at an EU level, a decision could be agreed on a common treatment for such products.

39. Finally, the review of the 2011 Directive may present an opportunity to argue for higher minimum tobacco product tax rates in the Directive. Given Ireland's already high tobacco taxes, and given our general policy stance on the role of higher tobacco taxes in reducing tobacco consumption, it would be in the interest of Ireland and the wider EU to pursue higher minimum rates, with a view to preventing cross-border trading between EU Member States and achieving a general reduction in smoking prevalence across the EU. In 2016, 8% of tobacco products consumed in Ireland were purchased and tax paid in other Member States.

Options

Increase in Minimum Excise Duty

40. Given the divergence in prices between the MPPC and the lowest price pack of cigarettes on the market, and given that the introduction of plain packaging may lead to a shift to larger packs of lower priced cigarettes by Irish consumers, it may be prudent to raise the Minimum Excise Duty (MED) in Budget 2018.

41. At present, the lowest priced pack of 20 cigarettes retails at €9.00 and attracts a total rate of duty of €6.62. If the MED was increased to a rate such that it applied at a rate at 100% the rate of excise duty applied at the current MPPC (€11.30), a pack of 20 cigarettes which retails at €9.00 would be subject to rate of excise duty of €6.84. If tobacco companies wanted to maintain their margins on lower priced packs, they would be forced to raise the price of a pack of 20 cigarettes by 27 cents to €9.27 to retain the non-tax component of the price of a pack at 7.7%. It should be noted that the duty applied is based on the current MPPC of €11.30.

Excise Electronic Cigarettes Option

42. While it is a matter for individual Member States whether to apply a duty or tax on e-cigarettes or e-liquid there are risks associated with moving ahead without a harmonised approach. As e-cigarettes are not harmonised excisable products the Revenue Commissioners would be unable to use movement controls and tax warehousing for tax collection purposes and the tax would have to be applied, on a self-assessment basis, to suppliers, in the same way as solid fuel carbon tax. Consumers, retailers and suppliers would be free to buy the product from other EU Member States with no import formalities. Moreover, if a substantive duty were to be imposed on e-cigarettes there would be significant cross-elasticity effects, given consumers view e-cigarettes as either substitutes or complements for traditional tobacco products, which could in turn undermine the broader public health objective of reducing tobacco consumption.

43. Using the tracker survey on tobacco use carried out for the National Tobacco Control Office of the HSE, TSG 2015 estimated that a 50c tax per 10ml would yield €8.3 million per annum. However, the implementation and collection of such a tax would be difficult given the wide variety of ways in which these products are supplied to the consumer. Secondly, as previously stated, many sources consider e-cigarettes to be a cessation tool and certainly less harmful than cigarettes.

Increase in TPT Option

44. The Programme for Partnership Government has committed to introducing higher excise on tobacco products over the course of the Government's term. The Irish Heart Foundation (IHF) and Irish Cancer Society (ICS) have proposed an annual TPT escalator of inflation + 5%, and have proposed increasing the duty on RYO to equalise the duty with cigarettes. Some elements of the industry has also proposed an annual TPT escalator with relatively low increases in duty and have proposed an increase in duty on RYO to equalise the duty with cigarettes.

45. The table below 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.

Increase (per pack of 20 cigs)	Yield	Additional for 50% on RYO	Total Yield 2018
10c	€12.4m	€0.5m	€12.9m
20c	€24.7m	€1.0m	€25.7m
30c	€36.9m	€1.6m	€38.5m
40c	€49.1m	€2.1m	€51.2m
50c	€61.2m	€2.6m	€63.8m
60c	€73.2m	€3.1m	€76.3m
70c	€85.1m	€3.6m	€88.7m
80c	€97.0m	€4.1m	€101.1m
90c	€108.8m	€4.6m	€113.4m
100c	€120.5m	€5.1m	€125.6m

46. It should be noted, as stated previously, that the Revenue Commissioners have expressed concerns that increases in excise may not lead to increased yields, as consumers are further incentivised to exit the tobacco products market in Ireland. Therefore the above yield projections could be significantly affected by market elasticity.

ALCOHOL PRODUCTS TAX

Introduction

47. 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'). Recent changes to rates, yields and consumption patterns are outlined below. In addition, the main policy considerations regarding the Alcohol Products Tax are outlined:

- non-Irish duty paid products including cross-border issues and the incidence of counterfeit alcohol products;
- public health policy and the impact of Minimum Unit Pricing;
- reliefs for small independent producers;
- the possibility of making changes to the Alcohol Products Tax Directives; and
- potential revenue raising measures.

Recent Changes to Rates, Yield, and Consumption

Recent Yield Changes

48. While the APT yield rose in nominal terms from €629m in 1994 to €1,130m in 2007, it fell from contributing 4.57% of Exchequer tax revenue to 2.39% in the same time period. The APT reductions in Budget 2010 further eroded the yield, but the increases in Budgets 2013 and 2014 have restored the importance of its contribution somewhat. Yields from 2016 contributed 2.5% of Exchequer tax revenue.

49. In terms of the four main categories of alcohol products, wine has grown significantly as a source of Exchequer revenue from contributing just over 9.3% of APT receipts in 1994 to an estimated 31.5% in 2016. This reflects both a sustained growth in the consumption of wine, and relatively large increases in the duty on wine. The table below indicates yield from 2005 to 2016, and includes projected figures for 2017:

Year	Wine	Beer	Spirits	Cider/Perry	Total
2005	€195m	€457m	€320m	€66m	€1,038m
2006	€209m	€461m	€339m	€69m	€1,077m
2007	€230m	€465m	€368m	€68m	€1,131m
2008	€231m	€427m	€351m	€61m	€1,070m
2009*	€243m	€404m	€264m	€57m	€968m
2010*	€219m	€320m	€244m	€44m	€826m
2011	€231m	€307m	€247m	€44m	€829m
2012	€231m	€308m	€264m	€43m	€846m
2013*	€302m	€358m	€290m	€52m	€1,002m

2014*	€355m	€425m	€302m	€59m	€1,140m
2015	€355m	€417m	€311m	€54m	€1,137m
2016	€380m	€430m	€338m	€59m	€1,207m
2017**	€409m	€460m	€371m	€64m	€1,304m

*Rate Change

**Projected

Recent Rate Changes

50. As of June 2017, Ireland has the highest rates of duty on wine and sparkling wine, the second highest rates of duty on beer, and the third highest rates of duty on spirits in the EU (see Appendix II). This reflects a long-standing policy of levying high rates of excise duty, relative to our fellow Member States, on alcohol products. Recent Budget changes have included:

- Increasing duty on cider to equalise its treatment with beer in Budget 2002;
- Increasing duty (VAT-inclusive) on spirits by 20 cent and abolishing the reduced rate for spirit based alcopops in Budget 2003;
- Increasing duty (VAT-inclusive) on wine by 50 cent in Budget 2009;
- Reducing duty (VAT-inclusive) on all alcohol products by 20% in Budget 2010;
- Increasing duty (VAT-inclusive) on wine by €1 and beer and spirits by 10 cent in Budget 2013; and
- Increasing duty (VAT-inclusive) on wine by €0.50 and beer and spirits by 10 cent in Budget 2014.

51. 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 (APT) came into effect.

Year	Beer (4.3% ABV Pint)	Still Wine (12.5% ABV bottle)	Spirits (40% ABV glass)	Cider (4.5% ABV Pint)
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

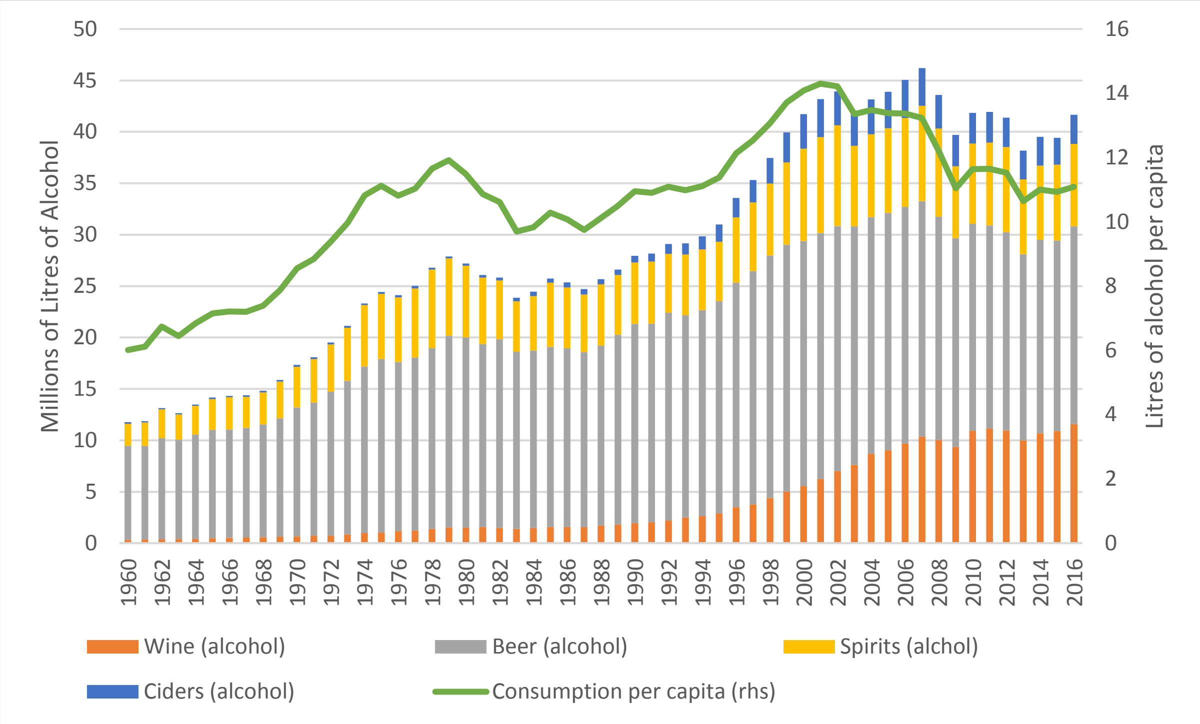
Changes to Consumption Patterns

52. Figure 3 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 declined to its lowest point since 1990 in 2013 at 10.6 litres per adult and rose in 2014, despite duty increases, to 11 litres per adult. Consumption in 2015 was 10.9 litres per capita, and rose to 11.09 litres per adult in 2016. It should be noted that the figure below does not capture alcohol products purchased outside the State.

53. It is also worth noting that the litres of alcohol consumed per capita has generally remained around 11 litres per year since 2014, despite total volumes of alcohol released for consumption increasing by over 2 million litres over the same time period. This can be potentially attributed to a corresponding growth in adult population, which has risen by 4.1% since 2011.

54. Figure 3 also indicates that consumer taste has changed with greater consumption of cider and perry and, in particular, of wine. The increased consumption of wine has had implications for the pub trade, as over 80% of wine is purchased in the off-trade while the less than 20% of wine purchased on the on-trade is often consumed in restaurants rather than in pubs. 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 change. In this regard, the consumption, and composition of consumption, of alcohol products is driven by personal disposable income, individual consumer preference, the availability of alcohol products, the pricing strategies of multiples and publicans, and cultural changes.

Figure 3 - Nominal consumption of alcohol products (lhs) and litres of alcohol consumed per capita (black line rhs), 1960 to 2016



Recent Retail Price Developments

55. Price developments over the past 10 years present a divergent picture. In the on-trade retail prices have steadily increased. Given that there were no changes to the main rates of the Alcohol Products Tax between Budgets 2003 and 2009, and no change to the standard rate of duty on beer between 1994 and 2010, excise duty as a percentage of the price of alcohol products sold in the on-trade fell steadily between 2003 and 2010. Following the sharp reductions in excise duty on all alcohol products in Budget 2010, excise as a percentage of the retail price fell to historically low levels. Despite increases in excise duty in Budgets 2013 and 2014, the level of duty as a percentage of the price of a pint of stout in May 2017 remains lower than it was in 2003. The tables below indicate the development of the national average price of the representative pint of stout, pint of lager, bottle of cider and glass of whiskey sold in the on and off-trade.

On-Trade Prices

Pint - Stout (4.2% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.47	€3.38	13.9%
2009	€0.47	€4.09	11.5%
2010	€0.37	€3.96	9.3%
2011	€0.37	€3.95	9.4%
2012	€0.37	€4.00	9.3%
2013	€0.46	€4.18	11.0%
2014	€0.54	€4.30	12.6%
2015	€0.54	€4.30	12.6%
2016	€0.54	€4.32	12.4%
2017	€0.54	€4.37	12.3%

Pint - Lager (4.3% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.49	€3.76	13.0%
2009	€0.49	€4.50	10.9%
2010	€0.38	€4.35	8.7%
2011	€0.38	€4.33	8.8%
2012	€0.38	€4.35	8.7%
2013	€0.47	€4.56	10.3%
2014	€0.55	€4.67	11.8%
2015	€0.55	€4.68	11.8%
2016	€0.55	€4.70	11.7%
2017	€0.55	€4.75	11.6%

Whiskey (35.5ml) (40% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.56	€3.23	17.3%
2009	€0.56	€3.79	14.8%
2010	€0.44	€3.69	11.9%
2011	€0.44	€3.70	11.9%
2012	€0.44	€3.75	11.7%
2013	€0.52	€3.91	13.3%
2014	€0.60	€4.03	14.9%
2015	€0.60	€4.07	14.7%
2016	€0.60	€4.11	14.7%
2017	€0.60	€4.18	14.5%

Pint – Cider (4.5% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.47	€3.80	12.4%
2009	€0.47	€4.63	10.2%
2010	€0.37	€4.47	8.3%
2011	€0.37	€4.45	8.3%
2012	€0.37	€4.48	8.3%
2013	€0.46	€4.61	10.0%
2014	€0.54	€4.74	11.4%
2015	€0.54	€4.74	11.4%
2016	€0.54	€4.76	11.3%
2017	€0.54	€4.83	11.1%

56. Prices in the off-trade have demonstrated a different pattern, with the national average price of a can of lager sold on the off-trade remaining broadly stable over the past thirteen years, reflecting significant price competition in the off-trade.

Off-Trade Prices

Can - Lager (500ml) (4.3% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.43	€1.77	24.3%
2009	€0.43	€1.83	23.5%
2010	€0.34	€1.77	19.2%
2011	€0.34	€1.80	18.9%
2012	€0.34	€1.78	19.1%
2013	€0.41	€1.88	21.8%
2014	€0.48	€1.98	24.2%
2015	€0.48	€1.96	24.5%
2016	€0.48	€1.90	25.5%
2017	€0.48	€1.91	25.3%

Can – Cider (500ml) (4.5% ABV)			
Year	Excise	Price	Excise % of Price
2003	€0.42	€2.06	20.4%
2009	€0.42	€2.25	18.7%
2010	€0.33	€2.18	15.1%
2011	€0.33	€2.16	15.3%
2012	€0.33	€2.10	15.7%
2013	€0.40	€2.22	18.0%
2014	€0.47	€2.32	20.3%
2015	€0.47	€2.31	20.3%
2016	€0.47	€2.22	21.3%
2017	€0.47	€2.07	22.9%

Bottle – Wine (750ml) (12.5% ABV)			
Year	Excise	Price	Excise % of Price
2003	€2.05	€9.07	22.6%
2009	€2.46	€9.54	25.8%
2010	€1.97	€9.07	21.7%
2011	€1.97	€9.09	21.7%
2012	€1.97	€8.94	22.0%
2013	€2.78	€9.99	27.8%
2014	€3.19	€10.52	30.3%
2015	€3.19	€10.68	29.9%
2016	€3.19	€10.50	30.3%
2017	€3.19	€10.50	30.3%

Bottle - Whiskey (700ml) (40%)			
Year	Excise	Price	Excise % of Price
2003	€10.99	€23.65	46.5%
2009	€10.99	€25.26	43.5%
2010	€8.72	€22.64	38.5%
2011	€8.72	€22.05	39.5%
2012	€8.72	€21.51	40.5%
2013	€10.32	€23.63	43.7%
2014	€11.92	€25.20	47.3%
2015	€11.92	€25.71	46.4%
2016	€11.92	€25.94	46.0%
2017	€11.92	€24.21	49.2%

57. Duty on wine has increased significantly in recent Budgets, and this is reflected in excise as a proportion of the price of an average bottle of wine, which is now nearly 30% of price of a €10.50 bottle of wine.

58. In their pre-Budget 2018 submission the National Off-Licence Association have requested a reduction in the excise duty applying to wine which is placing a significant cash-flow burden on small independent off-licences. To reduce the excise applying to wine by 50c per bottle would result in cost of €33m per annum to the Exchequer.

Non-Irish Duty Paid Alcohol: Cross-Border Purchases

Cross-Border Purchases

59. Price differences between the South and North are determined by (i) VAT and excise rates in both jurisdictions, (ii) exchange rates, and (iii) the pricing strategies of retailers. 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 UK reduced their VAT rate to 15% in December 2008, while the standard VAT rate in Ireland was increased to 21.5%. During 2009, sterling depreciated rapidly in relation to the euro, creating large differences in cross-border prices of all groceries, including alcohol products, leading to a spend by Irish consumers of €428m and €418m in the twelve months prior to Q2 in 2009 and 2010.

60. Budget 2010 reduced excise duty on alcohol to reduce prices of products in the South relative to Northern Ireland in an effort to discourage cross-border shopping. In addition, the standard VAT rate was dropped to 21%. However, reductions in duty on alcohol products have no effect on the price of groceries or other products.

61. Appendix III indicates the results of the most recent cross-border price survey carried out by the Revenue Commissioners on 25 May 2017. The tables below indicate the differential in price and duty in selected comparable alcohol products as measured by the Revenue Commissioners.

Can – Lager (500ml) Off-Trade

Year	Price in this State	Price in N. Irl	Price Difference	Total Tax State	Total Tax NI	Tax Difference	€/£ exchange rate
2009	€1.99	€1.37	€0.62	€0.85	€0.66	€0.19	€0.85
2010	€1.88	€1.46	€0.42	€0.72	€0.74	-€0.02	€0.83
2011	€1.44	€1.54	-€0.10	€0.64	€0.79	-€0.15	€0.87
2012	€1.88	€1.50	€0.38	€0.74	€0.86	-€0.11	€0.81
2013	€2.02	€1.62	€0.40	€0.79	€0.81	-€0.02	€0.85
2014	€2.05	€1.69	€0.36	€0.87	€0.85	€0.02	€0.79
2015	€1.95	€1.95	€0.00	€0.85	€0.92	-€0.07	€0.74
2016	€2.05	€1.88	€0.17	€0.87	€0.87	-€0.01	€0.79
2017	€2.20	€1.69	€0.51	€0.90	€0.81	€0.09	€0.87

Bottle of Wine (Chardonnay) Off-Trade

Year	Price in this State	Price in N. Irl	Price Difference	Total Tax State	Total Tax NI	Tax Difference	€/£ exchange rate
2009	€9.49	€7.71	€1.78	€4.14	€2.90	€1.24	€0.85
2010	€6.50	€7.63	-€1.13	€3.09	€3.18	-€0.08	€0.83
2011	€8.88	€8.46	€0.42	€3.51	€3.49	€0.02	€0.87
2012	€7.99	€8.76	-€0.77	€3.46	€3.82	-€0.36	€0.81
2013	€10.00	€8.84	€1.16	€4.65	€3.82	€0.83	€0.85
2014	€9.75	€8.90	€0.85	€5.01	€4.07	€0.94	€0.79
2015	€11.70	€10.04	€1.66	€5.37	€4.44	€0.93	€0.74
2016	€9.85	€9.97	-€0.12	€5.03	€4.31	€0.72	€0.79
2017	€10.00	€9.00	€1.00	€5.06	€4.00	€1.06	€0.87

Public Health Policy

62. As the Figure 3 shows, per capita consumption of pure alcohol peaked in 2001 at 14.2 litres, and fell to 10.6 in 2013, the lowest since 1990. Since then clearances of alcohol products have risen and consumption reached 11 in 2014. This figure has remained relatively consistent since, reducing to 10.9 in 2015 rising again slightly to 11.09 litres in 2016.

63. The *Healthy Ireland Strategy*, published by Government in 2013, which outlines a high-level framework and targets for public health policy, included an objective of reducing alcohol consumption to below the OECD average of 9.2 litres of alcohol per capita. It noted that alcohol is responsible for approximately 90 deaths every month in Ireland, which include many alcohol-related cancers and heart diseases.

64. 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 Licences.

65. In addition to rate changes over the last fifteen years, certain changes to the structure of APT have been made with a view to public health objectives:
    a. in Budget 2002, the rate of duty on cider was equalised with beer;

b. in Budget 2003, the lower rate of duty applying to spirit-based alcopops was equalised with the rate of duty applying to higher-strength spirits, and the rate of duty applying to spirits was raised;
c. in Budget 2009, a reduced rate of duty was introduced for low-strength beer and cider.

66. On foot of the Report on a National Substance Misuse Strategy, the Government announced in October 2013 that it would introduce a Public Health (Alcohol) Bill to tackle alcohol misuse. The Public Health (Alcohol) Bill was approved by Government in December 2015 and provides for: health labelling of alcohol products; minimum unit pricing (MUP) for retailing of alcohol products; regulation of marketing and advertising of alcohol; and enforcement powers for Environmental Health Officers. The Bill has since completed Second Stage in the Seanad and is due to recommence Committee Stage in the Seanad.

<u>Minimum Unit Pricing</u>

67. Following advice from the Office of Parliamentary Council, the Minister for Health specified a level of €0.10 per gram of alcohol in the Bill as published in December 2015. The draft Bill provides for the following formula for MUP:

*Minimum unit price*number of grammes of alcohol = minimum price of alcohol products*

68. To provide an example of the operation of this MUP, the most popular stout sold in Ireland has an alcohol by volume (ABV) of 4.2%, so that a pint (or 568ml) of stout contains 23.86ml of alcohol. This converts to 18.82g of alcohol. Applying the MUP of €0.10 per gram yields a MUP for a pint of stout of €1.88. Accordingly, a pint of stout containing 23.86ml of alcohol may not be sold for less than €1.88 if the MUP is set at 10c. The tables below indicate the effects of applying an MUP of 10c per gram to products sold on the off-trade at the national average price, and to products sold at lower prices.

National Average Price					
Product – Off-trade	ABV	Alcohol in grams	MUP	Price	Increase in Price
Can of Lager (500ml)	4.30%	16.96	€1.70	€1.98	€0.00
Can of Cider (500ml)	4.50%	17.75	€1.78	€2.32	€0.00
Bottle - Wine (750ml)	12.50%	73.97	€7.40	€10.52	€0.00
Bottle - Whiskey (70cl)	40%	220.92	€22.09	€25.20	€0.00

Cheaper alcohol products					
Product – Off-trade	ABV	Alcohol in grams	MUP	Price	Increase in Price
Cheap Can of Lager (500ml)	4.00%	15.78	€1.58	€1.17	€0.41
Cheap Can of Cider (500ml)	6.00%	23.67	€2.37	€1.37	€1.00
Cheap Bottle - Wine (750ml)	12.50%	73.97	€7.40	€5.99	€1.41
Cheap Bottle - Whiskey (70cl)	40%	220.92	€22.09	€15.99	€6.10

69. The Scottish Parliament legislated for minimum pricing in 2012, with an initial minimum price of 50p per unit. However, the Alcohol (Minimum Pricing) (Scotland) Act 2012 has yet to be commenced as this legislation has been challenged by the Scotch Whiskey Association. The Scottish Court of Sessions - the highest court in Scotland –referred the issue of whether the MUP is compatible with EU law to the Court of Justice of the European Union (CJEU).

70. In December 2015, the CJEU ruled that if it could be demonstrated that MUP was more effective than increasing excises in producing the desired health outcomes, then it was proportionate to introduce MUP. The final say on which measure should be introduced was passed back to the Scottish Court, which is seen as best-placed to judge the likely effectiveness and proportionality in relation to its objectives of reducing alcohol harm. In July 2016, the Scottish Courts upheld the decision on MUP, though the Scotch Whiskey Association requested to appeal to the Supreme Court in September 2016. The Supreme Court hearing is due to take place later this year (2017).

71. The introduction of MUP in Ireland will depend on the ruling of the Scottish Supreme Court as it would not be prudent to unilaterally introduce this measure prior to its legality being established beyond doubt.

72. The introduction of an MUP in this State should also be subject to a similar, simultaneous proposal in Northern Ireland. Otherwise, the probable outcome of introducing MUP solely in the South would be an increase in cross border trade in alcohol as well as other products while not achieving the health outcomes sought.

73. It remains the case that the Bill as published is subject to commencement order by the Minister for Health.

Potential Policy Development

<u>Reliefs for Microbreweries</u>

74. Article 4 of EU Directive 92/83/EEC provides for the application of reduced rates, or relief, of excise duty of up to 50% less than the national rate of excise duty in respect of breweries producing 200,000 hectolitres or less of beer per annum. In Budget 2005, relief of 50% on excise duty in respect of beer produced by breweries producing up to 20,000 hectolitres (hl) per annum was provided to reduce barriers of entry and to promote competition in the brewery sector. This applies to any microbrewery within the European Union so that importers releasing European beer produced by a microbrewery producing 20,000 hl or less could avail of the relief. Accordingly, the duty of excise on a 4.3% ABV pint of beer produced by a microbrewery is €0.28 compared to €0.54 on a 4.3% ABV non-qualifying pint of beer.

75. In Budget 2015, the relief limit was extended to microbreweries producing not more than 30,000 hectolitres. Budget 2017 increased the qualifying production threshold for the relief from 30,000 hl to 40,000 hl with a corresponding increase for co-operating independent breweries from 60,000 hl to 80,000 hl. This allowed production to exceed the previous threshold, though the volume of beer on which the relief could be claimed remained unchanged at 30,000 hl.

76. As of 2016, the Alcohol Products Tax reduction for small independent breweries is available by way of a reduction on the duty paid rather than through a repayment of excise. This has improved the cash-flow of small independent breweries and removed a barrier to entry into this market.

77. In 2013, 25 microbreweries availed of this relief at a cost €1,452,291, and in 2014, 54 microbreweries availed of this relief at a cost of €2,334,409. In 2015, these figures increased to 73 microbreweries claiming relief at a cost of €3,992,101. There has been an increase in the numbers of claimants from overseas from 5 in 2013 to 13 in 2014, this number increased in 2015 to 17 claimants on behalf of 37 qualifying microbreweries on a total of 7,023 hectolitres of beer produced. The total cost of the relief rose again in 2016 to €4,089,194.37. Of the €4,089,194.37 received on qualifying micro-brewery beer, €3,557,484.92 was received from qualifying microbrewers within the State; €473,843.55 was received from other claimants within the State and €57,865.90 was received from microbrewers and claimants outside the State.

78. There have been calls by some parties to further increase the production threshold limit above the 40,000 hl ceiling and to extend excise reliefs beyond 30,000 hl to facilitate the growth of businesses in microbrewery sector. The rationale for the relief is to limit it to only small undertakings to encourage and assist them to compete with larger breweries who enjoy the benefits offered by scale.

79. The production thresholds for qualification as a microbrewery vary across Member States. Beer brewed in qualifying microbreweries in other Member States and brought into this State for consumption is eligible for the same relief as that which is produced in the State. Any increase in the production threshold for microbreweries in this State will also be applicable to microbreweries in other Member States and lead to an increase in the volume of qualifying beer imported.

Options for tapering relief

80. With the increases in relief granted to microbreweries in recent years, it may be prudent to introduce a tapering-off of the excise relief.

81. One option would be to use graduated bands of hectolitres produced to create a tiered system of excise relief. Such a system design would see 50% excise duty applied to the first 30,000 hl produced a year, 25% applied to any produce over 30,000 but under 40,000 hl, 12.5% applied between 40,000 and 50,000 hl produced, and no relief applied to microbreweries producing over 50,000 hl.

Hectolitre limits	**% reduction of APT**
1hl - 30,000hl	50%
30,001hl - 40,000hl	25%
40,001hl - 50,000hl	12.5%
50,001hl+	0%

82. Such a tiered system would provide a 'glide path' out of the relief for microbreweries in Ireland and remove a disincentive for microbreweries to grow beyond annual production of 30,000hl, particularly in a context where they may be targeting export markets. This would allow for microbreweries to gradually grow out of the relief, thereby reducing their dependence on a tax expenditure to remain viable.

83. The Revenue Commissioners have noted that such a tiered system would require adjustments to their administrative and operational procedures, and that the cost and development time associated with adjusting to any tiered system should be considered in light of the limited number of producers who might exceed the 30,000hl threshold.

Potential Changes to the Alcohol Products Directive

84. As of late 2016, the European Commission is currently in the consultation process of revising the Alcohol Products Directive 92/83/EC, reviewing the existing legislation on the structures of excise duties on alcohol and alcoholic beverages. The Commission are seeking, inter alia, Member States opinions on the current rules governing small independent producers of alcohol products.

Small Cider Producers

85. While the Alcohol Products Directive legislates for excise relief for microbreweries, no such option exists for small cider producers. As such, it is not currently possible to extend a similar type of relief as the one applying to microbreweries to small independent producers of cider. While the UK offer an excise duty exemption to small cider producers producing up 70 hl, this pre-dated the UK entry to the European Union, and the European Commission have initiated infringement proceedings against the UK.

86. Ireland has highlighted the absence of such a relief for cider producers in the context of the Directive review and will continue to engage with the Commission to achieve a satisfactory outcome. The UK have previously indicated that they would seek to amend the Alcohol Products Tax Directives to allow for the provision of reduced rates to small cider producers.

Options

87. Alcohol Action Ireland has recommended an increase in APT on all alcohol products to raise revenue and reduce consumption, and has also recommended a 'social responsibility levy' be imposed on the alcohol products industry. Both the Drinks Industry Group of Ireland, which represents the wider drinks industry, and the National Off-Licence Association (NOffla) have called for a reduction in the excise rates applying to alcohol products. NOffla has also called for duty on wine to be reduced further.

Increase the Excise on Alcohol Products

88. The following table shows the estimated effect of a range of VAT inclusive increases in terms of yield:

	1c	2c	3c	4c	5c	10c	15c	20c
Beer (per pint)	€6.6m	€13.2m	€19.8m	€26.4m	€33.0m	€65.5m	€97.6m	€129.4m
Spirits (1/2 glass)	€3.8m	€7.5m	€11.2m	€14.9m	€18.5m	€36.4m	€53.6m	€70.1m
Cider (per pint)	€0.9m	€1.7m	€2.6m	€3.5m	€4.3m	€8.6m	€12.9m	€17.1m

	5c	10c	15c	20c	25c	50c	75c	100c
Wine (per bottle)	€3.0m	€5.9m	€8.8m	€11.6m	€14.4m	€27.8m	€40.2m	€51.7m

BETTING DUTY

Background

89. Recently the existing structure and rate of betting duty has become a subject of interest. This has been driven by a number of issues not least the historical link between betting revenues and the funding of the horse and greyhound industry. To date, the priority has been to extend the betting duty to remote operators thus levelling the playing field for all bookmakers. This was achieved through the Betting (Amendment) Act 2015 and the extension of betting duty to the remote sector was introduced in August 2015. Since then, the consistent approach has been to bed-in the remote sector before considering further changes in this area. The application of the betting duty regime to the remote sector has now been in place for almost two years and the time is right to review options in this regard.

Recent Developments

90. Up until mid-2015 excise duty was only payable at a rate of 1% on bets entered into with a traditional bookmaker. The Betting (Amendment) Act 2015 provided for a regulatory system for remote bookmakers and remote betting intermediaries, otherwise known as betting exchanges, offering betting services in Ireland regardless of their location. The Act provides for a fair and equal treatment of all bookmakers (traditional, remote and intermediaries) by extending betting duty to remote operators, thus widening the tax base and protecting the Exchequer from the leakage of potential tax revenue. The Betting (Amendment) Act 2015 prohibits the offering of remote betting and intermediary services to customers in Ireland without a licence, regardless of where the operator is located.

91. Betting duty is not charged on bets accepted on-course by a licensed bookmaker at an authorised racecourse during race meetings. However, where bets are entered into by the on-course bookmaker by any means of telecommunications, these bets are liable to betting duty at 1% of the value of the bet.

92. Accordingly, with effect from 1 August 2015, licenced remote bookmakers are now liable for duty at 1% on the amount of a bet from customers in the State, and licenced remote betting intermediaries are now liable for duty of 15% on the commission charged to customers in the State. Now betting duty is applied at a rate of 1% of turnover to retail bookmakers and remote operators. Turnover tax is defined as the tax on the total wagers or amounts bet in a particular period. This is applied in such places as Australia and France, as well as Ireland. The separate rate of 15% gross profit

tax is applied to the commission earned by intermediaries to reflect the different business model applying in these cases.

Betting Legislation

93. Betting is governed by the following legislation:

- Betting Acts 1931-2015
- Finance Act 2002 (as amended)

Licensing regime for Betting Operators

Retail bookmakers constitute the largest share of the betting market, although the number has significantly declined in recent years.

Licence Type	2017 (May)
Registered Bookmaking Premises	856
Bookmakers	321
Remote Bookmakers	58
Remote Betting Intermediaries	10

Licensing Requirements

Licence Type/Registration	Cost	Duration	Issued By
Standard Bookmakers Licence	€500	2 years	Revenue
Registration of Premises	€760	2 years	Revenue
Remote Bookmaker	€10,000 - €200,000	2 years	Revenue
Remote Betting Intermediary	€10,000 - €200,000	2 years	Revenue

In addition to the above, Horse Racing Ireland issue an on-course betting permit at a cost of €250/€300 per annum.

94. The last change to the cost of a standard bookmaker's licence was in 1992, when it was increased to £200 through Section 160 Schedule 6 of the Finance Act 1992. On conversion to the Euro, the cost was adjusted to €250 through Section 65 of the Finance Act 2002. It is now €500 for a period of 2 years as amended by Section 54 (2) (a) of the Finance (No.2) Act 2013. So, the effective cost of a bookmaker's licence has not increased since 1992.

Rates of Duty (2017)

95. Off-course bookmakers: Betting duty is currently applied at a rate of 1%, unless the bookmaker transfers the bet (hedges) to another bookmaker in which case the liability transfers.

On-course bookmakers: Bets made at the racecourse (for events taking place at that racecourse) are not liable to betting duty. However, bets made, or accepted, at the racecourse through any means of telecommunication are liable to 1% betting duty. This includes bets made/taken over the phone or via a Remote Betting Intermediary.

On-course bookmakers are liable to a turnover charge of 0.25% in 2017 (reduced from 0.5% in 2016) on all bets entered into on the racecourse, except bets accepted by means of telecommunications from outside the racecourse. This charge is administered by Horse Racing Ireland (HRI). HRI have indicated that this charge will be further reduced in future.

Betting Intermediaries: Remote Betting Intermediaries are liable to a duty of 15% on all commission earned from Irish customers. The intermediary earns commission by retaining a proportion of its customers' net winnings on a market (usually ≈ between 2 - 5% of winnings depending upon the level of customer activity).

Table: History of Rate and Liability Changes 2000 to 2010

From	To	Rate	Person or entity liable to pay tax
1 Jul 2006	present	1% of bet	Bookmaker liable
1 May 2002	30 Jun 2006	2% of bet	Bookmaker may opt to pay or to pass-on the duty
1 Jul 1999	30 Apr 2002	5% of turnover	Punter liable, bookmaker collects

Betting Duty Yield

96. Betting duty yield for 2016 was €50.7m. 2016 was the first full year where the remote operators were within the scope of betting duty. Therefore, it is not yet possible to evaluate trends of receipts via this means. Online betting duty receipts for 2016 amounted to €22.6m, with betting duty receipts from the retail sector amounting to €28.1m. This suggests that the online sector represents about 44% of overall turnover in the betting sector, with the retail sector representing about 56%. Provisional betting duty receipts for January – March 2017 are €12.6 million, a slight increase from €12.1m in the same period in 2016. A breakdown of these receipts is provided in the table below.

	Traditional Betting (€m)	Remote Betting (€m)	Remote Betting Intermediary Commissions (€m)	Total (€m)
2016	28.1	20.7	1.9	50.7
Jan – Jun 2017	14.0	10.6	0.9	25.4

Trends in Retail Bookmaking

97. Receipts from bookmakers which have retail outlets in the State are provided below. The total yield per annum has remained relatively consistent, both before and after the Betting Amendment Act 2015 which brought remote operators into the licensing and betting duty regime.

Year	Traditional Betting (€m)
2016	28.1
2015	27.7
2014	26.1
2013	25.4
2012	27.1
2011	27.1

While retail bookmakers constitute the largest share of the betting market, both the number of licensed Bookmakers and the number of registered premises have fallen significantly from 2008 – 2017:

	2008	2017 (May)
Bookmakers	532	321
Registered Premises	1365	856

On-course Bookmakers

98. Under Finance Act 2002, on-course bookmakers are not liable to betting duty on bets accepted on the course for races taking place on the course. However, this exemption does not apply to bets accepted by means of telecommunication. This includes bets entered into by telephone or online including through a Betting intermediary. [Section 68 (2) Finance Act 2002].

99. When duty is payable, Section 67 (3A) of Finance Act 2002 applies, whereby the bookmaker is not liable for duty on a bet where it is shown to the satisfaction of the Revenue Commissioners to have been transferred to another Bookmaker. Intermediaries are not bookmakers, but are defined as a person who “provides facilities that enable persons to make bets with other persons by remote means” (Betting (Amendment) Act 2015). Irish legislation makes no distinction between whether the intermediary is being used to hedge or lay (accept) the bet.

100. In the UK, if a Bookmaker hedges a bet through an intermediary, duty is liable on the original bet placed with the Bookmaker only. However, there is a concern that this could give rise to potential compliance issues around the correct declaration of betting duty in such an arrangement, either from genuine error or conscious miss-description in betting returns.

Revenue Raising Options

101. The current relatively low rate of betting duty, at 1%, is a function of the changes that have taken place in the bookmaking industry over the past number of years and in particular the migration of punters to the, at the time untaxed, remote or online sector. The enactment of the Betting (Amendment) Act 2015 in March 2015 has provided a level playing field in this respect, by bringing the online and betting intermediaries into the tax net. The following options discuss the impact, benefits and drawbacks of amending current rates and changing the method of taxation to either a tax on the punter or a gross profits tax.

Increase the Existing Rates

102. A decision to increase the betting duty rate from 1% to 2% in 2009 was not actuated, as representations from the industry claimed that this increase would have a significant impact on the sustainability of the business. This was particularly likely at the time as remote operators were not within the scope of the betting duty regime, so were in direct competition with retail bookmakers but without the same tax liability in the State. It was therefore deemed at that time that the betting industry could not bear a betting duty of 2% based on turnover. The provision was subsequently repealed with the aim of including remote operators in the betting tax regime. This was achieved through the Betting Amendment Act 2015.

103. The view of industry, as set out in the consultation process, is that any increase in the rate could be potentially damaging for the retail sector leading to closure of businesses and job losses. This case is particularly stark in the context of the individual or smaller operator.

Tax on Customer

104. Prior to 2002, the law provided that the excise duty on bets, while payable by the bookmaker, had to be charged to the punter. This was causing difficulties for the bookmakers who operated telephone/internet betting operations, and in many instances was being ignored.

105. The Finance Act 2002 changed the law to allow bookmakers to elect to pay the betting duty and removed the penalty that applied to bookmakers who offered tax free betting. Finance Act 2006 introduced an amendment to instruct the bookmakers to pay the betting duty and they were no longer allowed to pass it on to the punter. However most of the bookmakers were doing this already in order to compete with online betting.

106. Since 2015, remote operators are within the scope of the betting tax regime. It is possible to make a provision to ensure the customer is liable to pay betting duty. This will require an amendment to Section 71 of Finance Act 2002 (as amended). Additional provisions may also be required to allow for the enforcement of this requirement.

The impact of placing the tax on the customer should be considered, such as:

Substitution effect:

107. Industry is of the view that imposing a betting tax on customers will encourage a move to alternative forms of betting which do not currently incur a tax, e.g. lotteries, bingo. It will also encourage an increase in betting transactions with illegal operators. This view is supported by the Revenue Commissioners. When the UK removed the tax

on customers, they found it led to a significant reduction in illegal bookmaking. Removing this tax on the customer also led to additional betting activity.

Treatment of bets through Remote Betting Intermediaries:

108. The treatment of bets through Remote Betting Intermediaries will require consideration. If customers are not charged betting duty on these bets, then this measure would be of benefit to the intermediary and would discourage betting with bookmakers. If customers are to be charged on these bets, consideration will need to be given as to whether the customer is charged betting duty on each transaction regardless of whether they lay or back. Currently there is no distinction made in Irish legislation between backing or laying via an intermediary.

109. The treatment of customers using intermediaries will have an influence on how bookmakers use them. If no tax is charged on customers, then bookmakers can make use of intermediaries with no betting tax liability.

110. If the 15% betting tax on the commission of the intermediary remains in place, this may lead to intermediaries claiming to have unfair treatment.

Taxing customers of Intermediaries who are 'trading'

111. There may be users of Betting Intermediaries who are operating in the manner of a business and gaining significant profits from their activity. Representative bodies have previously queried whether these people should be liable for betting duty. Where people are betting on their own behalf, there is no requirement for a licence and any information on individuals acting in the course of business should be advised to the Revenue Commissioners. The taxing of the profits of betting intermediary customers would raise many issues, such as:

- Identifying taxable persons. The person could not be identified as a bookmaker, as the legal definition of a bookmaker is "a person who is the holder of a bookmaker's licence" (Betting (Amendment) Act 2015). Therefore, would the taxable person be identified based on a threshold of winnings, or on patterns of behaviour? This would be very difficult to administer and enforce. This may require a definition of 'in business' and this may be problematic.
- Establishing the profits. This will be particularly difficult where customers are betting across different exchanges, which is most likely the practice, or would become the practice.
- Implications for direct tax, such as offsetting gambling losses against other taxable income.

Gross Profits Tax

112. A move from a turnover tax to a gross profits tax will represent a move to an ad valorem tax which would more closely capture consumer expenditure, similar to the bases for other excise taxes. Such a change will be expected to encourage a high turnover, low margin operation and this has emerged in other jurisdictions where betting is taxed on this basis, such as in the UK where a gross profits tax was introduced in 2002. This may also facilitate the future inclusion of other gambling activity in the scope of this duty (gaming etc.) following the enactment of the Gambling Control Bill by the Minister for Justice and Equality.

113. In a competitive environment, a gross profits tax model will be of advantage to businesses, as the level of tax payable will change in response to margins. This will be of benefit in particular to smaller businesses and experience in the UK showed less concentration in the industry, with smaller bookmakers securing a greater share of total turnover. From a revenue point of view, there is less stability around the yield of the tax and it will be more susceptible to changes in the trade environment, with the risk burden shifting from the private to the public sector.

114. Gross profit margins are currently not readily available for analysis, and industry averages could be requested from traders or their representative bodies. Considering that the industry is dominated by a small number of larger firms, it is possible that there is significant variance in profit margins. It will be important to determine different profit margins across different betting platforms. Additionally, it is anticipated that gross profit margins will reduce following the introduction of a gross profits tax and this was borne out in the UK. It has also been shown to reduce the price to the customer, so may stimulate demand. The change when introduced in the UK, also encouraged the 'recycling' effect, whereby customers are inclined to reinvest their winnings into future wagers with the bookmaker. The gross profits tax model better accounts for the profit derived by the bookmaker, whereas taxing the turnover, taxes each stake and often the stake is a customer's recycled winnings.

115. Gross profits tax in the UK has been set at 15% and an evaluation of the model found that this rate was appropriate to the average gross profit margin in the industry and the rate has been retained. It also mirrors the rate at which tax is charged on the commission of Intermediaries. However, when making comparisons with the change in the UK to a gross profits tax, it is important to note that there are other variables which cannot be applied to the Irish situation. For example, before the change to gross profits tax, the UK applied a turnover tax (6.75%). Bookmakers generally made a total deduction to the customer of 9 per cent per bet. This covered the betting duty (6.75%), the contribution to the Horserace Levy and administrative costs. Therefore, there were other significant changes made at the same time, not just the change from the turnover tax to a gross profits tax. It should also be noted that bookmakers in the UK generate a significant amount of their turnover from Fixed Odds Betting Terminals on

the shop floor. These are prohibited in bookmakers' premises in Ireland so we would not be comparing like with like in terms of how the industry operates.

116. In the UK, where bookmakers are using Intermediaries to do business, any gross profit generated is subject to gross profits tax. It may be necessary to include provisions to require bookmakers using intermediary facilities to account for these transactions in their duty returns, as has been done in the UK.

117. Further analysis and economic modelling specific to the Irish betting environment would provide more certainty on the appropriate tax rate to apply and the wider effects of such a change on the betting market and wider social and policy implications. This will need to be considered alongside policy objectives. For example, the UK model has been to base betting taxation on economic criteria, such as maintaining competitiveness and reducing allocative inefficiency, to respond to the competitive market and changing market conditions which at the time was exposed to the growth in online betting.

Considerations for the introduction of a Gross Profits Tax:

118. Monthly returns will be more complex to complete, collect and audit which may lead to some additional costs of compliance and reliance on the integrity of the bookmakers accounts. It will require some adjustments to systems, both for the industry and Revenue, requiring appropriate lead in time. A gross profits tax may introduce opportunities for miss-declaration of betting duty liability. Options for Revenue will be to use standard industry margins as a guideline, review bookmakers' internal controls and use this information for risk-based audits.

119. Consideration will need to be given to whether bookmakers can carry forward losses between accounting periods. This was introduced in the UK following a review which saw that some bookmakers paid a higher effective rate of tax because they could not offset all of their loss-making periods.

120. Free bets will also be reckonable for betting duty on a gross profits tax basis and should be included in duty returns as stakes received. Gross profit is an allowable deduction as it is incurred in the course of carrying out business and the earning of profits.

Industry Views

121. As part of the review, the Department initiated a public consultation requesting the views of industry, stakeholders and the general public on the current system of taxation, specifically:

- The inclusion of the remote sector into the betting regime under the Betting (Amendment) Act 2015;
- Is the existing model of turnover tax, with different approach to betting intermediaries, the most appropriate for the industry at this time?
- What is an appropriate level of betting tax and the equivalent tax on betting exchanges commissions?
- What would be the impact of a move from taxing the bookmaker to taxing the punter i.e. either a percentage tax on all bets placed but paid by the punter rather than the bookmaker, or a (higher) percentage on winnings paid by the punter?

122. A total of 13 submissions were received. Of these, 8 were from the betting / gaming industry, 2 were from the horse racing industry, one from the addiction advocacy side and two from individuals. Follow on meeting were held with six of these at their request. A full list of those who made submissions is attached at Appendix V and the full submissions will be published on the Department's website together with this paper.

123. The submissions from the bookmaking / gaming industry broadly followed a similar approach. Both individual bookmaking companies and the bookmaking representative bodies are broadly of the view that the current system is working well and that the extension of the regulatory and tax regime to the remote sector would seem to have been achieved without undue difficulty to the sector. The view that the existing levels of tax are appropriate and almost all were opposed to any increase in rates. The Irish Bookmakers Association and the Irish Independent Bookmaking Offices Association, the bodies representing individual and small bookmaking enterprises, were particularly opposed to any increase on the basis that their members are currently struggling to remain in operation. In this regard, both organisations have recommended a reduction in the tax applicable to bookmakers with a turnover of less than €2m per annum, with the IBA seeking a rate of 0.25% for operators under €2m and 1% thereafter and the IIBOA seeking a rate of 0.5% for the first €2m, 1% for the next €2m and 1.5% thereafter.

124. The representative bodies for the racing industry are seeking increases in betting duty. Horse Racing Ireland suggest an increase to 2.5% and 37.5% for bookmakers and betting intermediaries respectively, while the Alliance for Racing and Breeding suggest an increase to 2% and 23% respectively.

125. The Rutland Centre and Problem Gambling Ireland joint submission calls for the allocation of 0.1% of betting duty to the provision of problem gambling treatment and prevention services. This is seen as an interim measure pending the establishment of the Social Fund under the proposed Gambling Control legislation. The submission sets out a number of options on the betting tax front to achieve this aim.

126. Submissions were received from two individuals with one suggesting a 25% tax on online gross revenue. The other submission dealt with issues relating to the Gambling Control legislation being considered in the Department of Justice and Equality but not immediately relevant to this review.

127. Finally, with regard to the question of imposing the tax on the punter, the industry was unanimously opposed to this proposal for a variety of reasons including: (i) the negative experience of tax on punter in other jurisdictions; (ii) the reality and perception that such a tax increases the cost of the product, driving punters towards operators unlicensed in Ireland; (iii) it would be administratively difficult to enforce; (iv) and would reduce the level of recycling of betting funds. Both representative bodies for racing suggested that if the bookmakers' business model did not lend itself to an increase in the 1% tax on the bookmaker, then any increase might best be levied on the punter.

APPENDIX I

Specific, Ad Valorem and Minimum Excise Duty Rates per 1,000 Cigarettes*

Sorted by Weighted Average Price (highest to lowest)*

Member State	WAP/ 1000	Specific Excise / 1000	Specific Excise as a % of Total Tax (including VAT)	Ad valorem as a % of WAP	Minimum Excise as a % of WAP	Total excise duty***	Total tax as % of WAP
Ireland	€503.50	€288.22	66.98%	9.52%	66.76%	€336.15	85.46%
UK	€439.71	€236.53	61.86%	16.50%	70.29%	€309.08	86.96%
France	€337.75	€48.75	17.86%	49.70%	64.13%	€216.61	80.80%
Netherlands	€302.50	€166.46	71.11%	5.00%	60.03%	€181.59	77.38%
Sweden	€294.73	€158.45	71.91%	1.00%	54.76%	€161.40	74.76%
Belgium	€286.29	€42.67	19.08%	45.84%	60.74%	€173.91	78.10%
Denmark	€270.50	€158.80	73.65%	1.00%	59.71%	€161.51	79.71%
Finland	€283.76	€45.50	18.35%	52.00%	68.03%	**€211.50**	87.39%
Germany	€266.98	€98.20	49.41%	21.69%	58.47%	**€157.10**	74.44%
Malta	€262.63	€107.00	51.31%	23.40%	64.14%	€168.46	79.40%
Italy	€233.00	€17.88	10.00%	51.03%	58.70%	€136.78	76.74%
Spain	€222.00	€24.70	14.00%	51.00%	62.13%	€137.92	79.48%
Luxembourg	€225.56	€18.39	11.76%	46.65%	54.80%	€123.62	69.33%
Austria	€224.20	€50.00	28.60%	39.00%	61.30%	€137.44	77.97%
Cyprus	€215.00	€55.00	33.86%	34.00%	59.58%	€128.10	75.55%
Portugal	€206.68	€88.20	56.58%	17.00%	59.67%	**€127.97**	75.43%
Greece	€187.30	€82.50	49.27%	26.00%	70.05%	€131.20	89.40%
Slovenia	€175.50	€68.82	50.00%	21.18%	60.40%	€106.00	78.43%
Hungary	€177.67	€52.57	39.01%	25.00%	54.59%	€96.98	75.85%
Romania	€162.76	€75.09	60.62%	14.00%	60.14%	€97.88	76.10%
Poland	€158.36	€48.16	37.77%	31.41%	61.82%	**€97.90**	80.52%
Estonia	€162.00	€63.50	45.65%	30.00%	69.20%	€112.10	85.86%
Slovakia	€153.17	€59.50	49.48%	23.00%	61.85%	€94.73	78.51%

Croatia	€152.42	€36.64	30.03%	36.00%	60.04%	€91.51	80.04%
Czech Republic	€148.29	€52.55	44.41%	27.00%	62.44%	**€95.11**	79.79%
Latvia	€144.46	€56.20	47.88%	25.00%	63.90%	**€93.70**	81.26%
Lithuania	€138.50	€50.68	46.35%	25.00%	61.59%	€85.31	78.95%
Bulgaria	€125.78	€51.64	48.46%	27.00%	68.06%	**€85.90**	84.72%

*The information contained in this table is based on information provided by each EU Member State to the European Commission and published in the "*EU Excise Duty Tables*, *Ref 1045, January 2017, Rev 1".* There may be some variations within the figures provided due to rounding or particular national means of calculating excise duty not evident from these tables.

**UK exchange rate 0.87933 of 03 July 2017.

*** MS highlighted in bold have minimum excise duty which is equal to or higher than the standard rates of excise duty based on WAP.

APPENDIX II

Alcohol Products Tax incidence by alcohol product in EU Member States – January 2017

Beer **€ per HL per degree of alcohol of finished product**		**Wine (Still)** **€ per hectolitre of product**		**Wine (Sparkling)** **€ per hectolitre of product**		**Spirits** **€ per hectolitre of pure alcohol**	
Finland	32.05	**Ireland**	**424.84**	**Ireland**	**849.68**	Sweden	5,385.07
Ireland	**22.55**	Finland	339.00	UK*	419.33*	Finland	4,555.00
UK*	21.64*	UK*	327.39*	Finland	339.00	**Ireland**	**4,257.00**
Sweden	21.06	Sweden	272.90	Sweden	272.90	UK*	3260.00*
Greece	12.50	Denmark	155.92	Belgium	256.32	Belgium	2,992.79
Slovenia	12.10	Estonia	111.98	Denmark	200.91	Greece	2,450.00
Estonia	8.30	Netherlands	88.30	Germany	136.00	Estonia	2,172.00
Italy	7.55	Lithuania	77.89	Estonia	111.98	Denmark	2,014.42
Denmark	7.52	Belgium	74.90	Austria	100.00	France	1,737.56
France	7.41	Latvia	74.00	Netherlands	88.30	Netherlands	1,686.00
Netherlands	6.48	Poland	36.80	Czech Rep.	86.60	Latvia	1,400.00
Cyprus	6.00	Malta	20.50	Slovakia	79.65	Malta	1,360.00
Croatia	5.33	Greece	20.00	Lithuania	77.89	Lithuania	1,353.69
Hungary	5.26	France	3.77	Latvia	74.00	Poland	1,328.58
Belgium	5.01	Bulgaria	0.00	Hungary	53.41	Portugal	1,327.94
Austria	5.00	Czech Rep.	0.00	Poland	36.80	Slovenia	1,320.00
Malta	4.83	Germany	0.00	Malta	20.50	Germany	1,303.00
Poland	4.54	Spain	0.00	Greece	20.00	Austria	1,200.00
Latvia	4.20	Croatia	0.00	Romania	10.65	Hungary	1,081.79
Portugal	3.63	Italy	0.00	France	9.33	Slovakia	1,080.00
Slovakia	3.59	Cyprus	0.00	Bulgaria	0.00	Czech Rep.	1,054.74
Lithuania	3.36	Luxembourg	0.00	Spain	0.00	Luxembourg	1,041.15
Czech Rep.	2.96	Hungary	0.00	Croatia	0.00	Italy	1035.52
Spain	2.26	Austria	0.00	Italy	0.00	Spain	958.94
Luxembourg	1.98	Portugal	0.00	Cyprus	0.00	Cyprus	956.82
Germany	1.97	Romania	0.00	Luxembourg	0.00	Romania	743.06
Bulgaria	1.92	Slovenia	0.00	Portugal	0.00	Croatia	706.17
Romania	1.85	Slovakia	0.00	Slovenia	0.00	Bulgaria	562.43
EU Average	**7.19**	**EU Average**	**60.74**	**EU Average**	**100.85**	**EU Average**	**1,680.85**
EU Minima	**1.87**	**EU Minima**	**0**	**EU Minima**	**0**	**EU Minima**	**550**

*UK figures calculated using March 2017 rates and exchange rate of .88168 as of 22/06/17

APPENDIX III

Cross-Border Price Comparisons May 2017- Alcohol

Products	Price in this State (€)	Price in N. Irl (€)	Difference (€)	Total Tax/Duty in this State (€)	Total Tax/Duty N. Irl (€)	Difference Total Tax/Duty (€)
Stout (500ml can)	2.17	2.13	0.04	0.88	0.82	0.06
Lager (500ml can) *	2.20	1.69	0.51	0.90	0.81	0.09
Lager (330ml bottle) *	1.66	1.16	0.50	0.63	0.51	0.12
Bottle of Vodka	20.50	15.99	4.51	15.01	11.38	3.63
Bottle of Whiskey	24.31	23.37	0.94	16.47	13.19	3.27
Bottle of Wine (Chardonnay) *	10.00	9.00	1.00	5.06	4.00	1.06
Bottle of Wine (Sauv. Blanc) *	10.00	8.62	1.38	5.06	3.94	1.12
Sparkling Wine	17.17	14.08	3.09	9.58	5.55	4.03

*Two Different Brands

**EUR/GBP exchange rate on survey date of 25/05/2017 was 0.8655.

APPENDIX IV

History of Betting Duty Rates and Yields

Historically, the rate of betting duty has varied significantly over the years and has been applied to both the punter as well as bookmakers at different times. The tables below set out the recent history of the application of the duty:

Rates

Date	Rate
1926	5%
1941	7.5%
1956	10%
1972	15%
1975	20%
1985	10%
1999	5%
2002	2%
2006 (July 1)	1% (payable by industry)
2015 (Aug 1st)	1% on traditional bookmakers and 15% of the commission on betting Intermediaries

Exchequer Yield

Year	€m
1996	51.6
1997	57.8
1998	67.1
1999	67.8
2000	58.9
2001	68.1
2002	48.0
2003	38.4
2004	45.6
2005	45.8
2006	54.3
2007	36.4
2008	36.7
2009	31.0
2010	30.9
2011	27.0
2012	27.0
2013	25.4
2014	26.2
2015	31.1
2016	52.1
2017 (Jan – Jun)	25.4

Year	Rate of Duty	Betting Duty Net Receipts (€)	Bookmakers' Licences	Bookmaking Premises
			Number Issued	Number Issued
1984	20%	26,040,136	843	921
1985	10% from 4/2/85	20,471,235	898	1044
1986	10%	23,241,337	916	1048
1987	10%	24,735,994	863	1054
1988	10%	28,513,448	873	1117
1989	10%	32,461,513	874	1131
1990	10%	37,179,698	709	956
1991	10%	38,512,456	727	953
1992	10%	41,141,877	701	982
1993	10%	43,622,991	591	808
1994	10%	45,779,995	590	858
1995	10%	48,528,095	622	835
1996	10%	51,604,021	534	810
1997	10%	57,804,983	572	788
1998	10%	66,202,324	571	666
1999	5% from 07/99	67,804,493	495	978
2000	5%	58,868,554	600	932
2001	5%	68,066,165	582	1010
2002	2% from 05/02	47,952,219	560	909
2003	2%	38,422,170	584	1068
2004	2%	45,552,353	535	948
2005	2%	45,850,201	588	1170
2006	1% from 07/06	54,295,658	496	1151
2007	1%	36,437,009	704	1554
2008	1%	36,667,784	532	1093
2009	1%	30,988,780	641	1681
2010	1%	30,919,211	473	1223
2011	1%	27,096,522	449	1054
2012	1%	27,087,826	505	1147
2013	1%	25,421,396	386	943
2014	1%	26,162,214	380	1106
2015*	1% and 15%	31,063,763	309	300
2016*	1% and 15%	50,745,254	172	840
2017**	1% and 15%	25,500,000	393	862

*The Betting (Amendment) Act 2015:

- extended betting duty to remote operators and applied a 15% duty to the commission earned by intermediaries, and
- provided for a 2 year licensing regime on the renewal of licenses following enactment.

** provisional figures for Jan to Jun 2017

APPENDIX V

Public Consultation- Review of Betting Duty

Organisation	Inclusion of remote sector	Appropriate model	Betting duty rates	Tax on punter	Other issues
Bookmaker/gaming organisations					
Ladbrokes Coral Group	Regime effective in serving the interests of government, customers and operators.	In respect of betting exchanges, the model in place is best suited to this type of operation.	Existing rate of 15% strikes balance between generating revenue and maintaining financial incentive for operators.	Negative impact in incentivising punter to seek out unlicensed operators and may create administrative difficulties for exchanges.	
Paddy Power Betfair	Extension of regime seems to be working for all interested parties.	Current model with turnover tax for bookmakers and tax on commission of betting exchanges is appropriate model	Any increase in 1% turnover would have potentially damaging impact on retail sector with its tight margins. An increase would lead to shop closures and job losses. 15% tax on exchanges is consistent with other European regimes and should be maintained.	Tax on punter practically difficult to enforce and creates incentive to seek out cheaper alternatives in unregulated markets.	
MyLotto24 (Tipp24.ie)		Gross profit tax most common tax applied to the type of services provided by Tipp24.	An increase would make Ireland less attractive to investment and innovation for current and future licensees.	Unsure how it would operate to remote sector. Believe it would drive punter towards illegal operators.	

			Would not support an increase on 1% betting tax.		
DraftKings				Not currently operating in Ireland and comments relate to gaming rather than sportsbetting.	
Bet365	Still too early to draw firm conclusions but initial assessment suggests it works for Exchequer and operators.	Favours a tax levied on operator's profits (stakes less winnings) rather than turnover	Typically a profits tax somewhere between 15-20%	Tax on punter would increase risk of customer seeking out unlicensed bookmakers where tax not an issue	
Representative bodies					
Remote Gamblers Association (RGA)	Probably too early to draw firm conclusions but has created fresh revenue stream for Government while allowing viable and competitive market to continue to develop.	RGA advocates gambling tax model based on gross profits or gross gambling revenue.	Online market still developing so wouldn't recommend any change to either current structure or rate of tax.	Negative experience of tax on punter in other jurisdictions. The reality and perception of such a tax increases cost of product driving punter towards operators unlicensed in Ireland.	

Irish Bookmakers Association	Welcomes the 2015 changes to include the remote sector into betting licence and tax regime.	Extend tax to all gambling sectors including Tote and national lottery	No increase but use additional receipts from extension of tax to remote sector to reduce tax to 0.25% for shops with turnover of €2m or less per annum. Otherwise retain existing rates where they are.	Not in favour of tax on punter for number of reasons (i) move to illegal activity (ii) lower levels of recycling of funds.	IBA strongly opposed to increased funding of horse and greyhound industry through an increase in betting taxes.
Irish Independent Betting Offices Association (IIBOA)	Taxation of remote sector needs to be extended to non-sportsbook operations such as online casino games and poker.	Marginally favour existing turnover model as it is easier to administer and project future earnings than the gross profits tax model	Rate of 0.5% for first €2m; 1.0% for next 2%; and 1.5% for all subsequent turnover with appropriate increase in rate for betting intermediaries.	Opposed to tax on punter - too many negatives and unknown factors to impact on both the Exchequer and bookmakers.	Exemption from VAT means inputs not recoverable.
Racing industry					
Horse Racing Ireland	Extension of licensing and tax regime to remote sector has been a success. No issues identified.	Turnover tax remains the preferred basis as it provides certainty of income. Alternative approaches are subject to volatility arising from events or activities of bookmakers.	Increase to 2.5% rate on bookmakers with increase to 37.5% on commission of betting exchanges.	2.5% rate on turnover, with the additional 1.5% a mandatory deduction from the punter. Similarly the additional 22.5% on commission of betting exchanges to also come from the punter.	

Alliance for Racing and Breeding	The base has been broadened, by the extension of the licensing and tax regime to the remote sector, without evident collection problems.	Suggests that a rate increase on the established (turnover) model would be a low risk strategy from a collectability standpoint	Increase to 2%, with betting exchanges going from 15% to 23% (standard VAT rate)	N/A	
Advocacy body					
Problem Gambling Ireland			Provide 0.1% of betting tax for prevention / treatment services by one of the following means: (i) Increase of 0.1% on current duty; (ii) 10% of current duty allocated to treatment and prevention of addiction; or (iii) 0.1% payable by the punter.		Propose that 0.1% of betting duty be allocated to the provision of problem gambling treatment and prevention services. This is seen as an interim measure pending the establishment of the Social Fund under the proposed Gambling Control legislation.
Individual submissions					
Individual					Material relates to proposed Gambling Control legislation but not relevant to issues raised in this review.
Individual			25% tax on online gross revenue.		