An Roinn Airgeadais
Department of Finance

General Excise Paper

Tax Strategy Group –TSG 20/08

Prepared by the Tax Division,

Department of Finance

www.gov.ie/finance

Contents

ALCOHOL PRODUCTS TAX

1.1 Alcohol – Introduction

The current rates and structures of excise duty on alcohol products are harmonised across the European Union through Directives 92/83/EEC and 92/84/EEC ('Alcohol Products Tax Directives'). This section outlines the main policy considerations regarding the Alcohol Products Tax as well as recent changes to rates, yields and consumption patterns. It also sets out options for Budget 2021.

1.2 Public Health Policy

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

Alcohol consumption, in particular problematic drinking behaviours, is a major social problem. It has been estimated that there were over 1,000 alcohol related deaths in Ireland in 2013, with 73.2% of those aged under 65[1]. The Department of Health previously published the following estimates of alcohol related costs[2]:

- alcohol-related illness cost the healthcare system €793 million, alcohol-related crime cost an estimated €686 million and alcohol related road accidents cost an estimated €258 million in 2013;
- the cost of lost economic output due to alcohol was estimated to be €641 million in 2013 (e.g. €195 million due to absenteeism, €185 million due to accidents at work, €169 million due to suicide and €65 million due to premature mortality).

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.

In October 2013 the Government agreed to legislate to tackle the harms caused by alcohol. The Public Health (Alcohol) Act was enacted on 17th October 2018.

[1] See Health Research Board 'Drugnet' publication, Issue 59, Autumn 2016

[2] See Regulatory Impact Analysis supporting Public Health (Alcohol) Bill at https://assets.gov.ie/19454/b1990c163eaf454f9f674355eaf4d504.pdf

The Minister for Health signed the order to commence 23 sections of the Public Health (Alcohol) Act into operation on 12th November 2018.

The primary policy objectives of the Act are to:

- reduce alcohol consumption to 9.1 litres of pure alcohol per person per annum by 2020,
- delay the initiation of alcohol consumption by children and young people,
- reduce the harms caused by the misuse of alcohol, and
- regulate the supply and price of alcohol in order to minimise the possibility and incidence of alcohol related harm.

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

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

- minimum unit pricing;
- health labelling of alcohol products;
- the regulation of certain aspects of the advertising and marketing of alcohol;
- separation and reduced visibility of alcohol products in mixed trading outlets; and
- the regulation of the sale and supply of alcohol in certain circumstances.

Minimum Unit Pricing

Minimum Unit Pricing is intended to address the health harms associated with harmful alcohol consumption by preventing the sale of very low priced alcohol.

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

The Programme for Government 2020 supports the implementation of the Public Health (Alcohol) Act and the longstanding commitment to introducing minimum unit pricing in consultation with Northern Ireland.

1.3 Alcohol Products Tax Directive

The Alcohol Products Directive 92/83/EEC relates to the harmonization of the structures of excise duties on alcohol and alcoholic beverages. On 29 July 2020 the Council amended this Directive through Directive 2020/1151. The new rules will enter into application from 1 January 2022. Some notable elements contained in the new rules include:

- An increase in the threshold for low strength beer from 2.8% to 3.5%;
- The introduction of a standard definition for cider and the option for Member States to provide excise relief to small cider producers on similar terms to microbrewers with the exception of a much lower volume cap upon which claims can be made.
- Provision for a uniform certificate for small independent breweries across the EU in order to improve the cross border functionality of the existing relief for small breweries.

It should be noted that whereas the Directive (as amended) provides a structure for calculating excise on beer and spirits in accordance with the alcohol strength, it does not do this for wine (wine with alcohol strength of between 5.5% and 15% must be charged the exact same excise rate).

1.4 COVID-19 Impact & Industry Views

The current virus pandemic has had contrasting impacts on the on and off trades. Whereas the on-trade was closed for a period, and a significant number of licensed premises remain closed (with those that are now open operating under Covid restrictions), the off trade has benefitted from increased alcohol sales. The table below shows the estimated market share of the on-trade across the main alcohol product types.

Table 1: On-trade market share (sales volume) by alcohol product type

Product	Estimated On-trade Market Share (2018)	Estimated On-trade Market Share (2019)
Beer	63.5%	62.7%
Spirits	58%	Not available
Wine	18%	17%
Cider	50.8%	Not available

Source: Annual 2018 and 2019 Reports on Beer, Spirits, Wine and Cider Market by Drinks Ireland

However, despite the closure and ongoing restriction of the on-trade, we are not seeing a decrease on a similar magnitude in overall alcohol sales volumes. The table below shows the changes to the volumes released for consumption in Quarter 2 2020.

Table 2: Volumes alcohol released for consumption Q2 2020 v Q2 2019

Product	Volume Change
Beer	-17.4%
Spirits	-9.8%
Wine	+10%
Cider	-9.4%

Source: Calculations from Revenue data

This indicates that in Q2 2020 alcohol sales in supermarkets have increased significantly due to a substitute purchasing effect.

The Government announced a package of measures for Vintners impacted by COVID-19 restrictions on 28th August 2020. This included a provision to waive excise duty for on-trade liquor licences on renewal in 2020, additional support for Vintners under the Tourism Adaptation Fund and a 40% top-up to the restart grant for all pubs/bars that remain closed due to the postponement of Phase 4 of the Reopening Roadmap.

1.5 Recent Changes to Rates, Yield, Consumption and Prices

Recent Yield Changes

The table below indicates yield from 2013 to 2019 by alcohol product type:

Table 3: APT Yields 2013-2019

Year	Wine	Beer	Spirits	Cider/Perry	Total
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	€382m	€424m	€353m	€61m	€1,220m
2018	€376m	€430m	€372m	€61m	€1,239m

2019	€378m	€421m	€373m	€60m	€1,232m

*Rate Change

Total excise receipts on alcohol to the end of July 2020 (at €669.1m) is marginally higher than for the same period in 2019 (€666.8m), reflecting a strong substitution effect when the on trade was closed.

Recent Rate Changes

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

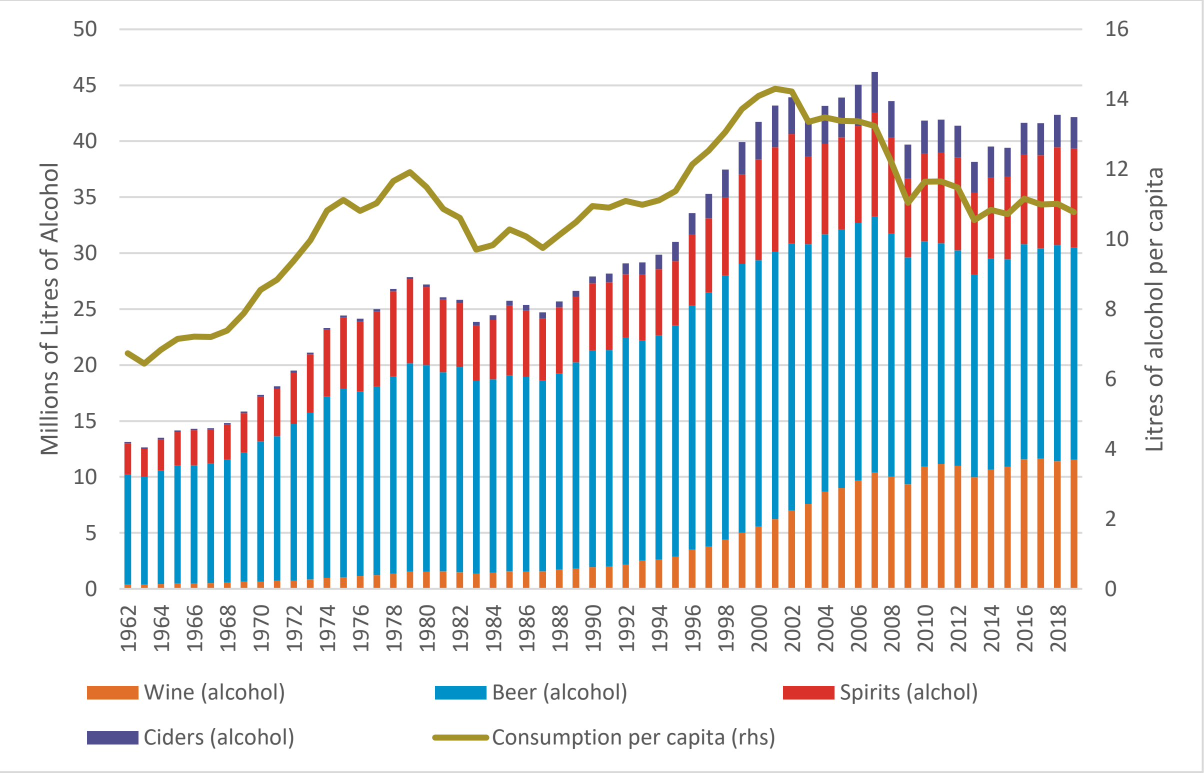
Table 4: Impact of rate changes on excise charged by product type

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

Graph 1 below indicates the total nominal quantity of pure alcohol by product released for Irish consumption, and the associated per capita consumption of *pure* alcohol. Consumption per capita had been steadily declining since 2000. In recent years it has slightly increased again, standing at 11.01 litres per capita in 2018 but decreasing to an estimated 10.86 in 2019. It should be noted that the figures below do not capture alcohol products purchased outside the State and do capture alcohol products consumed in the State by foreign visitors.

Graph 1 - Nominal consumption of alcohol products (lhs) and litres of alcohol consumed per capita (black line rhs), 1962 to 2019

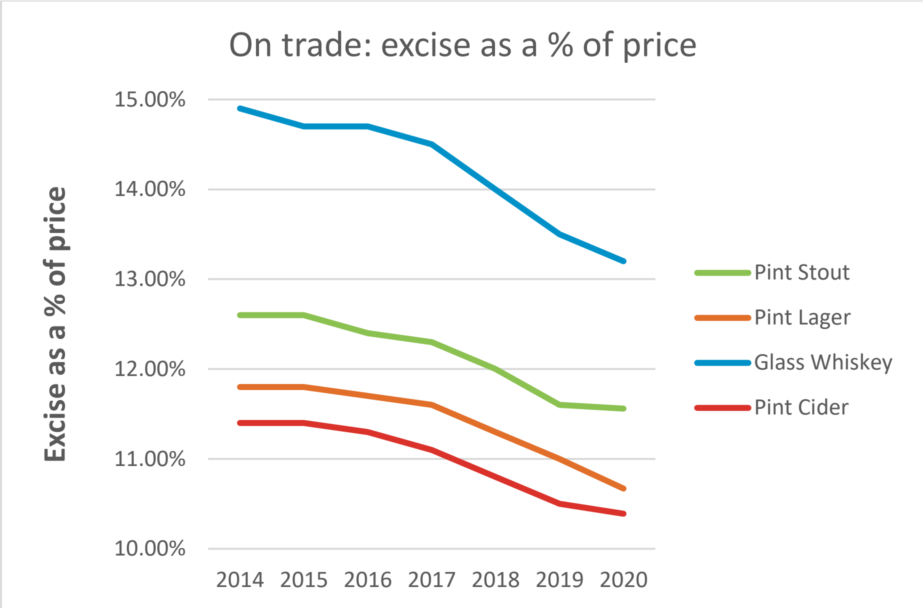


Graph 1 also indicates that consumer taste has changed with greater consumption of, in particular, wine. The increased consumption of wine has had implications for the pub trade, as over 80% of wine is purchased in the off-trade. Given that excise duty on alcohol is largely unchanged as a proportion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

Recent Retail Price Developments – On trade

Graph 2 below illustrates the trend in excise duties as a percentage of the national average price of the representative pint of stout, pint of lager, pint of cider and glass of whiskey sold in the on-trade. Since 2014 excise duty as a percentage of the retail price has fallen across all these products, due to pub price inflation.

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

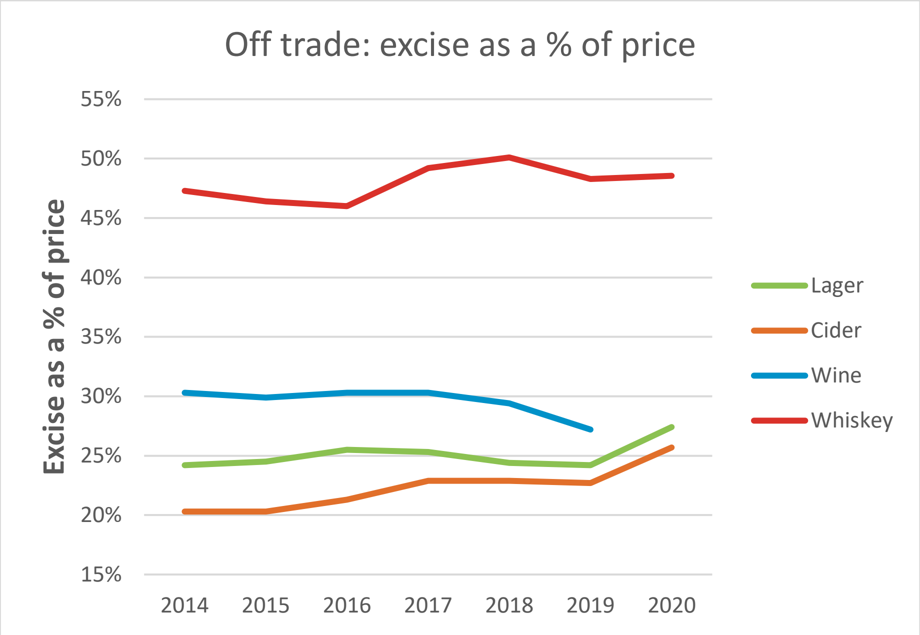


Note: 2020 data in the graph above is based on March 2020 CSO data.

Recent Retail Price Developments – Off trade

Graph 3 below illustrates the trend in excise duties as a percentage of the national average price of the representative can of lager, can of cider, bottle of wine and bottle of whiskey sold in the off-trade. Broadly speaking, the trend has been relatively flat since 2014, indicating that average retail alcohol prices have not changed much since 2014.

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



Note: 2020 data in the graph above is based on March 2020 CSO data.

1.6 Cross-Border Trade

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. The current UK VAT rate for alcohol products is 20% compared to the Irish rate of 23%. Given that the UK imposes similarly high rates of excise duty on alcohol products, the most important determinant of price differentials is usually the exchange rate.

Table 5 below shows the results of the most recent cross-border price survey carried out by the Revenue Commissioners (15 August 2019) in selected comparable alcohol products.

Table 5: Analysis of off-trade cross border price differences

Year	Price in this State	Price in N. Irl	Price Difference	Total Tax State	Total Tax NI	Tax Difference	€/£ exchange rate
Can - Lager	€2.12	€1.95	€0.17	€0.88	€0.83	€0.05	€0.92
Bottle – Wine	€11.10	€8.72	€2.38	€5.26	€3.89	€1.37	€0.92
Whiskey	€27.08	€23.16	€3.92	€16.98	€12.64	€4.34	€0.92
Can-Guinness	€2.22	€1.84	€0.38	€0.89	€0.74	€0.15	€0.92
Vodka	€20.00	€14.73	€5.27	€14.91	€10.69	€4.23	€0.92

1.7 Microbreweries

Excise Reliefs for Microbreweries

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

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

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

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

The table below shows the total relief claimed and number of claimants for each year from 2011 to 2019.

Table 6: Overview of Microbrewery Relief Scheme 2011-2019

	Total Volume Beer (HL) availed of relief	**Total Repaid /Remitted (€)**	**Number of Claimants**
2011	17,865	420,304	17
2012	33,219	840,651	20
2013	34,001	1,112,897	25
2014	64,606	2,334,409	54
2015	90,390	3,994,745	73
2016	90,710	4,089,194	71
2017	125,447	5,655,152	86
2018	128,442	5,789,252	90
2019*	130,358	6,140,972	85

*Provisional

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

1.8 Budgetary Options

The Drinks Industry Group of Ireland has called for a 15% reduction in excise rates as a measure to support the drinks and hospitality sectors through covid-19 related difficulties. It considers that this will help to improve the commercial model in these sectors and will help to protect jobs.

The following table shows the estimated effect of a range of VAT inclusive increases or decreases in excise duties yield for beer, spirits and cider, and the estimated effect of a range of VAT inclusive increases in excise duties yield for still and sparkling wine.

Table 7: Budgetary Options

	+/-1c	+/-2c	+/-3c	+/-4c	+/-5c	+/-10c	+/-15c	+/-20c
Beer (per pint)	€6.8m	€13.6m	€20.4m	€27.2m	€34.0m	€67.5m	€100.7m	€133.5m
Spirits (1/2 glass)	€4.2m	€8.4m	€12.6m	€16.7m	€20.8m	€40.9m	€60.3m	€79.1m
Cider (per pint)	€1.0m	€1.9m	€2.9m	€3.8m	€4.8m	€9.5m	€14.1m	€18.7m

	+5c	+10c	+15c	+20c	+25c	+50c	+75c	+100c
Wine (per bottle)	€3.2m	€6.4m	€9.5m	€12.6m	€15.7m	€30.3m	€43.9m	€56.5m
Sparkling Wine (per bottle)	€0.06m	€0.11m	€0.17m	€0.22m	€0.28m	€0.54m	€0.79m	€1.03m

Notes:

(1) these figures do not incorporate the temporary 2% cut in the standard VAT rate

(2) these figures assume no change in consumer behaviour, including in relation to cross border purchases.

TOBACCO PRODUCTS TAX

2.1 Introduction

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

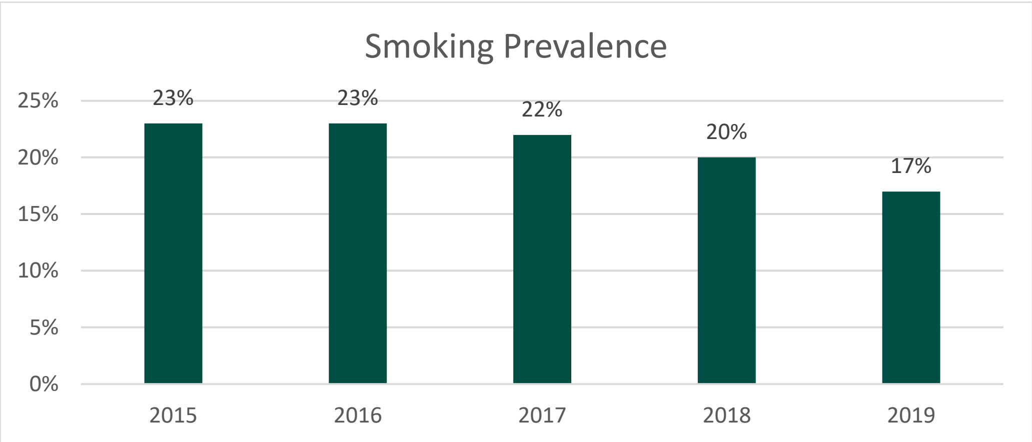
The main policy considerations regarding the Tobacco Products Tax are:

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

2.2 Public Health Policy

The Programme for Partnership Government set a smoking prevalence target of less than 5% of the population smoking by 2025. The Department of Health indicate that smoking remains the leading cause of preventable death in Ireland, accounting for nearly 6,000 deaths annually. It is estimated that one out of every two long-term smokers will die of a disease related to their tobacco use. The Healthy Ireland Survey report[4] which was commissioned by the Department of Health and published in late 2019, showed that the prevalence of smoking in Ireland dropped from 23% in 2015 to 17% in 2019 (Figure 1). There are now 165,000 less smokers in Ireland than there were 5 years ago.

Figure 1: Smoking Prevalence in Ireland (2015-2019)

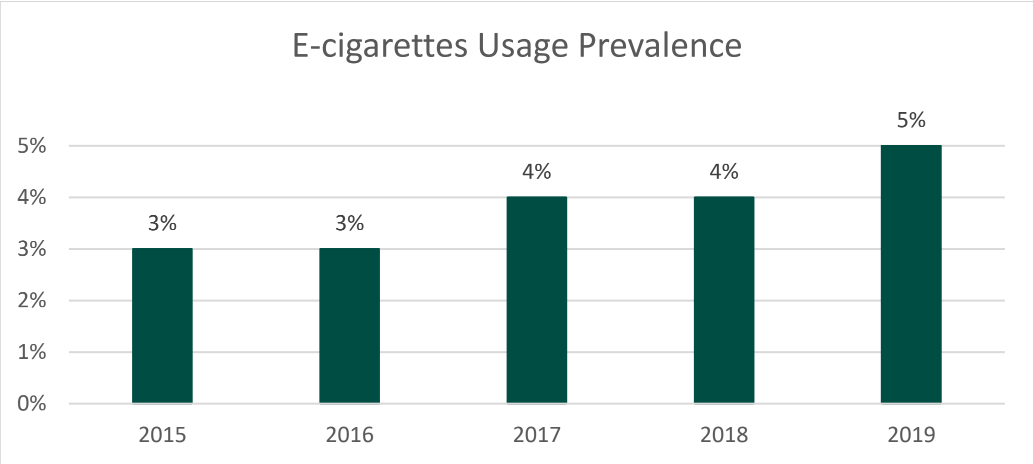


[4] https://assets.gov.ie/41141/e5d6fea3a59a4720b081893e11fe299e.pdf

The new Programme for Government (June) has included a commitment to bring in a targeted taxation regime to specifically discourage “vaping” and e-cigarettes. E-cigarettes and novel products are currently not included in the Tobacco Products Tax EU Directive, however as this issue is being reviewed at EU level with a view to updating the Directive, and having a harmonised EU approach, this may pre-empt any requirement to introduce a specific Irish taxation regime.

E-cigarettes/vaping has increased slightly over the past few years, from an estimated 3% in 2015 to 5% in 2019 (Figure 2).

Figure 2: E-Cigarettes Usage Prevalence in Ireland (2015-2019)



It is noted that research tends to find that e-cigarette usage among younger age cohorts is significantly higher than the general population, with the Healthy Ireland Survey 2019 reporting that 8% of persons between 25-34 years old are currently using e-cigarettes with 25% of this age group having tried them. The Irish Health Behaviour in School-aged Children Study (HBSC) 2018 found that 22% of 12 to 17 year old children have ever used e-cigarettes with 9% of that age group having used them in the last 30 days[5].

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. The 2018 Annual

[5] The *Health Behaviour in School-aged Children (HBSC) Study* is a cross-sectional research study conducted on a four-year cycle in collaboration with the World Health Organization (WHO) Regional Office for Europe. Questions on electronic cigarette usage were asked for the first time in 2018. Accessed online at: http://www.nuigalway.ie/media/healthpromotionresearchcentre/hbscdocs/nationalreports/2018-report---online-version-interactive---updated.pdf

Report[6] published in July 2019, outlined the increase in price and minimum excise duty on tobacco products in Budget 2019 as a key achievement.

The Public Health (Standardised Packaging of Tobacco) Act 2015 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 is now a single, neutral colour and bears 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. Since September 2018, all tobacco products retailing in the State have standardised packaging.

The 2019 Healthy Ireland Survey looked at opinions on tobacco packaging and found that 25% of smokers say that health warning on packs have made them more motivated to quit.

2.3 Recent Changes to Rates and Yields

Ireland has some of the highest rates of duty on tobacco products in the EU. This reflects a long-standing policy of levying high rates of excise duty on tobacco products to meet public health targets. The Programme for Government supports further increases in excise duty on tobacco products in the years ahead to further discourage smoking. Excise duty on tobacco products has increased consistently in the budget over the past 20 years, with the exception of Budgets 2005, 2006 and 2010. Rate increases of €0.50 on 20 pack cigarettes (Most Popular Price Category) have been implemented in each of the last 5 budgets with pro rata or higher increases applied to Roll-your-own tobacco (RYO). The impact of the escalation of the high excise policy can be seen from the fact that the average price of tobacco has increased by about 20% between March 2017 and March 2020.

The rate of duty on RYO tobacco is currently €379.831 per kilogram, or €11.39 per 30g pack. The price of a pack of 20 cigarettes in the most popular price category (MPPC) stands at €13.50), with a tax content of €10.65 split between €8.12 of excise duty and €2.52 in VAT.

Table 8 below shows the tax increase, trade increase and tax content of the MPPC of a pack of 20 cigarettes following each of the past ten budgets. As can be seen, while the tax content has increased significantly over the period the tobacco trade have increased their own margins to maintain the trade content of a pack of 20 at around 21% of the retail price.

[6] https://www.gov.ie/en/publication/0633fd-tobacco-free-ireland-2018-annual-report/

Table 8: Changes to rates and tax content from Budget 2013 to Budget 2020

Budget	Tax Increase	Trade Increase	Tax Content	Tax content as % of price
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%
Budget 2018	50c	20c	€9.52	78%
Budget 2019	50c	30c	€10.06	79%
Budget 2020	50c	30c	€10.65	79%

Note: The tax content relates to the period immediately post Budget whereas the trade increases normally take place in the days, weeks and months following any budget increase.

The table below shows receipts from Tobacco Products Tax (TPT) since 2013, broken down by cigarettes and RYO. Stripping out the front loading effects of regulatory changes in recent years (resulting in an artificially high level of receipts in 2017 and an artificially low level of receipts in 2018), it can be seen that receipts have remained stable at around €1.1 billion per annum, with successive rate increases compensating for reductions in the volumes released for consumption. RYO receipts formed about 10% of total receipts in 2019.

Table 9: Tobacco Products Tax Yields from 2013 to 2020

Year	Cigarettes	Other Smoking Tobacco	Total
2013*	€955m	€109m	€1,064m
2014*	€881m	€102m	€984m
2015*	€938m	€145m	€1,082m
2016*	€973m	€124m	€1,098m
2017*	€1,241m	€156m	€1,397m
2018	€646m	€103m	€749m
2019	€1,011m	€125m	€1,136m
2020#	€1,046m (f)	€129m (f)	€1,175m (f)

#2020 figures are current Revenue forecasted estimates (5th May 2020).

Forecasting yields has become increasingly difficult with continued irregularities and fluctuations in tobacco clearances and tax receipts, and market trends towards ‘big box’ cigarettes. While overall yields have continued to rise since 2014, issues such as front-loading (spurred by regulatory deadlines) and projected decreases in smoking prevalence have created uncertainty. In this environment, the Revenue Commissioners have previously indicated that further increases in excise duties may not lead to increased revenue yields.

Due to Covid 19 the forecasts have been revised downwards, with 2020 receipts of €1,175.4m now forecast. In the year to end August, receipts are €26m ahead of target against this revised forecast. However it remains unclear to what extent the COVID-19 crises may impact on future receipts.

2.4 Illicit Tobacco Market

PREVALENCE

IPSOS MRBI conduct an annual survey, on behalf of the Revenue Commissioners and the National Tobacco Control Office of the HSE, with the aim of estimating the extent of the non-Irish duty paid tobacco trade in Ireland. The most recent survey[7] indicates that 24 million of cigarette packs consumed in the State in 2019 were illicit.

The total cigarette consumption in Ireland in 2019 is estimated to be 3.3 billion (164 million packs). At an illicit rate of 15%, approximately 484 million illegal cigarettes are consumed in Ireland.

The resulting consumption of illegal cigarettes represents a notional loss to the Exchequer of approximately €242 million in 2019 (Excise & VAT, an increase of €31m from 2018). This is viewed as a notional loss in Exchequer revenue as it assumes that the illegal cigarettes consumed displaced the equivalent full tax paid quantity of cigarettes, which is unlikely to be the case.

Table 10 below shows the survey findings since 2009 and the notional tax losses associated with the consumption of the volume of illegal cigarettes indicated by the survey.

[7] https://www.revenue.ie/en/corporate/documents/research/tobacco-surveys-2019.pdf

Table 10: Annual Illicit Tobacco Survey

Year	Illegal Cigarettes	Notional tax loss*
2009	16%	€285m
2010	15%	€249m
2011	15%	€258m
2012	13%	€240m
2013	12%	€212m
2014	11%	€214m
2015	12%	€192m
2016	10%	€170m
2017	13%	€229m
2018	13%	€211m
2019	15%	€242m

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

IPSOS MRBI has also been surveying the extent of the illicit market for RYO since 2013. It found that illicit RYO packs were 9% in 2016, 15% in 2017, and 21% in 2018 and then fell to 12% in 2019. This survey has a higher margin of error than the cigarette survey. Notably, the upward trend in the proportion of illicit RYO since 2016 actually reversed in 2019. It is important to note that the sample size of the survey doubled to 400 in 2019, which in all likelihood reflects the change in the survey results compared to previous years, and should present a more accurate result. According to Revenue, the notional loss to the Exchequer from 12% of illegal RYO packs in 2019 is €22m (Excise & VAT).

REVENUE ENFORCEMENT

Revenue seized approximately 13.4 million cigarettes with a value of approx. €8.6m in 2019. This compares to 68 million seized cigarettes with a value of approx. €41m in 2018. In addition Revenue seized 3,557 Kg of tobacco in 2019 and 1,915 kg in 2018. The quantity of cigarettes and tobacco seized since 2013 and the estimated value of those seizures is outlined in Table 11 below.

Table 11: Revenue seizures of illicit tobacco 2013 to 2020

	Cigarettes			Other Tobacco		
Year	No. of Seizures	Quantity	Estimated Retail Value	No. of Seizures	Quantity (kg)	Estimated Retail Value
2013	5,802	41m	€19m	1,086	4,203	€2m
2014	5,852	53m	€26m	1,014	9,824	€4m
2015	5,927	68m	€34m	1,227	2,364	€1m
2016	4,965	45m	€24m	1,137	1,527	€1m
2017	4,493	34m	€19m	1,277	1,768	€1m
2018	3,963	68m	€41m	1,376	1,915	€1m
2019	3,260	13m	€9m	1470	3,557	€2m
2020#	1,379	34.8m	€23.5m	692	6,234	€3.7m

#31st July 2020.

2.5 Non-Irish Duty Paid Cigarettes & Cross Border Comparison

NON IRISH DUTY PAID

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

The IPSOS MRBI survey has found that the level of non-Irish duty paid cigarettes has been broadly stable in the period 2016-2019 at 8-9%, while it was found to be 5-6% in the period 2015-2017. The survey also found that there is an increase in relation to non-Irish duty paid RYO products, from 3% in 2016 to 7% in 2019. (See Section 2.7 for EU proposals).

CROSS BORDER COMPARISON

The UK Government announced in Budget 2020 that it will continue to increase tobacco duties by 2% above the rate of inflation (based on RPI) each year until the end of the current parliament and for RYO by 6% above the rate of inflation (based on RPI) this year[8]. Table 12 below indicates the differential in price and duty in a 20 pack of cigarettes as measured by the Revenue Commissioners in August 2019[9].

[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf
[9] https://www.revenue.ie/en/corporate/information-about-revenue/research/surveys/crossborder-price-comparisons/cross-border-price-comparisons-august-2019.aspx

Table 12: Cross Border Comparison of Cigarette Prices and Taxes

Year	Price in this State	Price in N. Ire	Price Difference	Total Tax State	Total Tax NI	Tax Difference	€/£ exchange rate
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
2018	€12.20	€12.89	-€0.69	€9.56	€9.25	€0.31	0.8729
2019 (Aug)	€13.00	€13.47	-€0.47	€10.15	€9.45	€0.70	0.9166

There is little incentive to bring non-Irish duty paid cigarettes from Northern Ireland into the State as they remain cheaper here.

2.6 Minimum Excise Duty (MED)

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

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

The MED was then increased in Budget 2019. Currently the MED is set at €395.05 per 1,000 (equivalent to €7.90 per 20 pack or €11.85 per 30 pack). This equates to a price trigger point for the purpose of calculating Minimum Excise Duty (MED) of € 11.00 per 20 pack (i.e. a 20 pack costing less than €11.00 would be taxed as if it were priced at €11.00). The decision in Budget 2019 to increase the MED, allied to the general increase in tobacco excise duty, has ensured that there are no longer 20 pack cigarettes priced in or around €10. The lowest priced 20 pack cigarettes currently are €11.50. A small number of 'big box' cigarette packs are currently priced below the MED trigger price point.

Those who purchase the cheapest cigarettes are the most price sensitive consumers and a risk directly associated with increasing the MED is that it may spur increased consumption of illicit and non-Irish duty paid cigarettes. The increase in the MED in 2018 was a significant one and few cigarette packs are currently priced below a trigger price point where the MED is relevant. This suggests that the risks of increasing the MED may be greater than any benefits.

2.7 Tobacco Products Tax Directive and Novel Products

The taxation of tobacco products is governed by the Tobacco Products Tax Directive 2011/64/EU. The Directive aims at ensuring the proper functioning of the internal market and, at the same time, a high level of health protection and to fight against tax fraud, tax evasion and illegal cross border shopping.

This 2011/64/EU Directive has been reviewed by the European Commission and an Evaluation Report[10] on the Directive was published by the Commission in February 2020. The Report notes that large price gaps between Member States, (the average price of a pack of cigarettes can range from €2.57 to €11.37) can provide an economic incentive for unintended high levels of cross border shopping, particularly from low excise Member States by residents of high excise Member States.

The Report also highlights that the emergence of new products, such as e-cigarettes, heated tobacco products and new addictive products reveal the limits of the current legal framework. The evaluation notes that a more comprehensive legal framework is required to take on board all aspects of tobacco control including public health, taxation, the fight against illicit trade and environmental concerns.

The Department of Finance view is that tax policy in relation to novel products such as e-cigarettes and heated tobacco products may be best addressed in the context of the revision to the Tobacco Products Tax EU Directive. Nevertheless, the Department is aware that heated tobacco products are authorised for sale in the State and should any such products launch in the Irish market in advance of any EU legislative developments they will be subject to tobacco products tax at the lower rate applicable for "other smoking tobacco" (currently €273.903 per kilogram).

The Department notes that the current public health policy position on e-cigarettes in Ireland is informed by advice from the Health Information and Quality Authority (HIQA) in its 2017 Health Technology Assessment of Smoking Cessation Products and Services. In relation to the safety of e-cigarettes the HIQA assessment concluded that this remains an evolving area of research; while potentially safer than smoking, evidence on long-term safety has yet to be established. In relation to e-cigarettes as an aid to smoking cessation HIQA advised the Minister for Health as follows: "*Although the currently available results for e-cigarettes are*

[10] https://ec.europa.eu/commission/presscorner/detail/en/mex_20_226

promising, there is insufficient evidence at present to reliably demonstrate their effectiveness as an aid to smoking cessation."

The Department understands that the Health Research Board is currently reviewing the evidence in relation to the health harms of e-cigarettes, their effectiveness as an aid to smoking cessation and whether they act as a gateway to smoking tobacco products. The evidence review was expected to be completed in April 2020 and was intended to inform a public health policy position on e-cigarettes. However due to COVID-19, this report has been delayed. The Programme for Government calls for a targeted taxation regime to specifically discourage "vaping" and e-cigarettes.

2.8 Budgetary Options

Table 13 below (which assumes no increase in the MED) indicates the effects of increasing various levels of duty on cigarettes (with pro rata increases on other tobacco). It also indicates the additional yield from an additional 50% duty increase on RYO on top of the pro rata increase on RYO.

Table 13: Budgetary Options and Estimated Yield

Increase (per pack of 20 cigs)	Yield	Additional for 50% on RYO	Total Yield
10c	€11.2m	€0.3m	€11.5m
20c	€22.3m	€0.6m	€22.9m
30c	€33.3m	€1.0m	€34.3m
40c	€44.3m	€1.3m	€45.6m
50c	€55.3m	€1.6m	€56.9m
60c	€66.1m	€1.9m	€68.0m
70c	€76.9m	€2.2m	€79.1m
80c	€87.7m	€2.5m	€90.2m
90c	€98.4m	€2.9m	€101.3m
100c	€109.0m	€3.2m	€112.2m

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

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BETTING TAX

3.1 Introduction

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

The purpose of betting duty is to raise revenues for the State and to account for the negative externalities generated from betting activities – that is, the social costs of problem gambling. While revenues raised from betting duty go directly to the Exchequer, these are partly used to fund the Health, Justice and Welfare systems which bear the costs of problem gambling. The existence of betting duty also has an ancillary role in raising awareness of the risks of problem gambling.

The UK Gambling Commission, in collaboration with Gamble Aware and the Responsible Gambling Strategy Board have developed a framework for measuring and tackling gambling related harms[11]. They were clear in their view that gambling is a public health issue. The areas which, in their view, currently have the potential to contribute to a social cost of gambling-related harms are:

- loss of employment
- experience of bankruptcy and/or debt
- loss of housing/homelessness
- crime associated with gambling
- relationship breakdown/problems
- health-related problems
- suicide and suicidality.

Research by the UK Institute of Public Policy Research (IPPR) suggests that the additional direct costs borne by the State mainly were:

- *health costs*: primary care (mental health services and hospital inpatient services)

[11] https://www.gamblingcommission.gov.uk/PDF/Measuring-gambling-related-harms.pdf

- *welfare and employment costs* (job seekers allowance costs and lost labour tax receipts)
- *housing costs* (statutory homelessness applications)
- *criminal justice costs* (incarcerations)

Initial baseline research on the incidence of problem gambling was undertaken by the Department of Health[12]. The main findings from this survey are that 0.8% of the population (15 years or older) can be categorised as problem gamblers, with young males aged 18 to 34 having the highest incidence of problem gambling (2.9%). This research is based on fieldwork carried out between August 2014 and August 2015 and therefore it is likely that it does not fully capture trends relating to betting with smartphones and any impacts this is having on the incidence of problem gambling.

3.2 Rates, Reliefs and Yield

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

Unlike other excisable commodities, there is no VAT applied on betting transactions. The current betting duty rate of 2% does not equate to the standard 23% VAT charge at the type of pay-out ratios that may be applied in the retail betting market. For example, at a pay-out ratio of 12.5%, the 2% betting duty rate is equivalent to a VAT rate of 16%.

There are long standing betting duty reliefs for on-course (horseracing and greyhound racing events) bets and for totalisator bets for or on behalf of Horse Racing Ireland and Bord na gCon. Budget 2020 introduced a further relief in the form of a tax credit of €50,000 available to all bookmakers and betting exchanges, to be applied on a single undertaking basis. This measure primarily benefits small independent retail bookmakers. The Department understands that betting shops of small independent bookmakers with less than 5 or 10 shops generate a turnover of about €1 million per shop per annum. On this basis, it can be seen from Table 14 below that the measure provides a substantial reduction from the 2% rate for small independent bookmakers.

[12] https://assets.gov.ie/9390/4a7763a56ab04a55899865e0926dae4b.pdf

Table 14: Illustration of benefits of €50,000 tax credit to small independent bookmakers

Single Bookmaker	2 shops	5 shops	8 shops
Assumed Turnover	€2 million	€5 million	€8 million
Betting Duty @2%	€40,000	€100,000	€160,000
Less: Tax Credit	€50,000	€50,000	€50,000
Betting Duty Liability	€0	€50,000	€110,000
Effective Duty Rate	0%	1%	1.37%

RECEIPTS

A breakdown of betting duty receipts from 2014 to 2019 is provided in Table 15 below.

Table 15: Breakdown of Betting Duty Receipts 2014 to 2019

Year	Retail Betting €	Online Betting €	Betting Intermediary €	Total €
2014	26,162,214			26,162,214
2015	27,744,245	3,003,066	316,452	31,063,763
2016	28,126,271	20,749,097	1,869,887	50,745,255
2017	28,956,966	21,421,353	1,836,847	52,215,166
2018	28,867,366	21,687,046	1,781,526	52,335,938
2019	51,889,431	40,622,117	2,501,108	95,012,656

Receipts of €95m for the year 2019 reflected the increase in rates and were in line with the forecast. Receipts with respect to betting activity that took place during 2019 were €113 million, more than doubling the €51 million take from betting activity that took place in 2018. As such following the commencement of the increase in betting duty rates announced in Budget 2019, betting turnover actually increased.

The retail betting market contributed approximately 55% of the total betting duty receipts in 2019. Similar to the UK, the retail betting market is highly concentrated with three firms holding the vast majority of licensed betting shops and potentially a significantly greater share of retail betting turnover. The online (including betting exchanges) contributed the remaining 45% of the total betting duty receipts in 2019. Thus betting duty and betting intermediary duty is overwhelmingly paid by a very small number of large firms.

3.3 Potential Impact of COVID 19

The public health crises began to significantly impact on the sector from early to mid-March. The closure of shops and mass postponement/cancellation of sports events since that point has left the sector in a challenging position. As an indicator, betting duty returns for July were €8.1m versus €26.9m for July 2019. However, betting duty receipts in the year to July are almost on a par with the same period in 2019 (€59.2m V €61.9m), reflecting high levels of betting prior to the effects of Covid taking hold in Ireland.

The sector, like others, is able to benefit from the wide range of Government support schemes which are detailed on the Department of Business Enterprise and Innovation's website, including working capital support, tax advice, the income support scheme for workers and has guidance for employers and employees[13].

Further, while it is anticipated that all betting firms will have been negatively affected by the current public health crises, they may not all be *equally* impacted. Large gambling firms with online gaming operations (online casinos, virtual sports betting, poker, lotteries, etc.) may well have seen major growth in online gaming revenues since the public health crises emerged (such activities are free from any betting duty or excise tax but are subject to VAT at 23%). On the other hand, smaller retail based operators who may be wholly or predominantly reliant on sports events for business do not have this diversification outlet and therefore are likely to be much worse affected over the course of the year.

It is useful to monitor events in the UK betting market given the similar market structure to Ireland (i.e. highly concentrated) and the cross-over in terms of firms operating in both markets and the sports events which generate many bets. The UK Gambling Commission has published some initial research on the effects of COVID-19 on the sector. (March 2020 v March 2019) and have noted that whereas the number of bets on real sports events decreased by 31%, the number of bets for virtual sports events increased by 40% while there was a 38% increase observed for online poker and 25% for slots. Caution needs to be exercised as the number of sports bets was boosted by Cheltenham taking place whereas the growth rates in some of the online gambling activities may be from a relatively low base. Nevertheless the general point is that large gambling firms may still have generated significant revenues while their betting shops were closed and while many sports events were postponed/cancelled. This is further indicated in the reporting or financial results by large gambling/gaming firms operating in the Irish market.

Following the recommencement of sports events across the globe, there are also indications of online bookmakers profiting from a release of pent-up demand for sports betting: data provided by the main UK operators to the UK Gambling Commission showed Gross Gambling

[13] https://dbei.gov.ie/en/What-We-Do/Supports-for-SMEs/COVID-19-supports/Government-supports-to-COVID-19-impacted-businesses.html

Yield (GGY) increased by 115% for online real event betting between May and June (rising to £217.5m), with GGY higher during June than at 'average' pre-lockdown levels.

Following the publication of new evidence that shows some gamblers may be at greater risk of harm during lockdown, the UK Gambling Commission has also issued new guidance to online operators in order to ensure that consumers are further protected.

3.4 Budgetary Options

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

Increasing the betting duty rate by 0.25% is estimated to raise €8m in 2021 and €11m in a full year (betting duty is paid quarterly in arrears). A commensurate increase of 3.13% in the betting intermediary duty rate is estimated to raise €0.2m in 2021 and €0.3m in a full year. These estimates are based on the betting market returning to or towards normal in 2021 and that take no account of behavioural changes either amongst providers or consumers of betting services. Simultaneously increasing the quantum of relief from €50,000 to €65,000 per firm would reduce all of the above numbers by approximately €1m in 2021.

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

The proposal to simultaneously increase the quantum of tax relief from €50,000 to €65,000 per firm would principally benefit small independent retail bookmakers whose turnover in 2021 is in excess of €2.5 million[14].

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

Table 16 below provides an illustration of the impacts on 3 firms - with turnover levels of €5m, €25m and €750m, respectively - with 2019 used as the comparison year as that is the year when the 1% betting duty increase was applied. It shows that the betting duty liability of a betting firm with a turnover of €25m is equivalent in 2019 to what it would be in 2021 should the duty relief be increased to €65,000 and the duty rate by increased by 0.25%.

[14] Currently the effect of the €50,000 relief is that no betting duty is liable for a firm with turnover of up to €2.5m (50,000/2%), while the effect of a €65,000 relief at a rate of 2.35% is that no betting duty is liable for a firm with turnover of up to €2.89m (65,000/2.25%).

Table 16: Comparison of betting duty liability for different size firms: 2019 Vs possible 2021 option

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

2021 (Option 2)	€m	€m	€m
Turnover	5.00	25.00	750.00
Betting Duty @2.25%	0.11	0.56	16.88
Less: Tax Credit	0.065	0.065	0.065
Betting Duty	0.05	0.50	16.81

The issue of course is whether turnover levels of betting firms – at least on the activities which are subject to betting duty - will return to or towards "normal" in 2021.

Appendix 1: Breakdown of betting rates & receipts from 1996 to 2020

Year	Rate	€m
1996	10%	51.6
1997	10%	57.8
1998	10%	67.1
1999	5%	67.8
2000	5%	58.9
2001	5%	68.1
2002	2%	48.0
2003	2%	38.4
2004	2%	45.6
2005[15]	2%	45.8
2006	1% payable by industry	54.3
2007	1%	36.4
2008	1%	36.7
2009	1%	31.0
2010	1%	30.9
2011	1%	27.1
2012	1%	27.1

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

2013	1%	25.4
2014	1%	26.2
2015 (1 August)	1% bookmakers & 15% intermediaries comm.	31.1
2016	As above	50.7
2017	As above	52.2
2018	As above	52.3
2019	2% on bookmakers & 25% on intermediaries comm.	95.0

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