Excise duty: structure and rates applied on manufactured tobacco

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The Commission is obliged to examine every four years, under terms set out in Council Directive 92/79/EEC on the approximation of taxes on cigarettes, the smooth operation of the single market for tobacco as well as the real value of excise-duty rates. In preparing this report particular attention has been given to the health aspects associated with tobacco use.

More specifically, the report examines a number of possible changes to the current structure of excise duties on cigarettes and examines whether the concept of the most popular price category (MPPC) could be abolished as a benchmark for minimum requirements. In addition it scrutinises whether greater flexibility could be developed, as well as the set level of minimum excise duties on cigarettes. The report also covers the issue of the structure and minimum rates of excise duties on other manufactured tobacco than cigarettes and fine-cut tobacco (cigars, cigarillos and other smoking tobacco (mainly pipe-tobacco).

The review of the structure and rates of excise duty on manufactured tobacco products states that a number of important amendments to the existing legislation are necessary:

- with a view to more transparency of the arrangements and in order to create a level playing field across the tobacco sector, the MPPC (the most popular price category) should be replaced as a reference point for EU minimum requirements by weighted average prices (WAP). In order to underscore health objectives it should be combined with a monetary minimum applicable to all cigarettes. WAP should also be the reference for measuring the importance of specific excise duty within the total tax burden(Article 16(2) of Directive 95/59/EC);
- Member States should be allowed greater flexibility as concerns the structure of excise duties on cigarettes;
- the introduction of a combination of a proportional minimum and a monetary minimum for fine-cut would be an appropriate way to align taxation on cigarettes and fine-cut tobacco;
- as far as cigarettes are concerned, from a health perspective an increase in the minimum duties over the next five years to EUR 90 on all and 63% on WAP would trigger a probable decrease of demand of 10%. Furthermore, it would reduce the gap in taxes and prices within the Internal market;
- the minimum rates on fine-cut tobacco should be adjusted to two thirds of the rate for cigarettes and should be increased in parallel with the excise duties on cigarettes;
- measures to approximate the excise duties on cigarettes in the Internal Market should be combined with a reinforcement of the fight against illicit trade, in particular from thirds countries;
- lastly, the existing definitions of cigars and pipe tobacco should be amended in order to eliminate tax distortions and the minimum rates adjusted for inflation.