

**General Excise Duties**  
**(Tobacco and Alcohol Products)**

1. The purpose of this paper is to outline the situation in relation to excise duty rates imposed on tobacco and alcohol products. Issues pertaining to VRT and Mineral Oil Tax are being dealt with separately.

**Receipts from Excise Duties**

2. Receipts from excise duties on tobacco and alcohol products totalled €2,180 million in 2006. The table below shows the full 2006 figure by category and the breakdown for the first nine months of 2007 compared to the same period in 2006:

	2006 YIELD	2007 RECEIPTS TO END-SEPT €M	€M +/- OVER SAME PERIOD IN 2006
Tobacco Products	1,103	676	49
Alcohol	1,077	788	22

**Changes in Excise Rates in recent years**

3. There was a **50 cent (inclusive of VAT) increase in tobacco Excises in Budget 2007**. The last previous increase was in Budget 2004, when an increase in excise duty of 25 cent per packet of 20 cigarettes was implemented.
4. The excise duty on **beer and wine** has remained **unchanged** since the Budget of January 1994. Duty on **cider was increased in Budget 2002 and that on spirits** was increased in Budget 2003.
5. Unless excises are increased periodically, their value as a percentage of the selling price and their real value declines. This is particularly true for alcohols, where trade price increases happen regularly. As regards tobacco however, in contrast to alcohol, excise increases since 1994 have been well in excess of the CPI.

**Cross-Border price and tax differentials across all products**

6. Traditionally, excise products have been subject to some cross-border competition. The Revenue Commissioners carry out a regular cross-border comparison of prices for excisable commodities in some of the major outlets in both Dublin and Newry. The table in Annex 1 illustrates key comparisons of prices of certain items, from the most recent survey conducted in August. All prices quoted for items sold in both the State and in Northern Ireland are expressed in euro. The prices quoted are those which would be charged to a resident of the State. From that viewpoint, all alcohols (except still wine) are cheaper in Northern Ireland. Cigarettes are cheaper here.

## TOBACCO

7. The current excise duty on cigarettes is €151.37 per 1,000, together with an amount equal to 17.78 per cent of the retail price. For example, in the case of a packet of 20 Benson and Hedges cigarettes, the excise content is €4.28, which equates to around 61% of the retail price. When one takes account of VAT, total tax as a percentage of price is 78%.
8. Excise increases were imposed on cigarettes, (with pro rata increases on other tobacco products) over the past number of years, as follows:

<b>Year</b>	<b>Amount of Duty Increase per pack of 20</b>	<b>Change in Consumption over previous year</b>
1997	9 cent	+2.7%
1998	13 cent	+2.4%
1999	6 cent	+6.9%
2000	63 cent	-0.3%
2001	4 cent	-1.1%
2002	13 cent	+ 3.6%
2003	50 cent	-10.3%
2004	25cent	-15.3%
2005	No change	+3.4%
2006	No change	+1.6%
2007	50 cent	-5.0% (est.)

9. Consumption was relatively stable at approximately 7 billion cigarettes a year from 1999 to 2002. Consumption fell by 10.3% in 2003 and 15.3% in 2004, following the excise duty increases of 50 cent and 25 cent respectively in December 2002 and December 2003. Consumption showed an increase of 3.4% in 2005 and 1.6% in 2006. However, a fall of 5% in consumption is expected in 2007.
10. The Minister for Health and Children wrote to the Minister for Finance in August 2006 on the topic of tobacco excise and stressed the need to increase the costs in real terms of tobacco each year and favoured the option of announcing a multi-annual policy in respect of tobacco excise. She cited the increase in consumption and stated that the most effective means of addressing the tobacco problem is through price increases designed to make tobacco less affordable in real terms. In addition, she highlighted that tobacco consumption among young people is particularly price sensitive.
11. In the intervening 14 months, Budget 2007 added 50 cent to the price of a packet of 20 cigarettes and in his Budget speech, the Tánaiste made reference to a 'plan for further increases in tobacco excises, so as to keep the level of tax increasing in real terms'. In addition, packets of less than 20 cigarettes were banned on 31 May 2007, in order to try and

discourage young people from commencing or continuing to smoke. It is likely that the Minister for Health and Children will seek a further substantial increase on a packet of 20 cigarettes in Budget 2008.

12. The current price of 20 cigarettes in the Most Popular Price Category is €7.05. Ireland, after the U.K., has the second-highest tobacco tax content on, and price for, cigarettes in the EU, being considerably higher than the next country, France (see Annexe 2 for details).
13. The estimated full year yield and the CPI effect of a range of duty increases in a packet of 20 cigarettes are as follows.

<b><u>Increase (VAT inclusive)</u></b>	<b><u>Annual Yield</u></b>	<b><u>CPI Effect</u></b>
<b>10 cent</b>	<b>€21.6m</b>	<b>0.07%</b>
<b>20 cent</b>	<b>€42.9m</b>	<b>0.14%</b>
<b>25 cent</b>	<b>€53.5m</b>	<b>0.17%</b>
<b>30 cent</b>	<b>€64.01m</b>	<b>0.20%</b>
<b>50 cent</b>	<b>€105.7m</b>	<b>0.34%</b>

14. In conclusion, it should be noted that the incentive for individuals to purchase cigarettes (and indeed alcohol) duty-paid when abroad is high and can be expected to increase in the event of future excise increases. In addition, the Office of the Revenue Commissioners and tobacco manufacturers both report an increase in the incidence of non-Irish duty paid product appearing within the State, at least some of which has arrived here a result of smuggling. With cigarette prices in some eastern EU Member States as low as €1 to €2 for a pack of 20, and existing derogations for 'new' EU Member States from requirements to meet the European minimum excise rates not due to expire until 2009, the balance between the potential to achieve health benefits associated with an increase in excise duty and any potential exacerbation of ongoing smuggling problems is a factor to be considered.

## ALCOHOL PRODUCTS

15. Excise duty receipts on the main alcohol products are as follows:

	€m 2006	€m 2007 Estimated
Beer	460.7	464.3
Cider /Perry	69.2	70.3
Spirits	338.0	361.5
Wine	209.2	225.3
Total	1077.1	1121.4

16. The relative taxation of alcoholic drinks in Ireland on the basis of representative products is as follows:

	Alcoholic Strength %	Excise per litre per degree of alcohol	Excise by reference to an alcohol product
Low-strength wine-based beverages*	5.1	€0.1784	25 cent per 27.5cl bottle
Cider	4.5	€0.185	47 cent per pint
Beer	4.2	€0.1987	47 cent per pint
Low-strength spirit-based beverages*	5.5	€0.3925	59 cent per 27.5cl bottle
Wine (Still)	12.5	€0.2184**	€2.05 per bottle
Spirits	40	€0.3925	€10.99 per bottle of whiskey
Wine (Sparkling)	12	€0.455**	€4.10 per bottle

\*Known in the trade as 'ready to drink' (R.T.D.) or 'alcopops'

\*\* The excise rate of duty for still wine is €2.73 per litre, for wine in the range of 5° – 15° alcoholic content. This means that the stronger the wine, the less is the relative taxation. The same applies to sparkling wine in that, where the alcoholic content is greater than 5.5%, the rate of taxation (at double that of still wine i.e. €5.46 per litre) per degree of alcohol decreases as alcoholic strength increases.

17. As stated above, excises on beer and wine have remained unchanged since 1994, while those on cider and spirits were increased in December 2001 and 2002 respectively. Ireland has the highest rates of excise in the EU for still and sparkling wine and the second highest for spirits and beer (see Annex 3). EU comparisons point to Ireland, UK, Sweden and Finland having considerably higher rates than other EU countries.

### **Consumption**

18. Data for consumption of alcohol products is set out in the following table. In broad terms the situation for 2007 is as follows:

**Beer:** Annual growth between 2000 and 2006 was mostly negative and a small increase of 1.5% is expected in 2007.

**Cider:** Following an 87% Budget increase in 2001, clearances fell by around 11% initially but modest growth in consumption continues and growth of around 3.0% is expected for 2007, bringing consumption back to pre-2002 levels.

**Spirits:** Consumption fell by over 20% in 2003, following a 42% Budget increase. Consumption growth has increased since then and growth of 6.5% is expected in 2007.

**Wine:** Showing consistent growth in consumption. Growth of 7% estimated.

**Spirit-based Alcopops:** Clearances decreased by almost 39% following a 98% increase in Budget 2002. 2005 saw a rise of 36%, but a decrease of 15% is expected for 2007.

### Yearly growth rates by alcohol products since 1995

Year	<b>BEER</b> Yearly growth rate	<b>CIDER</b> Yearly growth rate	<b>SPIRITS</b> Yearly growth rate	<b>WINE</b> Yearly growth rate
1996	5.8%	11.7%	10%	20.8%
1997	3.8%	14.3%	5.1%	8.7%
1998	4%	14.1%	4.8%	16%
1999	1.9%	16.9%	14.2%	14.1%
2000	-0.8%	15.7%	12.5%	10.5%
2001	0.4%	10.9%	3.5%	12.4%
2002	-0.5%	-11.3%	5.2%	12.8%
2003	-2.5%	1.1%	-20.1%	8.1%
2004	-0.9%	2.0%	2.8%	14.3%
2005	0.3%	4.5%	2.4%	4.0%
2006	-0.3%	3.7%	5.0%	7.2%
2007 (est)	1.5%	3.0%	6.5%	7%

### Retail Price Movements

19. Because of successive price increases by the trade, and the specific rather than ad valorem nature of the duties, the value of excise duty rates on beer and wine (when measured as a percentage of retail prices) has fallen significantly over the period since the last general round of rate increases, in 1994:

Beer / Wine	Excise (€)	Excise % of Price 94	Excise %, of Price Mid 07
<b>(a) Bar</b>			
Pint Stout	0.47	20.2%	12.3%
Pint lager	0.47	18.2%	11.2%
<b>(b) Off-Licence</b>			
Btl lager (33cl)	0.28	23.7%	16.9%
Btl Table Wine	2.05	30.5%	22.8%

20. Even taking account of VAT, the trend is still very clear. For example, for beer, the tax content (excise and VAT) as a percentage of price has fallen from 37% to around 29% since 1994. Due to duty increases in cider and spirits over the same period, a similar comparison shows tax content remaining similar for those products.

**Some National Issues**

21. From a health perspective, the second report of the Strategic Task Force on Alcohol (September 2004) recommended that excise duty on alcohol be increased *‘with a view to reducing overall consumption and related harm’*, but the preferred level of increases were not specified. The Drinks Industry Group, however, have previously stated that tackling alcohol abuse through high excise rates is not the appropriate policy response to this problem.

22. Low Strength Beer: It is likely that the Minister for Health and Children will approach the Tánaiste, requesting a reduced excise rate for low strength beers. In Ireland, typical beer strength is 4.2% abv (alcohol by volume) and very little low strength product (up to 2.8% abv) is on sale here to date. However, the Brewing sector has been actively testing the potential viability of introducing more low strength beer into the Irish market. During March 2006 Diageo launched a draught Guinness at 2.8% abv on a pilot basis in the Limerick area without any price discount. XX  
XX  
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23. A pre-Budget submission from the Drinks Industry Group of Ireland (DIGI) seeks ‘no increase in alcohol taxation in 2008’ and states that ‘over the medium term...the gap between alcohol taxation in Ireland and most other EU economies will have to be narrowed’. If, for example Irish rates were to be brought in line with UK rates (the UK having excise rates nearest our own within the EU), a number of reductions would be required, generating a cost close to €110m. See following table.

**Irish/UK current excise rates on typical alcoholic products & costs associated with alignment:**

Product <i>(For comparative purposes only)</i>	Irish Rate €	UK Rate €	Change required	Estimated Cost (inc. VAT) €m
Beer (Pint 4.2%)	0.47	0.48	+0.01	8.45
Cider (Pint 4.5%)	0.47	0.22	-0.25	-29.05
Wine (Bottle 12.5%)	2.05	1.97	-0.08	-13.0
Sparkling Wine (Bottle 12.5%)	4.10	2.52	-1.58	-4.0
Spirits (1/2 glass)	0.56	0.41	-0.15	-63.1
<b>Total Cost</b>				<b>-100.7</b>







**CROSS BORDER SURVEY, AUGUST 2007**

**Table 1: Comparison of prices of Excisable Products  
(noting Excise and VAT differences between Ireland & UK)**

Item	€ Price In		€ Excise & VAT		€ Difference in Actual Price between N.I. and State
	State	N.I.	State	N.I.	
Stout (per can)	1.90	1.71	0.75	0.69	0.19 Dearer in State
Lager (per can)	1.78	1.59	0.81	0.75	0.19 Dearer in State
Whiskey (bottle)	24.94	20.82	15.32	11.19	4.12 Dearer in State
Vodka (bottle)	21.45	15.49	14.02	9.89	5.96 Dearer in State
Wine (Chard)	7.94	8.92	3.43	3.30	0.98 Cheaper in State
Sparkling Wine	13.49	11.84	6.44	4.28	1.65 Dearer in State
Cigarettes (20)	7.05	8.08	5.50	6.19	1.03 Cheaper in State

All prices are in euro, using an exchange rate of 1 euro = 0.6773 sterling

## Annex 2

**Table 2: EU Comparisons of MPPC, Retail Price and Excise content**

Current most popular price category, retail price and excise content in Euro:					
Order	Member State	Retail Price Per 1,000 cigarettes	Excise Content per 1,000 cigarettes	Retail Price Per packet of 20	Excise Content per pack of 20
1	United Kingdom	401.24	248.55	8.02	4.97
2	<b>Ireland</b>	<b>352.50</b>	<b>214.04</b>	<b>7.05</b>	<b>4.28</b>
3	France	250.00	160.00	5.00	3.20
4	Sweden	235.76	122.42	4.72	2.45
5	Germany	235.29	140.72	4.71	2.81
6	Denmark	214.56	114.57	4.29	2.29
7	Finland	210.00	120.13	4.20	2.40
8	Netherlands	200.00	114.00	4.00	2.28
9	Belgium	188.25	114.59	3.77	2.29
10	Malta	180.53	109.80	3.61	2.20
11	Italy	170.00	99.45	3.40	1.99
12	Austria	170.00	99.79	3.40	2.00
13	Luxembourg	152.00	88.04	3.04	1.76
14	Portugal	150.00	92.83	3.00	1.86
15	Cyprus	143.06	84.47	2.86	1.69
16	Greece	140.00	80.50	2.80	1.61
17	Spain	120.00	76.60	2.40	1.53
18	Slovenia	110.00	64.00	2.20	1.28
19	Czech Rep.	99.87	58.07	2.00	1.16
20	Romania	76.37	41.51	1.53	0.83
21	Poland	73.85	45.30	1.48	0.91
22	Hungary	73.68	49.93	1.47	1.00
23	Slovakia	70.39	45.61	1.41	0.91
24	Estonia	67.43	35.11	1.35	0.70
25	Bulgaria	58.80	35.08	1.18	0.70
26	Lithuania	54.30	27.26	1.09	0.55
27	Latvia	46.70	26.04	0.93	0.52
	<b>Average</b>	<b>157.21</b>	<b>92.90</b>	<b>3.14</b>	<b>1.86</b>

\*Source: EU Excise tables of 1 July 2007.

**Table 3: Alcohol Excise in EU Member States (high to low) @ 1<sup>st</sup> July 2007**

	<b>Beer</b> € per hectolitre per degree of alcohol		<b>Wine (Still)</b> € per hectolitre of product		<b>Wine (Sparkling)</b> € per hectolitre of product		<b>Spirits</b> € per hectolitre of pure alcohol	
1	UK	20.22	<b>Ireland</b>	273.00	<b>Ireland</b>	546.01	Sweden	5,373.19
2	<b>Ireland<sup>2</sup></b>	19.87	UK	262.56	UK	336.31	<b>Ireland</b>	3,925.00
3	Finland	19.45	Sweden	236.61	Sweden	236.61	UK	2,885.38
4	Sweden	15.75	Finland	212.00	Finland	212.00	Finland	2,825.00
5	Slovenia	6.86	Denmark	82.34	Netherlands	201.24	Malta	2,329.37
6	Denmark	6.83	Estonia	66.47	Belgium	161.13	Denmark	2,011.48
7	Italy	5.88	Netherlands	59.02	Germany	136.00	Belgium	1,752.24
8	Austria	5.00	Belgium	47.10	Denmark	123.37	Netherlands	1,504.00
9	Hungary	4.91	Lithuania	43.44	Czech Rep.	82.72	France	1,450.00
10	Cyprus	4.86	Latvia	43.10	Estonia	66.47	Germany	1,303.00
11	Poland	4.33	Poland	34.34	Slovakia	64.20	Poland	1,148.76
12	Netherlands	4.28	France	3.40	Hungary	44.36	Greece	1,090.00
13	Belgium	4.27	Hungary	0.00	Lithuania	43.44	Luxembourg	1,041.16
14	Estonia	3.71	Austria	0.00	Latvia	43.10	Austria	1,000.00
15	Slovakia	3.35	Germany	0.00	Poland	34.34	Estonia	971.46
16	Portugal	3.00	Greece	0.00	Romania	34.05	Portugal	956.83
17	Greece	2.83	Spain	0.00	France	8.40	Czech Rep.	936.79
18	France	2.60	Italy	0.00	Greece	0.00	Lithuania	926.78
19	Spain	2.27	Luxembourg	0.00	Spain	0.00	Latvia	905.17
20	Czech Rep	2.12	Portugal	0.00	Italy	0.00	Hungary	858.15
21	Lithuania	2.03	Cyprus	0.00	Luxembourg	0.00	Spain	830.25
22	Luxembourg	1.98	Slovenia	0.00	Portugal	0.00	Italy	800.01
23	Germany	1.97	Slovakia	0.00	Cyprus	0.00	Slovakia	756.99
24	Bulgaria	1.92	Bulgaria	0.00	Bulgaria	0.00	Romania	750.00
25	Latvia	1.87	Czech Rep.	0.00	Slovenia	0.00	Slovenia	694.79
26	Malta	1.87	Malta	0.00	Malta	0.00	Cyprus	606.90
27	Romania	1.87	Romania	0.00	Austria	0.00	Bulgaria	562.43
	<b>EU Average</b>	<b>5.77</b>	<b>EU Average</b>	<b>50.49</b>	<b>EU Average</b>	<b>87.91</b>	<b>EU Average</b>	<b>1,488.70</b>
	<b>EU Minima</b>	<b>1.87</b>	<b>EU Minima</b>	<b>0.00</b>	<b>EU Minima</b>	<b>0.00</b>	<b>EU Minima</b>	<b>550.00</b>

<sup>2</sup> When applying these rates to product offerings, the Irish excise content of a pint of stout is 47 cents, €2.05 for a bottle of wine, €4.10 for a bottle of sparkling wine and €10.99 for a bottle of whisky