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The Fiscal Meaning of Price Tobacco in the European Union

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Abstract

The aim of the article was shown the purpose of tobacco taxation and influence price tobacco on the budget revenue in the European Union. The empirical part has been prepared with official reports of the OECD and the WHO. Analyses show that in the EU countries the high excise taxes revenue in total tax revenue have achieved the countries with low prices tobacco Among the countries of the European Union countries "old EU" apply on average higher tax rates levied on cigarettes. In contrast, comparing the share of taxes included in the price of a pack of cigarettes countries "new EU" achieve a higher total tax burden than the countries "old EU". The tax harmonization is associated with a significant increase in the level of tobacco taxation for the new member countries EU and in the coming years will be followed a process of further harmonize of tobacco taxation.

1. Introduction

Taxation of tobacco is one of the main sources of fiscal revenues in the member states of European Union. The specificity of tax structure and regulations make that the revenues from tobacco taxation are an efficient source of raising public funds. It consists primarily on a burden of tobacco excise duty and VAT. The indirect taxes imposed on tobacco are considered on the one hand as socially undesirable and on the other hand as the goods which are efficient source of increase the state budget. Tobacco is the subject to specific regulation of tax harmonization in the member states of European Union. The aim of the article was shown the purpose of tobacco taxation and influence price tobacco on the budget revenue in the European Union. Empirical data was taken from the OECD report "Consumption Tax Trends 2014: VAT / GST and Excise Rates, Trends and Administration Issues" and the report of the World Health Organization (WHO) "Report on the global tobacco epidemic, 2013".

2. The Purpose of Tobacco Taxation

The price of tobacco affects two indirect taxes. One of them is the VAT and other the excise duty. Indirect tax means that the economic cost of the excise duty charges the consumers, and not the entity obliged to calculate and pay the tax (Goettel, Lemmonier, 2011). An essential part of creating a tobacco prices, which is considered due to its specificity as a component of its cost, is excise duty. Excise duty is a selective tax on the sale levied on certain goods and services (Hines 2007). This is a specific tax because it applied only to certain goods, namely those characterized by a large share of consumer spending and the low price elasticity of demand (Oręziak 2005). This tax is called a tax levied on goods for everyday consumption of the population, for which production and

distribution of public authority had a monopoly in the past (Denek, Sobiech, Wolniak 2001). National governments (states) use excise to realizing their fiscal goal (Mączyński 2008). Often the size of the excise tax is the highest share of the final price of product. Therefore it can be concluded that the excise tax as a form of taxation is the government interference in the processes of consumption (Etel, Tyniewiecki 2012).

The aim of charging excise duty is to increase the tax burden on those areas of activity that society wants to limit. Therefore the introduction of excise duty is the restrictive goal, which the states are realizing. Additional tax burden are reducing the demand for chosen excise goods, i.e. tobacco, alcoholic beverages, petroleum products (Klimkowska 2009). In many cases, the excise goods consist of not high cost of raw materials and the production costs, but the harm to health is high, hence the excise tax is a very high part of the final price (Szyber 2007). Therefore, taxes on tobacco products should be taxed more than the other good.

Excise taxation on tobacco is very strong nowadays. In many cases the level of taxation is reflected the increase in tax revenue, which is its economic justification due to lack of close substitutes for these goods and their low price elasticity of demand (Cnossen 2010). It is not only convenient source of budget revenues, but also it shows the external costs of excise goods which producers and consumers of excise goods, including tobacco, impose on other people. Therefore, the economic costs of tobacco consumption are problems that can be corrected by their selective taxation, and by other regulatory instruments (Cnossen 2005).

In summary, tobacco products on the one hand are forming a significant source of budget revenues, on the other hand are forming the negative effects of social costs related to the costs tobacco addiction. Therefore excise tax realizes fiscal and non-fiscal functions of taxation.

2.1. The Harmonization of Tobacco Taxation in the European Union

Council Directive 2011/64 / EC of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco (Official Journal of the European Union L 176/24 of 5.7.2011) sets out the general principles for the harmonization of the structure and rates of excise duty, which is imposed by Member States of the European Union on tobacco products. Tobacco products, in accordance with Directive, are divided into three categories:

- Cigarettes,
- Cigars and cigarillos,
- Smoking tobacco, fine-cut tobacco for the rolling of cigarettes and other smoking tobacco.

In a special way rate was fixed excise tax for tobacco products, i.e. value-percentage tax rate. A percentage tax rate is referred as the maximum retail price (calculated and printed by the manufacturer or importer on a single package), while part of the value tax rate is the same for product regardless of their origin and properties (Litwińczuk 2008).

Part of the percentage tax rate is defined as the proportional excise duty (an ad valorem excise), while value tax rate is defined as a specific excise duty, which is calculated on the amount of the product.

The European Union in the context of harmonization legislation imposes minimum rates of excise duty on tobacco products for the Member States. In the case of cigarettes starting on January 1st 2014 the specific component of the excise duty shall not be less than 7,5% and not more than 76.5% of the total tax burden resulting from the aggregation of the specific excise duty and the proportional excise duty and value added tax (VAT) imposed on the weighted average retail selling price. Thus, Member States have to apply to cigarettes minimum consumption taxes. This tax includes the specific excise duty on the amount of product and a proportional excise duty calculated on the basis of the maximum retail selling price plus VAT proportional to the retail selling price. The total excise duty on cigarettes shall represent at least 60% of the weighted average retail selling price of cigarettes released for consumption. That excise duty shall not be less than EUR 90 per 1000 cigarettes irrespective of the weighted average retail selling price. Bulgaria, Estonia, Greece, Latvia, Lithuania, Hungary, Poland and Romania may apply a transitional period relating to the above provisions by 31 December 2017. (Article 8 -10 directive on the structure and rates of excise duty applied to manufactured tobacco).

EU Commission imposed also rules to regulate the tax rates of excise duty relating to tobacco products other than cigarettes. In this case, a specific excise tax can be calculated on a proportional basis of the maximum retail selling price of each product, specific tax expressed as an amount per kilogram or 1,000 units or a combination of proportional tax rate with a specific tax rate. Regarding the tax rates on those tobacco products total excise duty must be at least equivalent to the rates or minimum amounts laid down for:

- Cigars or cigarillos: 5% of the retail selling price, inclusive of all taxes, or EUR 12 per 1000 items or per kilogram,
- Fine-cut tobacco intended for the rolling of cigarettes: 40% of the weighted average retail selling price or EUR 40 per kilogram,
- Other smoking tobacco: 20% of the retail selling price, inclusive of all taxes, or EUR 22 per kilogram. (Art. 14 and 15 of the Directive on the structure and rates of excise duty applied to manufactured tobacco).

EU Member States had to adapted the national legislation relating to the taxation of tobacco products to EU regulations.

2.2. An Analysis of the Structure of Taxation of Cigarettes in the European Union

In the empirical part of the article was analyzed the level and structure of taxation of cigarettes in the European Union. For the analysis were used data from the OECD report "Consumption Tax Trends 2014: VAT / GST and Excise Rates, Trends and Administration Issues" and the report of

the World Health Organization (WHO) "Report on the global tobacco epidemic, 2013". Table 1 shows the structure of taxation on cigarettes in 2014 in EU countries belonging to

the OECD taking into account the specific excise duty rates, the proportional excise duty and VAT.

Table 1. The structure of taxation on the cigarettes in the EU countries belonging to the OECD in 2014.

	Cigarettes			VAT
	Specific excise per 1 000		Excise on value	
	National currency	USD	% of RSP (a)	%
Austria	35,00	46,48	42,00	20,00
Belgium	23,59	31,33	50,41	21,00
Czech Republic*	1190,00	60,84	27,00	21,00
Denmark	1182,50	210,48	1,00	25,00
Estonia*	46,50	61,75	34,00	20,00
Finland	28,00	37,18	52,00	24,00
France	27,66	36,73	64,25	20,00
Germany	92,60	122,97	21,87	19,00
Greece	80,00	106,24	20,00	23,00
Hungary*	12500,00	55,91	31,00	27,00
Ireland	241,83	321,16	8,72	23,00
Italy	9,08	12,06	58,50	22,00
Luxembourg	17,56	23,32	48,11	15,00
Netherlands	169,86	225,58	2,36	21,00
Poland*	206,76	65,43	31,41	23,00
Portugal	87,33	115,98	17,00	23,00
Slovak Republic*	59,50	79,02	23,00	20,00
Slovenia*	65,24	86,64	21,87	22,00
Spain	24,10	32,01	51,00	21,00
Sweden	1270,00	194,99	1,00	25,00
United Kingdom	176,22	275,34	16,50	20,00
Average EU	x	104,83	29,67	21,67
Average "new EU"*	x	68,26	28,05	22,17
Average "old EU"	x	119,46	30,31	21,47

* European Union countries after the enlargement in 2004

Source: own study based on the Consumption Tax Trends 2014: VAT / GST and Excise Rates, Trends and Administration Issues, OECD Publishing 2014

The data presented in Table 1 show that the taxation of cigarettes is varied in the European Union. In the case of cigarettes the average rate in the EU countries belonging to the OECD in 2014, taking into account the specific excise duty, tax rate was 104.83 USD per 1,000 pieces cigarettes, while the proportional tax rate was 29.67% of the maximum retail selling price. For both, the percentage and value tax rate was higher in the countries of the "old EU", i.e. before the enlargement of the EU in 2004. The highest cigarette percentage tax rate was recorded in France - 64.25%, while the highest value tax rate was in the Ireland - 321.16 USD. The lowest percentage tax rate was recorded in Denmark and

Sweden - 1%, while in the case of lowest value tax rate was in Italy - 12.06 USD. Given the average VAT rate in the EU countries the analyses was shown 21.67%, while the highest tax rate was reported in Hungary 27%, and the lowest was reported in Luxembourg - 15% (see Tab. 1).

In order to illustrate the total tax burden on pack of cigarettes, in Table 2 was presented the share of taxes in the average selling price of the pack of 20 cigarettes in the European Union in 2012. For this purpose was used World Health Organization report "Report on the global tobacco epidemic."

Table 2. The average selling price and the structure of taxation pack of cigarettes in the EU in 2012.

EU countries	Average national price for a pack of 20 cigarettes	Taxes as % of the average price			
		Specific excise	Excise on value	VAT	Total tax
Croatia	3,39	17,4	3	20	70,41
Luxemburg	5,37	8,01	48,09	15	71,1
Netherlands	6,55	49,59	7,57	15,97	73,13
Sweden	7,79	52,83	1	20	73,83
Germany	5,94	36,67	21,87	15,97	74,51
Austria	5,3	16,34	42	16,67	75,01
Romania	3,44	35,93	20	19,37	75,3
Italy	5,74	3,85	54,26	17,36	75,47
Cyprus	4,65	21,26	40	14,53	75,79
Lithuania	3	33,47	25	17,36	75,83
Portugal	5,15	37,57	20	18,7	76,27
Belgium	5,89	6,49	52,54	17,36	76,39
Slovenia	3,74	22,71	39,06	16,67	78,44

EU countries	Average national price for a pack of 20 cigarettes	Taxes as % of the average price			
		Specific excise	Excise on value	VAT	Total tax
Latvia	3,27	27,31	34	17,36	78,67
Denmark	6,68	57,67	1	20	78,67
Ireland	11,27	51,08	9,04	18,7	78,82
Spain	5,27	8,91	55	15,25	79,16
Estonia	3,56	29,57	33	16,67	79,24
Poland	3,47	29,57	31,41	18,7	79,68
Finland	6,11	9,13	52	18,7	79,83
Czech Republic	3,23	33,75	29,55	16,67	79,97
France	7,55	9,02	54,57	16,39	79,98
Slovak Republic	3,14	43,33	23	16,81	83,14
Greece	4,22	12,01	52,45	18,7	83,16
Hungary	3,12	31,84	31	21,26	84,1
Bulgaria	2,72	46,76	23	16,67	86,43
Average EU	4,98	28,16	30,90	17,57	77,78
Average "new EU"	3,39	31,08	27,67	17,67	78,92
Average "old EU"	6,35	25,66	33,67	17,48	76,81

*No data for Malta and the UK

Source: own study based on the Report on the global tobacco epidemic, WHO Publishing 2013

Among the EU countries (no data for Malta and the United Kingdom) the average share of taxes in the selling price pack of cigarettes was 77.78% in 2012., including the countries of the "new EU" was to 78.92%, and in "old EU" - 76.81%. The highest total tax burden of cigarettes was reported in Bulgaria - 86.43% and Hungary - 84.1%. The lowest total tax burden of cigarettes was reported in Croatia - 70.41% and Luxembourg - 71.1%. The structure of taxation pack of cigarettes in the European Union has the largest share of the proportional excise duty - 30.9%, the next is specific excise duty - 28.16% and VAT- 17.57%. Considering separately the countries of "new and old EU" situation is as follows: the largest share in the "new EU" has a specific excise duty and is formed at the height of 31,08%, the next is proportional excise duty - 27.67%, and VAT -17.67%. In contrast, in the "old EU" has the largest share of the proportional excise duty

and is formed at the height of 33,67%, the next is the specific excise duty - 25.66% and VAT - 17.48%.

Analyzing price of a pack of cigarettes in the EU countries, it can be seen that the average price is 4.98 USD per pack, while in the countries of the "new EU" - 3.30 USD per pack, and the "old EU" - 6.35 USD per pack. Among the countries studied, the highest average price was recorded in Ireland, i.e. 11.27 USD per pack, and the lowest in Bulgaria, i.e. 2.72 USD per pack of cigarettes.

2.3. An Analysis Budget Revenue from Tobacco Taxation in the European Union

In table 3 has shown excise taxes as % of total taxation in the EU countries in 2006-2012 and tax revenue from excise taxes in 2012.

Table 3. Excise taxes as % of total taxation in the EU countries in 2006-2012.

	2006	2007	2008	2009	2010	2011	2012	2012 do 2006	Revenue in billion euro w 2012
Belgium	5,00%	5,00%	4,70%	4,90%	4,90%	4,70%	4,60%	-0,40%	7,783
Italy	5,20%	4,80%	4,50%	4,90%	4,80%	5,00%	5,40%	0,20%	37,24
France	5,20%	5,00%	4,90%	5,10%	5,10%	5,10%	4,90%	-0,30%	45,167
Netherlands	6,40%	6,30%	6,00%	6,00%	5,90%	5,80%	5,50%	-0,90%	12,956
Sweden	5,90%	5,80%	5,80%	6,20%	6,10%	5,80%	5,90%	0,00%	10,587
Austria	6,10%	6,00%	5,80%	5,80%	5,80%	6,00%	5,80%	-0,30%	7,628
Germany	7,40%	6,80%	6,60%	6,80%	6,70%	6,70%	6,30%	-1,10%	65,83
Spain	6,10%	6,00%	6,60%	7,20%	7,00%	6,80%	6,60%	0,50%	22,187
Denmark	6,80%	6,60%	6,60%	6,80%	7,00%	7,10%	7%	0,20%	8,294
Portugal	9,60%	8,50%	8,30%	8,80%	8,60%	8,30%	8,20%	-1,40%	4,402
Hungary	9,00%	8,40%	8,30%	8,90%	8,70%	8,80%	9%	0,00%	3,439
Finland	8,40%	7,80%	7,70%	8,00%	8,30%	8,90%	8,90%	0,50%	7,517
Ireland	7,60%	7,60%	8,20%	9,60%	9,20%	8,90%	8,40%	0,80%	3,966
Luksemburg	10,70%	10,00%	9,80%	9,20%	8,90%	9,00%	9,10%	-1,60%	1,53
Malta	9,10%	9,70%	9,00%	8,80%	9,00%	9,20%	9%	-0,10%	0,208
United Kingdom	8,80%	8,80%	8,50%	10,00%	9,80%	9,50%	9,80%	1,00%	67,159
Cyprus	10,90%	9,20%	8,60%	9,10%	9,80%	10,10%	9,60%	-1,30%	0,603
Slovakia	9,90%	12,10%	9,20%	9,70%	10,40%	10,10%	9,80%	-0,10%	1,973
Slovenia	8,60%	8,70%	9,00%	11,00%	11,20%	11,20%	12,30%	3,70%	1,602
Czech Republik	10,20%	10,90%	9,50%	10,90%	10,90%	11,30%	11,30%	1,10%	6,042
Greece	7,90%	7,90%	7,20%	8,40%	10,50%	11,70%	10,70%	2,80%	7,023
Lithuania	10,00%	9,80%	10,10%	11,90%	12,10%	11,80%	10,50%	0,50%	0,943
Latvia	10,90%	9,40%	11,00%	13,90%	12,90%	12,30%	11,50%	0,60%	0,714
Romania	11,10%	10,50%	9,60%	11,80%	12,30%	12,30%	12,40%	1,30%	4,62

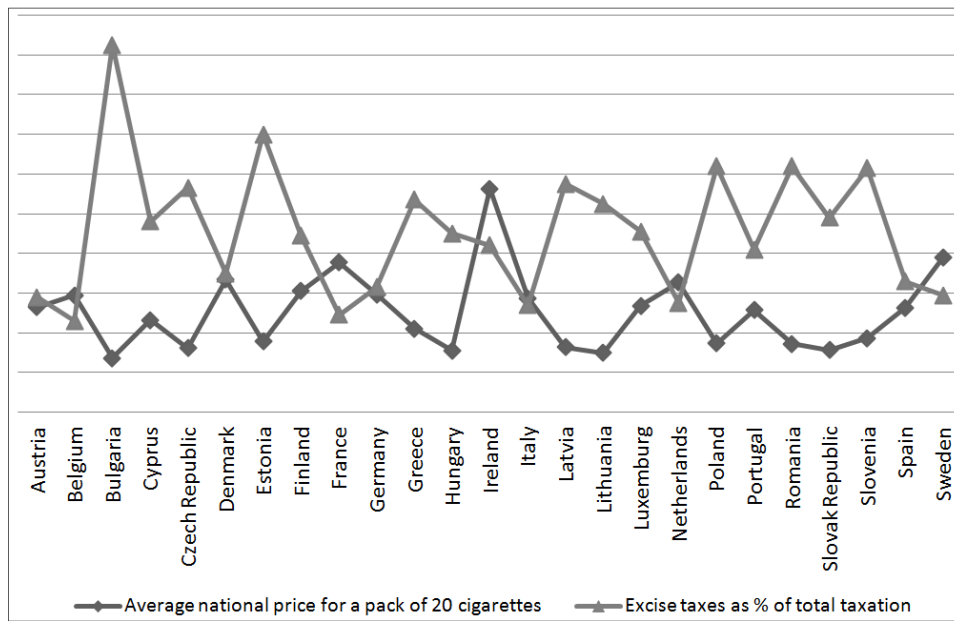
	2006	2007	2008	2009	2010	2011	2012	2012 do 2006	Revenue in billion euro w 2012
Poland	11,90%	12,00%	13,00%	11,90%	13,20%	12,80%	12,40%	0,50%	15,408
Estonia	11,10%	11,40%	10,40%	14,10%	12,70%	13,60%	14%	2,90%	0,791
Bulgaria	15,80%	17,40%	18,40%	18,80%	18,40%	18,90%	18,50%	2,70%	2,042
Average	8,70%	8,60%	8,40%	9,20%	9,30%	9,30%	9,20%	0,50%	12,876
Average "new EU"	10,71%	10,79%	10,51%	11,73%	11,80%	11,87%	11,69%	0,98%	3,199
Average "old EU"	7,14%	6,86%	6,75%	7,18%	7,24%	7,29%	7,14%	0,00%	20,618

Source: own study based on Taxation trends in the European Union, Eurostat Statistical Books, Belgium 2014.

Table 3 shows that the highest revenue from excise tax to the nationally budget among EU countries has achieved Bulgaria – 18.5% in 2012 and Estonia – 14% in 2012 and the lowest Belgium – 4.6% in 2012. Average revenue from excise tax to the nationally budget in EU countries was 9.2%. The “new EU” countries have achieved higher the share of excise taxes in total tax revenues i.e. 11.69% total tax revenue than “old EU” countries i.e. 7.14% total tax revenue.

Considering the value approach, countries of “old EU” receive on average six times higher budget revenues than the “new EU” countries. We also noted that the increase in excise duty in the new EU countries on cigarettes increases the share of excise taxes in total tax revenues.

In Graph 1 was shown the comparison excise taxes as % of total taxation and the average selling price pack of cigarettes in the EU in 2012.



Source: own study.

Graph 1. The comparison excise taxes as % of total taxation and the average selling price pack of cigarettes in the EU in 2012.

The comparison excise taxes as percent of total taxation and the average selling price pack of cigarettes in the EU in 2012 was shown that in the EU countries the high excise taxes revenue in total tax revenue have achieved the countries with low prices tobacco. The Pearson ratio has shown correlation -0,63695. The old EU countries which have the high price of cigarettes have lower share excise taxes in total tax revenue than the new EU countries with low price of cigarettes.

3. Conclusion

The analyses have shown that average revenue from excise tax to the nationally budget in EU countries was higher in the “new EU” countries than the “old EU” countries. Considering the value approach, countries of “old EU” receive on average six times higher budget revenues than the

“new EU” countries. We also noted that the increase in excise duty on cigarettes in the “new EU” countries increases the share of excise taxes in total tax revenues. We can see the large diversity of the price of tobacco products, i.e. pack of cigarettes is almost twice higher in the "old EU" countries than in the "new EU". The analyses have shown that in the EU countries the high excise taxes revenue in total tax revenue have achieved the countries with low prices tobacco. Comparing the share of taxes included in the price of a pack of cigarettes "new EU" countries have achieved a higher total tax burden on the pack of cigarettes than the "old EU" countries.

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