



THE TOBACCO INSTITUTE OF SOUTHERN AFRICA

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**SUBMISSION ON THE 'ORDINARY LEVY RATES AND MONETARY AMOUNTS AND
AMENDMENT OF REVENUE LAWS BILL, 2019' WITH SPECIFIC REFERENCE TO
EXCISE TAX PROPOSALS ON TOBACCO PRODUCTS
05 SEPTEMBER 2019**

The Tobacco Institute of Southern Africa (TISA) thanks the Standing Committee on Finance and the Select Committee on Finance for the opportunity to comment on the 'Ordinary Levy Rates and Monetary Amounts and Amendment of Revenue Laws Bill, 2019' with specific reference to excise duty rates for tobacco products in Schedule 2 - Part 2A of Schedule No. 1 to the Customs and Excise Act, 1964.

TISA fully supports the reasonable taxation of tobacco products, however, globally, it is widely accepted there is a direct correlation between increases in tobacco taxes and increases in the levels of illicit tobacco trade. The United Kingdom has some of the highest taxes on cigarettes and fine-cut tobacco (FCT) in the European Union, and tobacco products today are being sold at historically high prices. *The high costs of tobacco have turned many consumers to illicit products. On average, one in four cigarettes smoked in the U.K. does not yield tax revenue for the British government¹.*

An increase in taxes, and therefore an increase in the price to consumers of legal tobacco products, drives consumers to cheaper, illegal products. This is especially true when consumers are under extreme financial pressure, as they are in the current South African economy.

¹ Includes FCT cigarettes at 0.4g per stick. Source: HMRC tobacco tax gap tables

The scale of the illicit tobacco problem in South Africa is staggering. The most recent survey results (November 2018) by global research house Ipsos, show that South Africa is losing at least R8 billion annually in unpaid taxes. The minimum tax due on a pack of 20 cigarettes is R19.16. This is made up of R16.66 in cigarette excise tax and R 2.50 VAT on the excise tax. Ipsos established that, in the informal sector alone, sales of tobacco products below the minimum tax increased to 42% from 33%, between June and September 2018.

In addition to the fiscal losses to government, the crisis of a growing illegal trade also has a negative impact on the legal sector, and consequently, on the many contributions it makes to the economy. Any action or monetary policy which directly or indirectly incentivises the illegal trade (such as ramping up excise duties), will have a devastating impact on the total legal tobacco value chain, including commercial and emerging farmers in deep rural areas of our country.

The legal cigarette volumes in SA have declined by more than 22% in the past three years, which has, according to National Treasury, already resulted in lower duties collected by SARS. Concomitantly, tobacco farmers have already experienced a 15% decrease in the demand for leaf for over the past two years as a direct result of the illegal trade.

TISA herewith submits that until the illicit trade in tobacco and tobacco products in South Africa is brought under control, any increase in the excise duty rates on cigarettes would have an extremely negative impact on the government's ability to collect taxes as well as severely threaten the sustainability of the legal tobacco value chain in South Africa. We therefore request that excise rates on cigarettes are held at current levels for at least three years or until the illicit trade has been drastically reduced. We believe that by freezing the rates, SARS would actually collect more revenue in the form of taxes.

TISA reiterates its full support for the reasonable taxation of tobacco products and the Institute remains willing to meet with SARS and National Treasury to further discussions in this regard. TISA further remains committed to supporting SARS and other law enforcement authorities in the combat against the illicit tobacco trade.

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