

**Parliamentary Committees  
NCOP Committees  
National Treasury**

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Dear Sirs,

**RATES BILL 2022,  
TAXATION LAWS AMENDMENT BILL 2022  
TAX ADMINISTRATION LAWS BILL 2022**

We have pleasure in submitting our comments on the various Bills 2022. We have already made our submission on the taxation of e-liquids and electronic devices. We include only the recommendations of that submission at the end of this submission. This documents deals with taxation on tobacco products.

We would like to address the Committee on this submission. Please invite us to the public hearing scheduled for tomorrow 15 November 2022. Please advise the time allocated to us so that we can ensure punctuality.

**Remember that smoking KILLS**

**1. RECOMMENDATIONS**

**1.1. Increase the current excise by 20%**

NOTE: We recognise that there exists a serious problem with illicit trade in cigarettes in South Africa. The industry will argue that this is a factor of tax. It is NOT a factor of tax. Illicit trade is a CRMINAL activity and will occur even if the tax is zero.

**1.2. South Africa should ratify the Protocol on Illicit Trade in the FCTC.**

**2. MOTIVATION**

**2.1. Stats SA published this on 21 September 2022.**

Annual consumer inflation dipped to 7,6% in August from 7,8% in July.

**2.2. The proposed 5.5% increase on the excise portion only, is in itself, below inflation.**

- 2.3. The net effect on the retail selling price - - cost-to-consumer - - is counterproductive. Frightening, really. Because the excise is only about half of the cost of a pack of 20 cigarettes the proposed increase will result in the retail price increase being a long way below inflation. The proposed R1.03 increase in excise on the current Retail Selling Price of a pack of 20 cigarettes of say R40, is a paltry 2.57%. The RSP of the biggest selling brands is in fact closer to R45 per pack of 20. Even on the cheaper brands at say R25 RSP/20 the effect of the increase in excise is only 4.12% on the RSP. This is considerably below inflation. Cigarettes will, in effect, again become cheaper.
- 2.3.1. This reduction in cost to consumer will not reduce consumption or prevalence. Most importantly, it is likely to increase the uptake of smoking among teenagers because of the lower cost and affordability.
- 2.3.2. The long-term result will be that **disease, disability and death** will increase.
- 2.3.3. Public healthcare costs will increase
- 2.4. Of all the tools available to us to reduce the prevalence and consumption of tobacco products, the one which has the biggest effect, is using tax to increase the cost-to-consumer.
- 2.5. The tax must be used as a tool for improving public health. This means that the application of a tax system must make the products more expensive to the consumer. The following factors should be recognised. The principles are:
- 2.5.1. Apply a good tax system CONSISTENTLY ... every year – year after year . . .
- 2.5.2. So that the products become PROGRESSIVELY less affordable. That is, the retail selling price must become more and more expensive in real terms, for the consumer.
- 2.6. The annual increases in tax should not be predicated on a percentage of the tax itself. Increasing the tax itself at a rate higher than inflation has no significant effect on the overall increase in the cost to consumer. The increases in tax must be implemented in such a way that the effect is that the retail selling price/cost to consumer, increases by at least **the rate of inflation PLUS a minimum of 15%**, every year and year after year. The industry will control the RSP but a good tax system can force the prices to become continually less affordable. This will save lives.
- 2.7. In Australia the system increases the RSP annually by inflation plus 12.5%

## **Make the HEALTH Tax benefit Health.**

### **3. Conclusions**

We would like to see the tax do and achieve:

- 3.1. The system of taxing all tobacco products must at least comply with the Framework Convention on Tobacco Control (FCTC).
- 3.2. The industry will always argue to reduce the tax from whatever level you propose. They will fight it every year.
- 3.3. The system must be applied **CONSISTENTLY** every year to make tobacco products (which includes electronic devices in the new Tobacco Bill) **PROGRESSIVELY** less affordable.
- 3.4. Ensure that the tax achieves the two objectives of protecting public health (especially the youth) and providing income to the fiscus.

### **4. Vital Information to consider.**

- 4.1. This is a **Public Health matter**. Proper implementation of a tax system on all harmful products can save lives. It can prevent, or at the very least reduce the diseases, deaths and disabilities caused by these products. The benefit to the fiscus is that **expenditure on public healthcare is reduced**.

Should you wish to learn more about our organization, we would be delighted to send you short biographical information of all our Directors and our Experts Advisory Panel as well as a document titled "Who we are and What we Do".

Yours faithfully



C Peter Ucko  
CEO



For reference below are the recommendations only, which we submitted regarding the taxation of ENDS, ENNDS and e-liquids on 22 August 2022. The full submission should be on your files. I can provide it as necessary.

## **1. Recommendations**

- 1.1. Set the level of taxation of liquids at not less than **R5.00 per ml – but - with a Minimum tax of R50 per item/unit. (see 3.10 below)**
- 1.2. ADD a section to Tax electronic type devices.

We do not suggest a mechanism. We doubt that an *ad valorem* tax will work well. We propose that the effect of the system of taxing devices that you decide to apply, will result in a tax being not less than 50% of the retail selling price. See below regarding the importance of affordability. (see 4.3 below)
- 1.3. Define devices. Include all ENDS, ENNDS, Heated products and any device or mechanism that simulates, mimics, replaces or is otherwise used or in any way related to or connected with smoking.
- 1.4. For information we provide below some details that are in the current Tobacco Control Bill, with a few changes.
- 1.5. We suggest these definitions:
  - 1.5.1. **"component"**—(a) in respect of a tobacco product, whether or not sold separately from the product, includes but is not limited to such parts as the paper, filter, plug wrap and tube; and  
(b) in respect of an electronic delivery system or any other delivery system, whether or not sold separately from the system, includes but is not limited to the cartridge, cartomiser, clearomiser, tank system, drip tip, mouthpiece, atomiser, any item used with or inserted into the electronic delivery system, internal power source, external power source, part, any software, liquid solution, whether containing nicotine or not, and any source of flavourings or other substances;
  - 1.5.2. **"electronic nicotine delivery system"** means an electronically operated product or other device or component or kit for assembly, designed to deliver an aerosol to users by heating a solution containing nicotine and typically, but not necessarily, propylene glycol, glycerol or both, and often flavouring and any other solution intended for use with or in the product;
  - 1.5.3. **"Other delivery systems"** means any device or mechanism or component that heats or activates any tobacco product or product containing tobacco, or simulates, mimics, replaces or is otherwise or in any way related to or connected with smoking.