**Budget submission: tobacco excise**

**Key message**

**The Australian Tax Office should further review the relatively lower taxation of loose tobacco to more closely reflect the weight of tobacco typically used in roll-your-own (RYO) cigarettes. This would prevent smokers and the tobacco industry using RYO tobacco to undermine the impact of tobacco price rises on reducing smoking and improving health.**

*Our new research*

This submission is based on research which was published in the international medical journal *Tobacco Control* on 23 September. A copy of the manuscript is attached.

For the first time, our research has shown evidence that price rises from tobacco tax rises lead to immediate falls in tobacco sales in remote Aboriginal communities, where smoking prevalence is high and has not improved.

The falls in tobacco sold were mainly driven by declines in the most expensive form of tobacco, premium and mainstream brands of manufactured cigarettes, which were partially offset by increases in sales of the cheapest form of tobacco, loose RYO tobacco.

*Tobacco taxation in Australia*

Australia has both specific (per-unit) tobacco excise duty and an *ad valorem* (value-based) goods and services tax (GST) which applies to tobacco products. Excise duty increased by 25% on 30 April 2010. Four annual 12.5% tobacco excise duty increases were announced in 2013, with the first on 1 December 2013 and the rest on 1 September each subsequent year. These annual increases were continued for another four years until 1 September 2020. The tobacco excise duty is also indexed every six months based on Average Weekly Ordinary Time Earnings to ensure tobacco does not become more affordable.

In 2016, duty per kilogram of RYO tobacco was only equivalent to manufactured cigarettes if it was assumed 0.8g of tobacco was used in each RYO cigarette. This changed incrementally on 1 September each year until it became 0.7g in 2020.

*Recommendations*

Australian cities now have world-leading high tobacco prices, higher still in remote Aboriginal community stores. However, tobacco taxes will not be optimally effective in further reducing tobacco consumption in Australia unless anomalies in pricing policy and tobacco taxation are rectified.

The cheapest form of tobacco is loose RYO tobacco, in part because the tax per typical RYO cigarette is less per cigarette than manufactured cigarettes.

In our research we assumed 0.525g of RYO tobacco in each cigarette stick equivalent, based on cigarettes rolled by a small sample of Aboriginal smokers 20 years ago. This is much less than the Australian Tax Office conversion factor (0.7g from 1 September 2020) but it is consistent with recent Australian research. The estimated average weight of tobacco in each Australian RYO cigarette declined from 0.59g in 2006 to 0.48g in 2014. This apparent reduction in the weight of tobacco in RYO cigarettes is corroborated by the tobacco industry’s release of thinner filters and smaller papers.

We are not aware of any recent research evidence of significant health benefits of smoking RYO cigarettes with less tobacco.

There is no reason for RYO cigarettes to be taxed less than manufactured cigarettes.

We recommend that the he conversion factor used by the Australian Tax Office be further adjusted over the coming four years to more closely reflect the weight of tobacco in RYO cigarettes in Australia, to prevent smokers and the tobacco industry using RYO tobacco to undermine the impact of tobacco price rises on reducing smoking and improving health.

*For more information*

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