

29 August 2022

To: National Treasury, South Africa

Re: National Treasury's proposal on the taxation of electronic nicotine and non-nicotine delivery systems

Thank you for the opportunity to comment on the 2022 draft Taxation Laws Amendment Bill. In this letter, we comment on point 8.1. *Vaping: Taxation of electronic nicotine and non-nicotine delivery systems*. The government proposes to apply a flat excise duty rate of at least R2.90 per ml to both nicotine and non-nicotine solutions. We have three recommendations that we believe will strengthen National Treasury's position in taxing electronic nicotine and non-nicotine delivery systems (ENDS/ENNDS).

The ENDS industry is likely to argue that they are providing a less harmful product to smokers who are unable to quit smoking, and that these products should thus not be taxed. They may also argue that e-cigarettes can be used as a quitting device. The evidence for either of these two arguments is very thin. ENDS are becoming increasingly popular. In particular, disposable e-cigarettes have become extremely popular amongst teenagers. These are not teenagers switching from smoking cigarettes to e-cigarettes, but rather teenagers that are initiating a potential lifelong addiction to nicotine through e-cigarettes. This is not surprising, because e-cigarettes are accessible and cheap. These e-cigarettes are closed systems, thrown away once the liquid is finished. Airscream, a UK company, has captured the South African market with a disposable e-cigarette called AirsPops. Pick n Pay sells a 3ml AirsPops for R95. Each 3ml AirsPops provide 600–800 puffs. AirsPops are also sold on Takealot, together with many other brands of disposable e-cigarettes.

Recommendation 1: Increase the tax amount to R5 per ml, and

Recommendation 2: Set a tax floor of R50 per unit

We recommend that Treasury sets the excise tax at R5.00 per ml, rather than at the proposed rate of "at least R2.90" per ml sets a floor of R50 per unit. While equivalence with tobacco taxation is a controversial topic, the current proposal yields tax burdens that are consistently below the tobacco tax burdens. A tax of R5 per ml tax tries to partially addresses this. In Table 1 on the next page, the blue cells shows Treasury's current proposal. Under the current proposal of R2.90 per ml, a 3ml AirsPops would be subject to an excise tax of R8.70, increasing the price of a unit from R95 to R103.70. The excise tax incidence would be only 8.4%. Similarly, the excise tax incidence of Nevoks disposable e-cigarettes would be 13.1% and Vuse e-pods 9.9%. The pink cells show the tax incidences if Treasury increases the price from R2.90 to R5 per ml of e-liquid. The tax incidence for AirsPops increases to 13.6%, and for Vuse e-pods to 16%. However, increasing the excise tax to R5 is still insufficient to impact the prices of these products. To address this issue, we recommend that Treasury sets a floor of R50 per unit of e-liquid (green cells). By doing so, the tax incidence would increase to 34.5% for AirsPops and 50% for Vuse e-pods.

Table 1: Treasury’s current proposal and REEP’s proposal, using two brands of disposable cigarettes and three brands of e-liquids as examples

Product (producer)	ml of e-liquid	Current retail price (24 August 2022)*	Treasury's current proposal			Increasing tax from R2.90 to R5			REEP's proposal		
			Specific excise tax (R2.90 per 1ml)	Retail price with specific excise	Specific excise tax share of retail price (%)	Specific excise tax (R5 per 1ml)	Retail price with specific excise	Excise tax share of retail price (%)	Specific excise tax (R5 per 1ml, floor of R50 per unit)	Retail price with specific excise and floor	Excise tax share of retail price (%)
Disposable AirsPops (Airscream)	3	R95.00	R8.70	R103.70	8.4	R15.00	R110.00	13.6	R50.00	R145.00	34.5
Disposable Vape (Nevoks)	12	R230.00	R34.80	R264.80	13.1	R60.00	R290.00	20.7	R60.00	R290.00	20.7
Vuse e-pods (BAT)	1.9	R50.00	R5.51	R55.50	9.9	R9.50	R59.50	16.0	R50.00	R100.00	50.0
Vuse e-liquid (BAT)	20	R125.00	R58.00	R183.00	31.7	R100.00	R225.00	44.4	R100.00	R225.00	44.4
Twisp e-liquid (BAT)	20	R200.00	R58.00	R258.00	22.5	R100.00	R300.00	33.3	R100.00	R300.00	33.3

* Airscream AirsPops Classic Toba (flavour) sold at PnP Rondebosch for R95 on 24 Aug 2022. Looks like all flavours are same price. See Airscream AirPops website: <https://global.aircreamuk.com/collections/one-use-3ml>. Nevoks: <https://www.takealot.com/nevoks-bar-disposable-vape-4000-puffs-rechargeable-rainbow-candy/PLID91156243>, Vuse e-liquid: <https://www.vuse.com/za/en/new-vuse-20ml>, Vuse epods: <https://www.vuse.com/za/en/flavours/vuse-epod/vuse-epod-mandarin-cinnamon> (2 epods costs R100. 1.9ml comes from the information about the device: <https://www.vuse.com/za/en/e-cigarette-devices/vuse/vuse-epod-starterpack>), Twisp e-liquid: <https://www.vuse.com/za/en/flavours/twisp>.

Recommendation 3: Multi-year pre-announced excise tax increases

Once the baseline is established, National Treasury should, each year, increase the excise tax on ENDS/ENNDS by the inflation rate, plus a pre-announced additional percentage, to prevent the industry from effectively setting the value of the excise tax, and to ensure that ENDS/ENNDS become less affordable over time. For many years, countries like the UK and Australia have annually increased the excise tax on tobacco products by the sum of the inflation rate and a pre-announced price additional percentage. Through this multi-year approach, the tax authorities increase the predictability of the tax increases. This will discourage possible e-cigarette users from starting, since they can assume that their habit is becoming more expensive over time.

Please contact me if you have any questions. For more information on our research unit, please visit: www.reep.uct.ac.za

Professor Corné van Walbeek (cornelis.vanwalbeek@uct.ac.za)

Dr Hana Ross (hana.ross@uct.ac.za)

Ms Nicole Vellios (nicole.vellios@uct.ac.za)

Mr Zunda Chisha (zunda.chisha@uct.ac.za)

Research Unit on the Economics of Excisable Products (REEP)
University of Cape Town