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Voice and friend of the smoker

The effects of tobacco duty
on households across the
income distribution

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Introduction

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The effects of tobacco duty on households across the income distribution

Tobacco duty in the UK is exceptionally high compared to most other EU countries.¹ Due to the large specific duty component (£207.99 per 1,000 cigarettes and £209.77 per kilo of hand rolling tobacco), tobacco duty costs those with low incomes a larger proportion of their income than those on high incomes.

This research looks at how tobacco duty affects households across the income distribution. It also shows how much tobacco duty costs low income households in comparison to the average household and the highest income households.

Findings for 2015/16:

The average household in the lowest 20% of the income distribution spent **£293** on tobacco duty.

The average household in the second lowest fifth of the income spectrum spent **£384** on tobacco duty - **31% more** than the lowest fifth.

The average household in the middle fifth of the income distribution spent **£405** on tobacco duty - **38% more** than the lowest fifth.

It is more relevant however to measure spending on tobacco duty as a percentage of disposable income.

The average household in the **bottom fifth** of the income distribution spent **2.3%** of their disposable income on tobacco duty.

Tobacco duty cost the average household in the **top fifth** of the income distribution **0.3%** of their disposable income.

Tobacco duty costs the **average of all households 1.0%** of their disposable income.

This means that, as a percentage of disposable income:

Tobacco duty cost the average household in the bottom fifth of the income distribution **7.7 times** the amount it costs the average household in the highest fifth.

Tobacco duty cost the average household in the bottom fifth of the income distribution **2.3 times** the amount it costs the average household.

¹ http://the-tma.org.uk/wp-content/uploads/2017/03/TMA-Taxation_Briefing_Sheet_v13.pdf

A ratio of tobacco duty spending between top and bottom fifths of **7.7 times** is more than twice that of many other indirect taxes:

Duty on beer and cider – **1.7 times**

Duty on wines and spirits – **1.7 times**

Duty on hydrocarbon oils – **2.2 times**

Vehicle excise duty – **2 times**

Stamp duty – **0.8 times**

Customs duty – **2 times**

Betting taxes – **3 times**

Insurance premium taxes – **1.5 times**

Air passenger duty – **0.7 times**

Camelot National Lottery Fund – **3 times**

Notes and methodology

All data is taken from the ONS dataset: The effects of taxes and benefits on household income.²

Disposable income is wages and other income plus benefits minus direct taxes (income tax, national insurance and council tax). This research note also uses the equivalised figure for improved comparison.

The ratio of tax spending across income quintiles is calculated by dividing the percentage cost to the bottom quintile of households by the percentage cost to the top quintile of households and the all households category.

The figures on tax costs and disposable incomes reflect the mean within each quintile.

² <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014>

Table 1: Indirect taxes as a percentage of disposable income 2015-16**Indirect taxes (£)****Taxes on final goods and services**

	Bottom quintile	2nd quintile	3rd quintile	4th quintile	Top quintile	All households
VAT	1,499	1,872	2,674	3,417	4,758	2,844
Duty on tobacco	293	384	405	283	175	308
Duty on beer and cider	64	83	118	151	182	119
Duty on wines & spirits	124	148	200	249	390	222
Duty on hydrocarbon oils	295	346	495	619	717	495
Vehicle excise duty	95	113	161	196	220	157
Television licences	105	111	117	122	131	117
Stamp duty on house purchase	83	75	123	201	555	207
Customs duties	20	23	30	35	48	31
Betting taxes	39	61	86	104	82	74
Insurance premium tax	39	46	68	89	119	72
Air passenger duty	27	28	64	100	159	76
Camelot National Lottery Fund	42	60	81	70	54	61
Other	12	16	12	21	32	19
Equivalised disposable income (£)	12,549	20,105	26,374	35,806	62,373	31,441

Taxes as a percentage of disposable income

	Bottom quintile	2nd quintile	3rd quintile	4th quintile	Top quintile	All households
VAT	11.9%	9.3%	10.1%	9.5%	7.6%	9.0%
Duty on tobacco	2.3%	1.9%	1.5%	0.8%	0.3%	1.0%
Duty on beer and cider	0.5%	0.4%	0.4%	0.4%	0.3%	0.4%
Duty on wines & spirits	1.0%	0.7%	0.8%	0.7%	0.6%	0.7%
Duty on hydrocarbon oils	2.4%	1.7%	1.9%	1.7%	1.1%	1.6%
Vehicle excise duty	0.8%	0.6%	0.6%	0.5%	0.4%	0.5%
Television licences	0.8%	0.6%	0.4%	0.3%	0.2%	0.4%
Stamp duty on house purchase	0.7%	0.4%	0.5%	0.6%	0.9%	0.7%
Customs duties	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Betting taxes	0.3%	0.3%	0.3%	0.3%	0.1%	0.2%
Insurance premium tax	0.3%	0.2%	0.3%	0.2%	0.2%	0.2%
Air passenger duty	0.2%	0.1%	0.2%	0.3%	0.3%	0.2%
Camelot National Lottery Fund	0.3%	0.3%	0.3%	0.2%	0.1%	0.2%
Other	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%

**Taxes as a percentage
of disposable income
continued.**

	Top/bottom ratio	Top/all households ratio
VAT	1.6	1.3
Duty on tobacco	7.7	2.3
Duty on beer and cider	1.7	1.3
Duty on wines & spirits	1.7	1.4
Duty on hydrocarbon oils	2.2	1.5
Vehicle excise duty	2.0	1.6
Television licences	4.0	2.0
Stamp duty on house purchase	0.8	1.0
Customs duties	2.0	2.0
Betting taxes	3.0	1.5
Insurance premium tax	1.5	1.5
Air passenger duty	0.7	1.0
Camelot National Lottery Fund	3.0	1.5
Other	1.0	1.0

Table 2: The ratio of the cost of tobacco duty to the average household in the bottom quintile to other quintiles

Income quintile	Bottom	2nd	3rd	4th	Top	All households
Ratio	N/A	1.2	1.5	2.9	7.7	2.3