

# Selected aspects of taxation of cigarettes in the EU member states

## *Vybrané aspekty zdaňování cigaret v členských státech EU*

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**Abstract:** The level and structure of cigarettes taxation are considered to be very discussed field in these days by the effect of preference trends of taxation of consumption at the expense of direct taxation, stressing the health risks of consumers of tobacco products, externalities caused by this consumption and by the effect of existence of distortions in the market with the tobacco products in the EU states. It is possible to achieve various aims in the field of fiscal and agricultural policies of state, consumption of cigarettes, protection of national market and in the other field by the regulation of excise duty imposed on cigarettes in the EU states. The question is, in frame of excise duty imposed on cigarettes in the EU member state, whether this tax should be imposed through specific rate, ad valorem rate, or by their combination. The choice between these options depends on the laid down aims of tax policy in each EU member states.

**Key words:** excise, ad valorem rate, specific rate, cigarettes, European Union

**Abstrakt:** Vlivem preferenčních trendů zdaňování spotřeby na úkor přímého zdaňování, zdůrazňování zdravotních rizik spotřebitelů tabákových výrobků, externalit touto spotřebou způsobovaných a vlivem existence distorzí na trhu s tabákovými výrobky v rámci zemí Evropské unie je míra a struktura zdanění cigaret v současné době velmi diskutovanou oblastí. Úpravami akcízu uvaleného na cigarety v zemích Evropské unie je možné dosahovat různých cílů v oblasti fiskálních i zemědělských politik států, spotřeby cigaret, ochrany domácího trhu a v dalších oblastech. V rámci akcízu uvaleného na cigarety v zemích Evropské unie je mimo jiné otázkou, zda tuto daň ukládat prostřednictvím specifické sazby, sazby ad valorem nebo jejich kombinací. Volba mezi těmito alternativami závisí právě na stanovených cílech daňové politiky, kterých chce konkrétní členská země Evropské unie dosáhnout.

**Klíčová slova:** akcíz, sazba ad valorem, specifická sazba, cigarety, Evropská unie

Tobacco is a plant coming from the island of Tobago, which was imported originally for ornamental purposes. Tobacco growing was spreading along with its possibilities of utilization. It is possible to get food oil, fibres for the production of cloth, cellulose for the production of paper or feed in the form of forage cakes from this crop. In Europe, in the majority of cases, there are planted crops which surpass tobacco from the point of view of the given purpose of utilization. Today tobacco is planted mainly for smoking. This crop is planted in the countries of the mild zone. Cuba, Java, Sumatra, Virginia, North and South Carolina, Turkey,

Bulgaria, France, Spain or Italy are considered to be the most known grower zones. Tobacco for smoking purposes is made from the tobacco leaves by complicated methods; subsequently it is filled into the cigarettes, which are considered to be the products burdened by the selective excise duty – by excise duty. Excise duties are imposed on mineral oils, tobacco, spirits, beer and wine in the states of the EU and are significantly different from other taxes – a certain quantitative unit is taken as a basis during the calculation of the amount of tax. Generally, the volume quantities enter into the tax basis of excise duties. In the case of to-

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bacco products, we are talking about the quantity in pieces or about the weight in kilograms. Excise duty imposed on cigarettes is exceptional from the point of view of tax rates (from the tobacco products). In this case, both quantity in pieces and also price for the final consumer can enter the tax basis. The first part of excise duty from cigarettes is considered to be the classical specific tax and the second part is ad valorem tax – according to the value. The so-called composed excise duty is created by the combination of the specific tax and ad valorem tax imposed on the consumption of cigarettes in the states of the EU. Excise duties imposed on selected products can create barriers of free trade in the frame of the EU. That is the reason why it is still necessary to harmonise the adjustment of excise duties in the individual states of the EU and not only from the point of view of their rates, but also of other attributes. Tax systems harmonization reduces tax evasion and the effects of harmful competition, it offers space for public projects and programs and it is the basic component of the precision of the common shared principles Široký (2007). Unfortunately, it is necessary to take the possible loss of the fiscal autonomy resulting from the subordination of national regulations according to the rules of the EU and the uniformity of tax system into account. The eventual alternative is a spontaneous harmonization effect which is possible to reach by keeping a tax competitive environment Nerudová (2005). It is possible to consider the differentiated amount of tax quota based on the principle of tax competition as an economic incentive of competition and by its means; it is possible to reach considerable savings in public budgets. The choice of the farmer, running of agricultural activities and also the de facto employment, incomes of the state from other taxes and other fields are influenced by imposing the excise duty on cigarettes and by its structure in the states of the EU. It is also possible to turn this casual relation to the opposite direction. Growing or not growing tobacco evidently influences the amount and the structure of the excise duty imposed on cigarettes in the individual states of the EU.

Excise duty is primarily imposed to ensure sufficient budget revenues of state. Generally excise duties have several preferences in comparison with other taxes. Costs of collection of individual taxes are considered to be essential indicator. Excise duties are superior to most other taxes in this regard. Administration connected with the collection of excise duties is evidently easier and less expensive. Products, on which the excise duties are imposed, cigarettes, in our case, are easy identifiable, although the volume of their sale is considerable. It is clear, that there are

not too many producers and importers of cigarettes. At the same time there are few or even no substitutes for cigarettes, which would achieve the same level of satisfaction to the consumers. That is the reason why the cigarettes consumption does not significantly change, even if their price is growing by including the excise duty. It is possible to slightly change this statement and its meaning would gain other interesting proportion. Cigarettes are taxed by excise duty because demand for cigarettes is very little elastic. From the above mentioned facts results that space for the relevant distortion of market with cigarettes caused by excise duty are relatively small. Excise duty, as regards the form of specific tax, impacts both on the households with the significant part in their expenditures, and on the households where it creates only insignificant part Široký (2007). This leads to elimination of possibilities of use of redistributive function of this tax.

The existence of excise duty imposed on cigarettes it is possible to explain by necessity to cover external costs, so called externalities, which producers or cigarettes consumers transfer to other subjects. If so, it is possible to assume, that rational and fully informed individual carrying all costs and incomes of his behavior almost certainly shall not consume tobacco products. More specifically, the marginal external costs of subjects should be equal to burden imposed on consumption and production of cigarettes causing these externalities. It is also possible to taking into account external costs in other way (except including into price of products). This system is surely very administratively demanding and evidently hardly applicable in practice.

Imposition of excise duties on cigarettes is justified by harmfulness of consumption of such taxed products and thus by the possibility of reducing harmful consumption by imposing excise duty in satisfactory high. However, as already mentioned, demand for such taxed products is generally very non-elastic and so the reason of imposition of excise duties to reduce harmful consumption may seem non competent. If we look closer at various categories of consumers of products liable to excise duties, then we find that especially among young people the price elasticity of demand for products liable to excise duties is higher. Cnossen (2005) even claims, that price elasticity of demand of young people for products liable to excise duties is twice higher than price elasticity of adults for the same products. Therefore, in connection with excise duties it is possible to talk also about purpose of discouraging from harmful consumption, although this fact appears to be in clear conflict with fiscal function of these taxes at first sight.

Various aims can be achieved by combination of specific excise duty and ad valorem excise duty which is applied in the EU member states and also in the Czech Republic. It is possible to ensure considerable budget revenues, reduction of cigarettes consumption, convergence or dividing of quality of individual brand of cigarettes or protection of national producers of tobacco by imposing composed excise duty on cigarettes. It is necessary to take into account the construction of general excise duty, a value added tax, during imposing excise duties on cigarettes. The price of the relevant product, including excise duty, which the burden of excise duty is even augmented, is considered to be its basis. This fact may have a negative, but also positive effect, when it is used to cover external costs resulting from consumption of cigarettes or it covers other necessary budget expenditure. In addition to the above mentioned possibilities of composed excise duty is also needed to mention the impact of its parts on its own consumers of products subject to this tax. Ad valorem tax in contrast to specific tax more likely does not discourage the consumer from the purchase of products and increase in this tax shall mean increase in budget revenues. In the case of specific tax it shall be just the opposite. It should be also here noted, that burden of cigarettes by an excise duty is not the only instrument of tax policy regarding reduction of harmful consumption of tobacco products. It is also possible to reduce the chances of smoking to consumers of cigarettes through bans in selected areas. Negative advertising highlighting the real consequences of smoking and restriction of advertising of producers of tobacco products should become an important tool. Increases in tax burden of cigarettes often do not lead to a reduction in their consumption. This occurs only if the increase in tax burden is significant and within consumers it is considered to be unfair regarding incomes. Consumers with lower incomes are forced to reduce the consumption more or sooner than consumers with higher incomes who either do not change the consumption or just move to cheaper brands of cigarettes. It is obvious, that from a lot of reasons, imposition of excise duty on cigarettes is generally positive fact. It is necessary to set cigarettes taxation and regulate very sensitively and with regard to all possible effects of these steps. Cigarettes taxation influence not only consumers but also producers, suppliers of raw materials, seller of tobacco products and other subjects in the market as well as their own national budget revenues and conditions in the single market of the EU.

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## MATERIAL AND METHODS

Tax aspects of growing of tobacco in the states of the EU were researched using the adequate sources of information processed by the common methods of scientific work. The methods of analysis, synthesis, induction and deduction were especially used. Its application results from the need of creation of an objective and systematic quantitative description of the problems of the excise duty from tobacco products in the EU and from the specific characteristics of the excise duty imposed on cigarettes resulting in the final framework of uniting character. Furthermore, it is necessary to generalize the concrete values and to formulate the generally valid rules appropriate for explication of the identified phenomena and also for formulation of the specific consequences of these rules.

The necessary data for the research came from the materials of the World Health Organization, from reports, tables and studies of the European Commission and from the relevant directives of the EU. National regulations on excise duty imposed on tobacco and its development in the last years were also utilised. The Council Directive No. 72/464/EEC of 19<sup>th</sup> December 1972 on taxes other than turnover taxes which affect the consumption of manufactured tobacco, Second Council Directive No. 79/32/EEC of 18<sup>th</sup> December 1978 on taxes other than turnover taxes which affect the consumption of manufactured tobacco, the Council Directive No. 92/12/EEC of 25<sup>th</sup> February 1992 on the general arrangements for products subject to excise duty and on the holding, movement and monitoring of such products, the Council Directive No. 92/79/EEC of 19<sup>th</sup> October 1992 on the approximation of taxes on cigarettes, the Council Directive No. 95/59/EC of 27<sup>th</sup> November 1995 on taxes other than turnover taxes which affect the consumption of manufactured tobacco, the Council Directive No. 1999/81/EC of 29<sup>th</sup> July 1999 amending the Directive No. 92/79/EEC on the approximation of taxes on cigarettes, Directive No. 92/80/EEC on the approximation of taxes on manufactured tobacco other than cigarettes and the Directive No. 95/59/EC on taxes other than turnover taxes which affect the consumption of manufactured tobacco, the Council

Directive No. 2002/10/EC of 12<sup>th</sup> February 2002 amending the Directives No. 92/79/EEC, No. 92/80/EEC and No. 95/59/EC as regards the structure and rates of excise duty applied on manufactured tobacco. The view of the authorities from the given field is considered to be an integral part of the resources.

Problems of tax systems harmonization of the EU member states are very wide and rather chaotic. It is possible to achieve, focusing attention on the selected harmonization aspects, not only the current regulation data of the selected excise duty, but also the development data of this regulation in the frame of the EU harmonization regulation. In dependence on the national regulations of excise duty imposed on tobacco and on prices of cigarettes in the EU member states, it is possible to evaluate the achievement of the harmonization aims, to recommend the following appropriate direction in the mentioned field and to identify the reasons and impacts of differences in the national regulations of the excise duty imposed on tobacco in the EU member states.

## RESULTS AND DISCUSSION

Excise duties are an integral part of tax systems of the EU member states. Mineral oils, tobacco, spirits, beer and wine are considered to be the object of these taxes. The right to adopt measures leading to harmonization of excise duties by the Council of the EU results from the Treaty on the European Economic Community establishment. It was possible to approach the regulations of the individual excise duties, excise duties imposed on tobacco products (cigarettes), after setting a duty of the member states to adopt the system of excise duties in 1972.

The first directive regulating excise duties imposed on tobacco and tobacco products was the Council Directive No. 72/464/EEC of 19<sup>th</sup> December 1972 on taxes other than turnover taxes which affect the consumption of manufactured tobacco. Its aim was mainly to ensure a healthy competition in the single market of the EU member states. The application of this directive should not influence this competition and the free movement of these products in the negative way. This directive establishes the recommendations concerning the composition of excise duty imposed on cigarettes from the specific part of tax rate and from the part of ad valorem tax rate. Domestic and also imported cigarettes have to be taxed by the same way and in the same ratio – according to the quantity and also according to the final sale price. Tobacco products were divided into cigarettes, cigars, cigarillos, smoking tobacco, snuff

and chewing tobacco. The same ratio of both parts of the tax rate should be achieved in all EU member states and the differences in collection of excise duties should be given only by the divergence of sale prices of cigarettes. Furthermore, the rules of the choice of excise duties should be also harmonized. The term “top-selling price category of cigarettes” is also used in the directive. According to this term, the amount of specific tax rate from cigarettes should be set. The specific part of excise duty should be within the range of 5 % up to 75 % of the total tax burden (of the excise duty and the value added tax) aside from the mutual ratio of the components of the excise duty rate imposed on cigarettes. The EU member states also could set the minimum amount of excise duty for cigarettes, which cannot be higher than 90 % of the total tax burden. The introduced way of cigarettes taxation was chosen on the basis of the application of ad valorem rates by the states producing tobacco. This way of taxation was chosen before the entry of the new states into the EU – these states prefer the specific cigarettes taxation Cnossen (2005).

Second Council Directive No. 79/32/EEC of 18<sup>th</sup> December 1978 on taxes other than turnover taxes which affect the consumption of manufactured tobacco, described, respectively defined, the individual products liable to excise duty imposed on tobacco products. Cigarettes were defined as rolls of tobacco which are not other tobacco products and are smoked as such or are non-industrially put into cigarettes sleeves or are rolled into cigarettes paper by non-industrial manipulation. Many exceptions were created for the individual EU member states on the basis of the systemization of tobacco products.

The Council Directive No. 92/12/EEC of 25<sup>th</sup> February 1992 on the general arrangements for products liable to excise duty and on the holding, movement and monitoring of such products is related except to tobacco also to other products burdened with excise duties in the EU member states. The directive was created mainly for the reasons of requirement of definition of products liable to excises, of necessity to adopt single regulations relating to movement of products liable to excise duties in the regime with a conditional tax exemption, of the necessity to set a single document enabling an easy identification of a parcel containing excisable products, of the possibility of excise control in manufacturing and storage units of excisable products, the unification of creation of tax liability and mainly because of the creation and functioning of the integral market (also through a free movement of excises goods).

Among other, this directive sets the general mode for tax collection; it regulates production, processing

and transport of products burdened with excise duties. Furthermore, it implements the “common customs tariff” and the “authorized tax store” in frame of which the excisable products can move without liability to pay tax on the territory of the EU. Excisable products can be liable to other indirect taxes from the special reasons on condition that these taxes fulfil taxation rules valid for excise duties and for the value added tax, if we talk about assessment of tax basis, calculation of tax, creation of tax liability and tax control. The EU member states have the right to implementation or maintenance of taxes assessed from other than introduced products on condition that these taxes do not lead to formalities during crossing of frontier in the frame of trade between the member states.

The Council Directive No. 92/79/EEC of 19<sup>th</sup> October 1992 on the approximation of taxes on cigarettes sets the minimum value of excise duty from cigarettes to 57% of retail selling price (including all taxes) of cigarettes of the top-selling price category. The total minimum excise duty from cigarettes is set according to the cigarettes from the top-selling price category and according to the data which are available on 1<sup>st</sup> January of every year. The objective of the Council of the EU in this directive is to view the total minimum excise duty every two years on the basis of the report and eventually of the proposal of the European Commission.

The Council Directive No. 95/59/EC of 27<sup>th</sup> November 1995 on taxes other than turnover taxes which affect the consumption of manufactured tobacco unifies and specifies the texts of the previous directives mainly for the purpose of a higher clarity of the given regulations. It specifies the term “rolls of tobacco”, when this is considered to be one cigarette and when it is considered to be more cigarettes. Cigarettes manufactured in the Community and also imported from the third states are liable to the proportion excise duty which is calculated from the highest retail selling price of the cigarettes including custom and furthermore including the specific excise duty calculated on the product unit. The proportion excise duty rate and the fixed amount of specific excise duty have to remain same for all cigarettes. Specific part of excise should be within the range of 5% up to 55% of total tax burden (of excise and valued added tax) aside from the mutual proportion of components of excise duty rate imposed on cigarettes. Also the EU member states could set the minimum amount of excise duty for the cigarettes which must not be higher than 90% of the total tax burden. The same ratio between the specific excise duty and sum of proportion excise duty and turnover tax for the cigarettes is defined in the final stage of

harmonization of structure in all member states. The ratio between specific excise duty and the sum of the proportion excise duty and turnover tax is set that the range of the retail selling prices rightly reflects the differences in delivery prices of producers.

Regular functioning of the internal market demanded that the rules of excise duty harmonization were interpreted and applied more uniformly in the member states. There were also difficulties during the application of the rule of 57% of the minimum waste. That is the reason why the Council Directive No. 1999/81/EC of 29<sup>th</sup> July 1999 amending the Directive No. 92/79/EEC on the approximation of taxes on cigarettes, the Directive No. 92/80/EEC on the approximation of taxes on manufactured tobacco other than cigarettes and the Directive No. 95/59/EC on taxes other than turnover taxes which affect the consumption of manufactured tobacco were adopted. Member states can apply ad the *valorem* tax calculated on the basis of the maximum retail selling price of the individual products which is determined by producers carrying their business in the EU and by importers from the third states. Or they can apply the specific tax expressed as an amount on 1 kilogram of tobacco or on the number of pieces for cigars or cigarillos or they can apply the mixed tax combining the *ad valorem* component and the specific component. Member states can set the minimum amount of excise duty for the *ad valorem* tax or mixed tax. If the member state increases the value added tax rate for cigarettes, it can decrease the total minimum excise duty to the amount which is equal to the impact of the increase in the value added tax rate (expressed in percentages of the retail price).

After the revision of the rates and structure of excise duty from tobacco products, the Council Directive No. 2002/10/EC of 12<sup>th</sup> February 2002 amending the Directives No. 92/79/EEC, No. 92/80/EEC and No. 95/59/EC as regards the structure and rates of excise duty applied on manufactured tobacco were adopted. The analysis of the changes of prices and excise duty rates from tobacco products in the EU showed that there are still considerable differences between the member states which could affect functioning of the internal market both at its present form and in its future form after the enlargement. A larger convergence of tax rates which are applied in the member states would help to reduce the presence of frauds and smuggling within the EU according to this directive. By implementation of the fixed minimum amount expressed in euro in addition to the minimum impact of excise duty in the amount of 57% of the retail selling price of cigarettes of the top-selling price category, it is possible to ensure

that from such cigarettes the minimum amount of excise duty will be collected. Every member state has to apply the total minimum excise duty (specific tax and ad valorem tax without VAT) whose impact is still set at 57% of the retail selling price (including all taxes) and which has not to be lower than 60 EUR per 1 000 pieces of cigarettes of the top-selling price category. Since 1<sup>st</sup> July 2006, the amount of 60 EUR has been replaced by the amount of 64 EUR. Member states collecting the total minimum excise duty in the amount of 95 EUR per 1 000 pieces of cigarettes of the top-selling price category did not have to meet the requirement of the minimum impact in amount of 57%. Since 1<sup>st</sup> July 2006, the amount of 95 EUR has been replaced by the amount of 101 EUR. The total minimum excise duty from cigarettes is set according to the top-selling price category and according to the data available on 1<sup>st</sup> January of every year. The value of EURO in the national currencies is set for the calculation purposes of the amount of the total minimum excise duty once a year. Exchange rates which were reached in the first working day of October are published in the “Official Reports of the European Communities” and are applied from 1<sup>st</sup> January of the following calendar year. The prevention of violation of economic competition between the various categories of tobacco products belonging to the same group should be the aim of the harmonization of the structure of excise duties according to the directive. It would lead to facilitation of the access to domestic markets of the member states.

Table 1. Development of the required ratio between the specific component of excise duty and the total tax burden imposed on cigarettes in the EU

Year	Lower limit (%)	Upper limit (%)
1973	5	75
1978	5	55
x	10	35

Source: EC directives, self-elaboration

The first assessment of the required ratio between the specific component of excise duty and the total tax burden (so between excise duty and VAT) imposed on cigarettes in the EU took place in 1973. The defined limits were regulated in 1978. Next planned reduction of the interval did not take place although the proposal originally supposed its operation since 1980. It was necessary to set certain limits of excise duty imposed on cigarettes considering the failure of the effort of convergence of the ratio of components of tax burden imposed on cigarettes in the EU member states. Gradually the minimum of excise duties was set in percentage and later also in monetary units on the given number of cigarettes.

The minimum total excise duty in percentage from the retail selling price of cigarettes of the top-selling price category was set in 1993 and has not changed since. The minimum excise duty from the retail selling price of cigarettes of top-selling price category in the monetary unit on 1 000 pieces of cigarettes was defined in 2002 and its amount was further regulated in 2005. Since 2002, the requirement of the percentage minimum excise duty has not been necessary to fulfil in the case that the minimum excise duty in the monetary units on 1 000 pieces of cigarettes reached the defined amount.

In the Table 3, there are introduced the values in the given states only in the years of their membership of the EU. The percentage share of the specific part of excise duty in the total price of cigarettes is determined by the regulations concerning the ratio between the specific component of excise duty and the total tax burden imposed on cigarettes and also by the minimum amount of excise duty imposed on cigarettes in the EU member states during the whole researched period 1993–2007. Because the reduction of the requested interval of share of specific part of excise duty on total price of cigarettes does not take place, the differences of shares of the specific part of excise duty in the total price of cigarettes are considerable in the EU member states during the whole researched period.

Table 2. Development of minimum amount of excise duty imposed on cigarettes in the EU

Year	Minimum excise from sale price		
	(%)	EURO/1 000 pieces of cigarettes	replacing percentage minimum EURO/1 000 pieces of cigarettes
1993	57	–	–
2002	57	60	95
2005	57	64	101

Source: Council Directive 92/79/EEC, Council Directive 2002/10/EC, self-elaboration

It is possible to find the EU member states where the difference in the share of the specific part of excise duty in the percentage in the total price of cigarettes is almost 40% in the years 1993 and 2007. Considerable changes of the share of the specific part of excise duty in the total price of cigarettes do not take place in the individual EU member states in the researched period. Portugal and Sweden are the exceptions where an increase, respectively decrease, in the share of the specific part of excise duty in the

total price of cigarettes by 25% takes place in the years 1993–2007.

The average amount of percentage share of specific part of excise duty on total price of cigarettes moderately increases in the EU member states in the given period. This value was 19.66% in 1993 and 22.62% in 2007. This growth is caused by the entry of the states with a higher percentage share of the specific part of excise duty in the total price of cigarettes into the EU during the given period. The growth is not

Table 3. Development of share of specific part of excise duty in % on total price of cigarettes in the EU member states

State/Year	1993	1997	2000	2003	2005	2007
BE	7.76	6.97	11.16	11.16	3.87	6.66
BG	–	–	–	–	–	5.65
CZ	–	–	–	–	27.27	31.15
DK	41.85	41.14	40.45	32.61	41.07	39.79
EE	–	–	–	–	28.05	26.07
FI	–	8.37	8.00	7.56	7.38	7.20
FR	3.75	3.80	3.92	3.35	6.03	6.03
IE	41.76	42.47	43.90	43.59	42.01	42.94
IT	3.65	3.65	3.73	3.73	3.75	3.76
CY	–	–	–	–	14.55	14.55
LV	–	–	–	–	34.50	30.77
LT	–	–	–	–	25.33	35.20
LU	3.45	3.45	10.17	10.25	9.88	10.48
HU	–	–	–	–	37.21	40.01
MT	–	–	–	–	9.42	9.42
DE	33.88	32.52	35.04	36.63	37.00	35.15
NL	35.95	35.96	38.64	36.49	36.53	36.48
PL	–	–	–	–	25.68	27.65
PT	11.17	9.68	33.14	38.75	38.04	38.89
AT	–	15.38	15.45	14.25	15.70	15.70
EL	3.64	3.64	3.64	3.64	3.67	3.67
RO	–	–	–	–	–	27.36
SK	–	–	–	–	31.43	41.80
SI	–	–	–	–	14.84	14.97
ES	6.40	5.88	3.57	4.01	7.29	6.83
UK	42.70	42.84	42.86	42.96	40.89	39.94
SE	–	36.16	11.27	10.67	10.00	12.73

Source: EC (The excise duty rates applicable in the European Union, Excise duty tables, Study on the collection and interpretation of data concerning the release for consumption of cigarettes and fine-cut tobacco for the rolling of cigarettes, Commission report to the council and European Parliament on the rates of duty laid in Council Directive 92/79/EEC, Commission report to the council and European Parliament on the rates of duty laid in Council Directive 92/79/EEC of 19 October 1992 on the approximation of taxes on cigarettes), WHO (Tobacco control database), self-elaboration.

caused by the growth of this value in the existing EU member states.

The amount of the specific part of tax in the selling price of cigarettes of the top selling price category does not depend on the date when the state became the EU member state or whether the state was the founder state.

Differences of the individual states in the amount of the specific part of tax in the selling price of ciga-

rettes of the top-selling price category are given by other factors. Price differences between the kinds of cigarettes with different prices are relatively reduced by the assessment of specific tax on cigarettes. This type of cigarettes taxation is preferred mainly by the states where the climate conditions do not allow tobacco growing.

In the Table 4, there are introduced values in the given states only in the years of their membership

Table 4. Development of the share of part of ad valorem excise duty in % in the total price of cigarettes in the EU member states

Country/Year	1993	1997	2000	2003	2005	2007
BE	50.00	50.00	45.84	45.84	53.76	54.21
BG	–	–	–	–	–	54.00
CZ	–	–	–	–	24.00	27.00
DK	21.22	21.22	21.22	21.22	13.61	13.61
EE	–	–	–	–	26.00	26.00
FI	–	50.00	50.00	50.00	50.00	50.00
FR	54.95	54.50	54.50	58.05	57.97	57.97
IE	16.82	16.93	18.57	18.32	18.32	17.78
IT	53.35	53.35	54.26	54.26	54.74	54.74
CY	–	–	–	–	44.50	44.50
LV	–	–	–	–	14.80	25.00
LT	–	–	–	–	15.00	15.00
LU	54.50	54.50	46.84	46.84	47.14	47.44
HU	–	–	–	–	13.40	27.75
MT	–	–	–	–	51.40	51.40
DE	24.80	24.80	21.96	24.23	25.29	24.66
NL	21.05	21.04	21.05	20.51	20.56	20.52
PL	–	–	–	–	31.30	33.70
PT	56.00	57.00	32.00	23.00	23.00	23.00
AT	–	42.00	42.00	42.00	43.00	43.00
EL	53.86	53.86	53.86	53.86	53.83	53.83
RO	–	–	–	–	–	27.00
SK	–	–	–	–	23.00	23.00
SI	–	–	–	–	42.71	43.21
ES	50.00	54.00	54.00	54.00	57.00	57.00
UK	20.00	21.00	22.00	22.00	22.00	22.00
SE	–	16.40	39.20	39.20	39.20	39.20

Source: EC (The excise duty rates applicable in the European Union, Excise duty tables, Study on the collection and interpretation of data concerning the release for consumption of cigarettes and fine-cut tobacco for the rolling of cigarettes, Commission report to the council and European Parliament on the rates of duty laid in Council Directive 92/79/EEC, Commission report to the council and European Parliament on the rates of duty laid in Council Directive 92/79/EEC of 19 October 1992 on the approximation of taxes on cigarettes), WHO (Tobacco control database), self-elaboration.



in the EU. The percentage share of the part of ad valorem excise duty in the total price of cigarettes in contrast to the percentage share of the specific part of excise duty in the total price of cigarettes in the EU member states is not directly determined by any regulations. Regulation concerning the percentage and the absolute minimum amount of excise duty imposed on cigarettes in the EU can have a considerable impact on the percentage share of the part of ad valorem excise duty in the total price of cigarettes in the individual EU member states. It is possible to achieve the fulfilment of this requirement, except by the assessment of the specific tax on cigarettes, also by the assessment of the ad valorem tax. It depends on the preferences of the form of cigarette taxation in the individual EU member states.

The differences of the share of part of the ad valorem excise duty in the percentage in the total price of cigarettes are increasing in the EU member states in the researched period. This fact is caused by the increasing share of the part of the ad valorem excise duty in the total price of cigarettes in the existing EU member states and also by the accession of new member states with a distinctively lower share of part of ad valorem excise duty on total price of cigarettes to EU.

The average amount of the share of the part of the ad valorem excise duty in the total price of cigarettes is moderately decreasing in the EU member states in the given period. The value was 39.71% in 1993 and 36.17% in 2007. This decline is also caused by the accession of states with a lower share of the part of the ad valorem excise duty in the total price of cigarettes during the given period. The minimum 34.62% of the average amount of the share of the part of ad valorem excise duty in the total price of cigarettes was reached in the EU member states in 2005 after the entry of more states with a lower value of share of the part of the ad valorem excise duty in the total price of cigarettes. The growth of the average share of the part of ad valorem excise duty in the total price of cigarettes in the EU member states in the period 2005–2007 is given by increasing the excise duty and also its ad valorem part mainly in the states entering the EU in 2004.

The amount of the part of the ad valorem tax in the selling price of cigarettes of the top-selling price category depends, to a certain extent, on the moment when the individual state became a member of the EU. Preferences between the specific cigarette taxation and the ad valorem excise duty are considered to be other factors. The ad valorem imposed tax increases the absolute price differences between the kinds of cigarettes with different prices in contrast

to the specific tax. This type of cigarette taxation is exclusively applied in the European states, where the tobacco is produced. The aim of the assessment of ad valorem tax in these states was to the advantage of the domestic tobacco which was cheaper than the imported tobacco. The increase in the price difference of cheaper and more expensive tobacco (domestic tobacco and imported tobacco) took place after the tobacco taxation by the ad valorem tax. It is possible to influence the conditions in the market by the composition of excise duty rate imposed on cigarettes.

## CONCLUSION

Excise duties are imposed mainly due to the need of financing the public budgets. The certainty of the amount of tax yield and the related need of the possibility and capabilities of planning the yield is essential. Excise duties imposed on goods, characterized by non-elastic demand, fulfil these requirements best. Governments are able to determine with a relatively high precision and certainty the future income of the state budget from these taxes on the basis of this characteristic. In any case, it is necessary to influence this harmful consumption of cigarettes through the assessment of high excise.

It is possible also to explain the existence of excise duties by the necessity of covering the external expenses – so-called externalities which producers or consumers of such taxed products transfer to other subjects. It is possible to suppose that a reasonable and fully informed individual regarding all expenses and incomes of his/her behaviour will stop, with a certain probability, to consume tobacco products. Marginal external costs of the subjects should be equal to the burden imposed on the consumption or on the production causing this externality. It is also possible to take external costs into account in another way, for example by the projection them into the price of products or through disadvantage to consumers of tobacco products in the frame of other payments. This system is very administratively demanding and evidently hardly applicable in practice.

It is possible to achieve various aims by the above regulations, the structure and limitation in the frame of excise duty imposed on cigarettes. These aims of the national policies can create barriers of the free trade. That is the reason why it is necessary to set, in frame of the EU, certain restriction regarding excise duties in the member states. The question is, whether these restrictions can lead to the fulfilment of the defined aims and whether they really do lead to it. Certain results in the process of the harmonization

of excise duty imposed on cigarettes were reached. In the last years, this development has stopped and the question is whether at all and if under the existing conditions it is possible to continue in the harmonization and contributing to achieving the basic aims of the EU.

The EU member states growing tobacco prefer the ad valorem cigarettes taxation way. The specific part of excise duty is on the limit of the set minimum in these states. We find out, during the comparison of selling prices of the top-selling local brand of cigarettes and top-selling international brand of cigarettes introduced by the WHO in five EU member states producing tobacco and preferring ad valorem taxation, that selling prices of the international brand of cigarettes is in average by 28% higher than the price of the local brands of cigarettes. This fact considerably increases the preference of the local brands of cigarettes by the domestic citizens towards the consumption of international brands of cigarettes containing generally a higher quality tobacco. The supply of the local brands of cigarettes corresponds to the extent of their demand. A sufficient quantity of produced tobacco is considered to be the guarantee of meeting the demand. Farmers growing tobacco grow a crop with good sales ensuring them job, respectively incomes, from which they pay tax to the state budget. From all these reasons, the tobacco growing EU member states are not willing to break away from their considerable preferences of the ad valorem cigarettes taxation.

For comparison, let us look at 5 EU member states not growing tobacco where the preferences of the specific cigarettes taxation are the highest. Here the average difference of prices of the top-selling local brand of cigarettes and the top-selling international brand of cigarettes is only 14%, which is half of the value in comparison with the states growing tobacco. Why are the other states not willing to accept the ad valorem taxation? There are many reasons. The specific taxation has no negative impact on the quality of tobacco in cigarettes. High differences of prices during the ad valorem taxation impact more the prices of higher quality international brands and they logically decrease the quality in order to compete with the local brands. Another argument is that every cigarette has de facto a negative impact and causes the externality in the same amount. That is the reason, according to the supporters of the specific cigarettes taxation, why it is more rightful to tax cigarettes according to quantity markers and not according to the selling price.

It is possible to notice considerable differences in the share of the part of excise duty and the part of ad

valorem excise duty imposed on cigarettes in the EU member states influencing conditions on the single market of the EU, creating barriers to free trade and causing market distortion. The existing restriction in the frame of the individual parts of the rates and amounts of the excise duty from cigarettes in the EU member states is considered to be partly successful. However, it is possible to consider the present state as unsatisfactory.

Achievement of consensus regarding aims is the primary objective of regulation of excise duty imposed on cigarettes in the EU states. Restriction of cigarettes consumption and thereby decrease in negative health effects of smoking with the support of other suitable provision should be these aims. The fiscal objectives are considered to be secondary, although they are essential. In practice it is possible to achieve the existence of constant income from excise duty imposed on cigarettes and at the same time the decrease in cigarettes consumption. Reduction in collection of excise duty through decrease in cigarettes consumption is in this case offset by increased collection from the remaining cigarettes consumption burdened by higher tax. On the basis of such simply defined aims it is possible to discuss the concrete form of excise duty imposed on cigarettes or more precisely the restriction of national regulations in frame of EU states and expected effects can be achieved much sooner than until now.

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