

ASH Budget representation 2026

Submission by 9 September

1. This Budget representation is submitted by Action on Smoking and Health (ASH), which is a public health charity set up by the Royal College of Physicians in 1971 to advocate for policy measures to reduce the harm caused by tobacco. ASH receives funding for its full programme of work from the British Heart Foundation and Cancer Research UK.
2. This representation on behalf of ASH is co-produced with: Dr J Robert Branston, Associate Professor of Business Economics, University of Bath; Howard Reed, Landman Economics, consultant to ASH; Professor Jamie Brown, UCL; Dr Tessa Langley, Associate Professor in Public Health Economics and Evaluation at the University of Nottingham, Catherine Taylor, Chair of the National Illicit Tobacco Partnership and Regulatory Lead for Fresh. None of the authors have any direct or indirect links to, or receive funding from, the tobacco or nicotine industries, except for nominal shareholdings in Imperial Brands and British American Tobacco for advocacy and research purposes held by ASH and Dr Branston.
3. The tobacco industry has been active over the last year in the UK arguing that falls in tobacco tax revenue are due to big increases in the illicit market. These claims should not be taken at face value and are explored in more depth in this response and in ASH's soon-to-be-published report on the illegal market. What is clear is that the UK has seen a long-term downward trend in the size of the illicit tobacco market and that both smoking prevalence and tobacco consumption are falling – accounting for most of the gap in falling tax revenue. Falling consumption of tobacco is a net benefit to the UK economy and public finances, as we also set out in detail below, with tobacco placing considerable costs on society while generating little growth.

Recommendations

4. The paragraphs setting out the rationale and evidence for the recommendations are set out alongside each recommendation.

Need for a comprehensive smoking prevalence reduction strategy

- **Reset of national targets to have a clear goal in this parliament:** The government needs a new ambitious goal on tobacco to set it on a path to create a smokefree UK.
- **Publish a national strategy:** reducing smoking rates requires comprehensive action by many different parts of the local, regional and national system. A new strategy is needed to ensure effort is co-ordinated and maximises the opportunity of legislation in the Tobacco and Vapes Act.
- **Embed tobacco control in devolution approach:** learn from existing regional tobacco models and explore how new tobacco and nicotine regulatory measures could be delivered at scale through statutory authorities.
- **Deliver funding needed for change:** Protect current spending on tobacco control, including in the NHS, and increase the spend to around £310m per year (a fraction of the £10bn raised in excise tax from smokers).

Tobacco and nicotine taxes

- **Review of tobacco and nicotine taxes:** in light of changes in UK legislation, the tobacco and nicotine market and plans at EU level a comprehensive review of taxation should be undertaken including consideration of:
 - **Tobacco tax escalator in future budgets:** increase the tobacco tax escalator from 2% to 5% above RPI.
 - **Raise Minimum Excise Tax** beyond the tax escalator

- **Enhance the hand-rolled tobacco (HRT) tax escalator:** by an additional 10% above the tobacco tax escalator, until tax per average HRT cigarette is equivalent to that of factory-made (FM) cigarettes
- **Eliminate duty-free allowances for tobacco.**
- **Tax cigarillos at the same rate as cigarettes** and eliminate the significant differential in taxation with FM cigarettes
- **Raise taxes on all tobacco products:** it would be timely for HMT to review taxes across tobacco products, in particular heated tobacco which has grown in popularity and on which other European countries are levying higher taxes.
- **Rapid review of the vape excise tax:** As the vape excise tax comes into force, there must be a strong commitment to a rapid review and an adaptive policy approach depending on market responses and to meet government's wider objectives on vaping
- **Review tax rate for nicotine pouches:** With product regulations increasing on nicotine pouches and plans to ban or tax nicotine pouches in EU countries, it is timely to review their taxation in the UK, and we advocate for the implementation of a tax commensurate with the forthcoming tax on vape liquids.

Ensure 'anti-social' businesses contribute more

- **Raise revenue from tobacco companies, limiting their pricing tactics and profits, by implementing a 'Polluter pays' levy scheme.** (paras 50-64)
- **Work with DEFRA to bring forward a mandatory Extended Producer Responsibility duty on tobacco companies to fund efforts to reduce tobacco-related litter.**

Maintain and extend progress on tackling the illicit market

- **Sustain and evaluate the UK's illicit tobacco strategy and enforcement investment.** Maintain national and local enforcement funding through at least 2029, fully implement the HMRC illicit tobacco strategy, and publish an evaluation before the strategy is renewed.
- **Strengthen the tobacco retail and supply-chain enforcement framework.** Introduce comprehensive tobacco retail licensing with robust penalties for illicit and underage sales; integrate licensing with Track and Trace; ensure all local authorities use the Track and Trace referral scheme; and publish retailer Economic Operator IDs to support enforcement.
- **Strengthen local and national enforcement capacity and coordination.** Restore wider Trading Standards funding to pre-austerity levels, alongside dedicated illicit tobacco funding; ensure Regional Organised Crime Units and the National Crime Agency are actively engaged; and strengthen Closure Order powers so premises selling illicit tobacco can be shut down effectively.
- **Develop a robust approach to vape enforcement.** Publish a robust tax gap analysis on vape liquid following full introduction of the excise tax, build on existing practice to ensure a strong strategy is in place at borders and on the high street to prevent the importation and sale of non-duty-paid products. Maintain funding and visible presence to provide the market with confidence that the tax is being enforced.
- **Improve intelligence, public engagement and illicit demand reduction.** Develop and sustain evidence-based national campaigns that reduce demand for illicit tobacco, generate intelligence and encourage quit attempts, supported by regular surveys of smokers with sufficiently detailed regional data to better target enforcement and engagement.
- **Maintain UK international leadership on illicit tobacco.** Work with other countries, particularly across Europe, to share lessons from the UK's approach, strengthen

The impact of smoking on public finances and society

5. Over the last 10 years ASH has commissioned Howard Reed at Landman Economics to assess the cost of smoking to public finances and the economy. Much of the analysis in this submission references the recently updated Cost Benefit and Public Finance model.¹ In 2024 smoking in England cost the public finances an estimated £9.1 billion (bn), after tobacco excise tax income of around £7.5 bn and reduced pension payments of £0.3 bn are netted out. Reed's analysis shows that smokers who quit are likely to spend their money on other goods or services which attract VAT. Most of the burden on public finances is due to the damage smoking does to the productivity of the nation which reduces what people pay in tax and increases what they need in welfare. The total cost of smoking in England amounted to £44.8bn in 2024.⁷
6. On average in 2024 each smoker in England cost the public finances £3,327 a year and the wider economy £8,799. On average they pay £1,476 a year in excise taxes. Therefore, as smoking rates fall, the economy and public finances benefit even when the loss of excise tax revenue is taken into account. However, very little of the money raised through excise tax is spent on helping smokers to stop. We estimate around £41.43 per smoker is being spent in local government, the NHS, and nationally, which is around 3% of the amount smokers are paying in excise taxes. Increasing this to 5% of the revenue income could make a dramatic difference to the rate at which smoking declines, particularly if new investment is targeted to address smoking in the most disadvantaged groups.

Table 1: Cost of smoking to society and expenditure on tobacco control

	Total	Per smoker
Cost to public finances from smoking	£16.9bn	£3,327
Cost to society from smoking	£44.8bn	£8,799
Annual excise tax raised	£7.5bn	£1,476
Current estimated spend on tobacco control	£210.5m	£41.43
Recommended spend on tobacco control	£310m	£61.02

7. Research for ASH by Landman Economics found that smoking has a major impact on productivity² with an estimated 290,000 people inactive due to smoking. New research has further supported this showing that smoking is strongly associated with health-related economic inactivity, with absolute disparities widening over time.³ Reducing smoking prevalence would help to tackle rising inactivity and improve labour market participation.
8. Half the difference in healthy life expectancy (HLE) between the richest and poorest in society is due to smoking,⁴ so to deliver its commitment to halve the difference between the richest and poorest regions, the Government must address the differences in smoking prevalence. Reductions in smoking prevalence can deliver immediate benefits to the health and social care system as well as increasing the health and wealth of some of the poorest households⁵ and the economic productivity of the most deprived areas.⁷
9. Reducing the affordability of tobacco is also an important tool in itself to reduce smoking rates. By maintaining the tax escalator, closing gaps in the existing taxation regime, controlling the prices of tobacco products to limit market manipulation and raise further tax revenue, and investing in evidence-based tobacco control, this government can set the UK on a path to ending smoking. Forthcoming legislation will create a smokefree

generation, but it will do little to reduce current smoking. The UK approach to taxing tobacco and the expenditure on support to quit can accelerate the date at which the country becomes smokefree.

10. In our submission to the Spending Review⁸ we set out the revenue needed to reduce smoking by around 2 million people in this parliament. Two million fewer smokers by 2029 would have significant benefits for public finances and the wider economy. These reductions will support the government's mission to create growth by unlocking productivity through improved health and by reallocating people's purchasing away from tobacco and towards products with higher Gross Value Added (GVA), and thus providing greater benefits to the British economy. It will also support the goal of reducing health inequalities and address disadvantage in our poorest communities where smoking is most common.
11. The Blair Labour government's comprehensive anti-smoking strategy, combining legislation with funding for mass media anti-smoking campaigns and smoking cessation services, led to significant declines in smoking.⁹ However, in 2024 there were still 5 million smokers in the UK.¹⁰ Therefore, the Labour government's commitment to a smokefree UK¹¹ can only be delivered if current investment in measures to support smokers to quit is sustained, and the manifesto commitment to ensure all hospitals integrate 'opt out' smoking cessation interventions into routine care is realised.

Detailed submission

Need for a comprehensive smoking prevalence reduction strategy

Recommendations

Reset of national targets to have a clear goal in this parliament: The government needs a new ambitious goal on tobacco to set it on a path to create a smokefree UK.

Publish a national strategy: reducing smoking rates requires comprehensive action by many different parts of the local, regional and national system. A new strategy is needed to ensure effort is co-ordinated and maximises the opportunity of legislation in the Tobacco and Vapes Act.

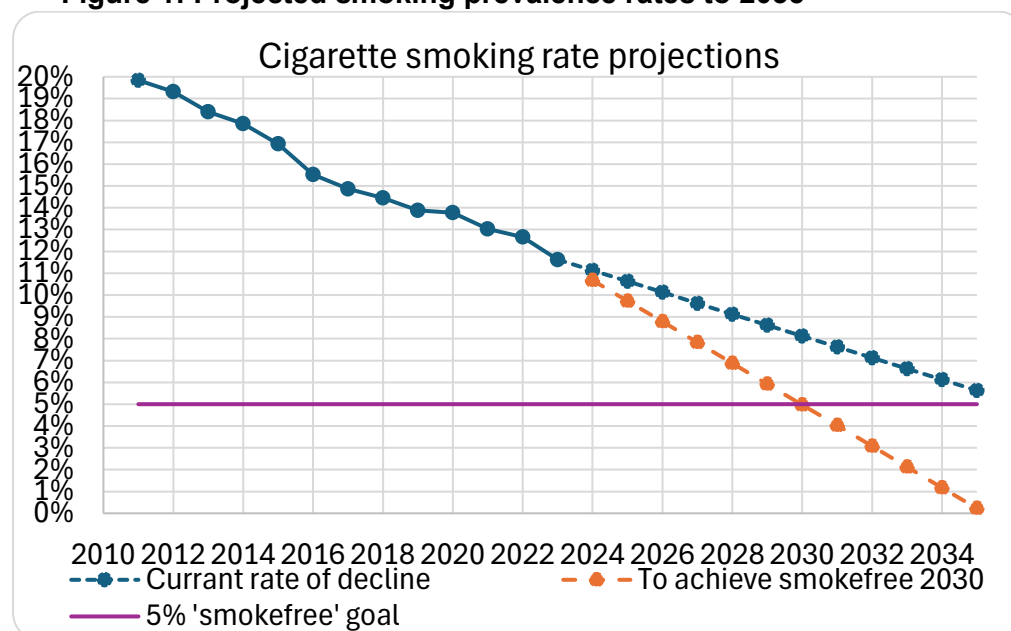
Embed tobacco control in devolution approach: learn from existing regional tobacco models and explore how new tobacco and nicotine regulatory measures could be delivered at scale through statutory authorities.

Deliver funding needed for change: Protect current spending on tobacco control, including in the NHS, and increase spending to around £310m per year (a fraction of the £10bn raised in excise tax from smokers)

12. This government has committed to creating a smokefree future and has taken the important step of passing the Tobacco and Vapes Act which will, from 1 January, gradually phase out the sale of tobacco in the UK by raising the age of sale one year every year. However, while the Act includes a number of important measures and maintained investment in local government tobacco control is welcome, a clear plan including targets for reducing smoking is needed to accelerate progress for those who are already smoking.

13. In 2019 the last Conservative Government set an ambition in their Prevention Green Paper for the country to be smokefree by 2030. By this, they meant that smoking rates would be below 5%. However, little action was taken to deliver on this commitment until 2023, and with the pandemic likely slowing progress, it now appears very unlikely that this goal will be reached.

Figure 1: Projected smoking prevalence rates to 2035¹²



14. The Smokefree Action Coalition, which ASH co-ordinates, recently launched a new pledge for organisations to commit to creating a Smokefree UK for all.¹³ Over 130 national and local organisations have signed the pledge. The pledge aims for smoking rates to be below 1% for all groups by 2040. This is an ambitious goal but not an unrealistic one with the right plan and funding. Overall, it requires a decline of around 0.6 percentage point each year – though for the most disadvantaged groups faster declines are needed. While based on current trends some groups will reach lower than 1% smoking rates within the next decade, other less advantaged groups will take much longer to reach this level. Therefore, more needs to be done to help these groups.

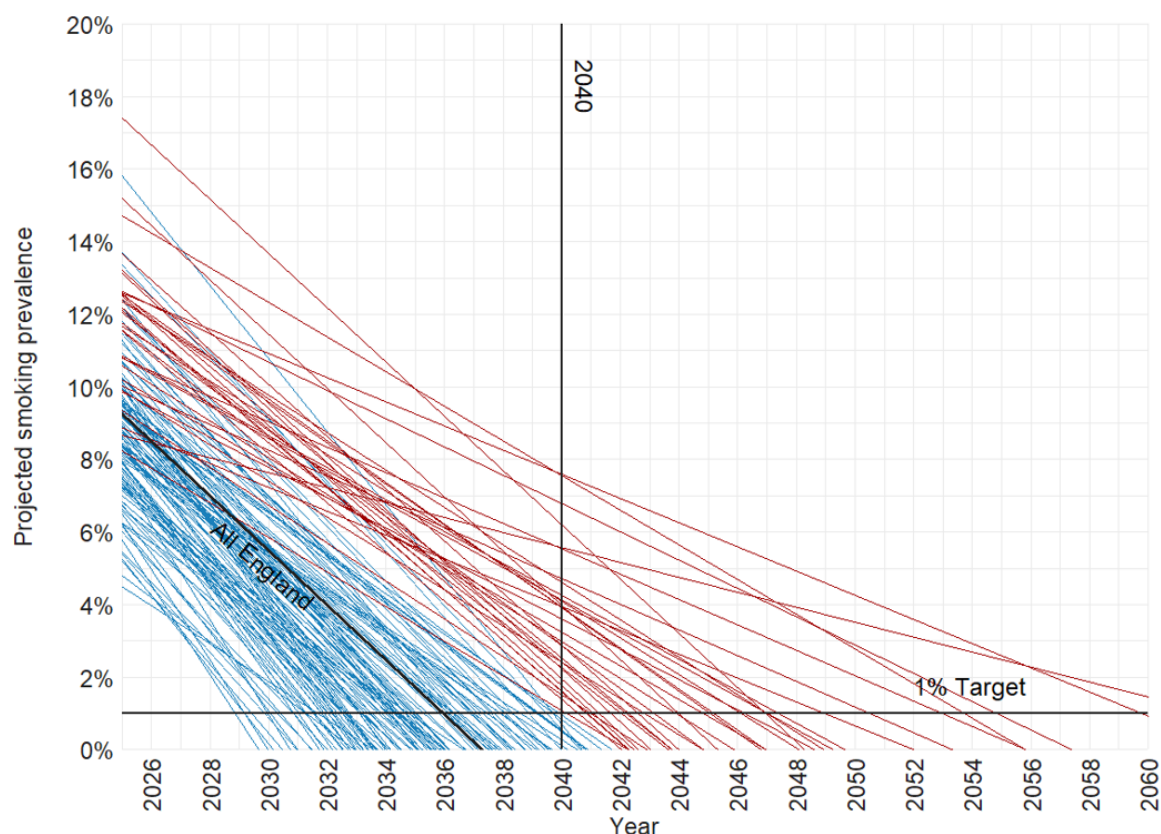
Table 2: Predicted date by which groups will reach smoking prevalence below 1%, at the rate of decline between 2014–2024 (2015–2024 for education level)¹⁴

When smoking will reach less than 1%	
Has a degree	2033
Unemployed	2033
Managerial and professional	2034
In employment	2035
Own home outright	2040
Routine and manual	2041
Economically inactive	2045
Rents in social housing	2048
No qualifications	2062

15. The differences between groups are also reflected in differences between places given the variation in disadvantage around the country. The PM wants to see 'growth in every postcode', however, the differences in smoking rates will undermine this goal. Smoking is associated with lower productivity in individuals due to poorer health, but spending on smoking is also bad for local communities. Most spending on tobacco leaves the local community in the form of taxes or profits for multinationals, with very narrow margins for retailers. As a result, tobacco has a very low GVA and when people switch their spending to other goods and services that can boost local economies. It is estimated that £22.03bn is lost each year due to lower productivity of smokers and a further £11.2bn is foregone because spending on tobacco has a low GVA and contributes little to UK economic growth with very little UK production.
16. A clear plan to reduce smoking in every postcode will support both health and economic objectives, while setting out the respective roles of each tier of the system. Local authorities should continue to lead on delivering stop smoking support, enforcing tobacco and vape regulations, and preventing uptake. However, as Strategic Authorities (SAs) take on a stronger role, alongside the implementation of the Tobacco and Vapes Act, increasing enforcement responsibilities and constrained local capacity, government should consider which tobacco control functions could be delivered more effectively at SA level. Aligning tobacco control across Strategic Authorities with NHS and police footprints would create opportunities to coordinate enforcement, communications, intelligence and strategic planning at scale, while maintaining local delivery.
17. There are already successful examples of regional and ICB-wide tobacco control programmes – including in the North East, Greater Manchester, Cheshire and Merseyside, and Humber and North Yorkshire – which demonstrate the benefits of this approach. The introduction of new regulatory systems, such as retail licensing, provides a timely opportunity to establish Strategic Authorities as a key tier for coordinating aspects of tobacco control delivery. This must complement and not replace national investment and strategy.
18. Sufficient funding to secure change is also necessary. Currently, government is committing around £153m per year to helping smokers quit through local government services. There is additional investment in local enforcement, national spending on mass media campaigns and on financial incentives for pregnant women. However, there is variation in how the NHS is supporting smokers with ICBs appearing to vary their spending between £32.11 and £1.44 per smoker in the population.¹⁵ Working with UCL and Landman Economics, ASH estimated for the 2025 Spending Review that in addition to maintaining the above spend a further £97m would enable the Government to better target inequalities and reduce the number of smokers by 2 million in this parliament. This additional investment is still a fraction of the money raised by tobacco taxes and a still smaller fraction of the cost of smoking to public finances.
19. We have recently plotted progress across all council and unitary authorities in England on reducing smoking. The picture is heartening in many places. On current progress two thirds of local authorities will reach fewer than 1% of their population smoking by 2040. While this progress is welcome, it will be under threat if funding levels are not maintained.
20. There is also significant room for improvement in some areas. A third of local authorities will not reach below 1% of their population smoking until after 2040 with some reaching this goal in 2060 (see figure 2). Those who have the toughest job to do with the highest rates of smoking must be supported to do so and those with lower rates who have seen

their progress slow must be incentivised to take greater action. A smokefree future for the whole country is well within grasp with the right strategy and investment.

Figure 2: Projections of future smoking prevalence in English LAs based on APS estimates from 2012 to 2024



Tobacco and nicotine taxes

Recommendations

Review tobacco and nicotine taxes to ensure they align with the government's overall strategy to create a smokefree country.

21. HMT should review its approach to tobacco and nicotine taxes and ensure it is fully aligned with the government's vision for a smokefree country, the regulatory goals of the Tobacco and Vapes Act, the revision of the EU Tobacco Tax Directive, the evolving market and evidence base. The UK tobacco tax approach is rightly recognised around the world as being one of the most comprehensive and effective approaches to reducing affordability and, as a result, consumption. However, the tobacco industry has continued to innovate, and the market for nicotine products is evolving alongside a changing regulatory landscape. The time is right to assess if the UK tax approach will fully support the goal for every postcode to be smokefree.
22. The Tobacco and Vapes Act introduces powers to comprehensively regulate all tobacco and nicotine products with a goal to create a more coherent regulatory regime where all products are captured and regulated in line with harms. Loopholes left in tobacco regulation are set to be closed and new regulations will ensure that nicotine products

already on the market and any innovation in the future will be fully captured. The government's approach to taxation should be consistent with this.

23. The EU Tobacco Tax Directive is being revised and is likely to be adopted shortly. While the UK has long had tax rates that exceed the minimum levels of the TTD, the revised TTD will introduce new taxes on nicotine pouches and will capture products like cigarillos so they are taxed in line with cigarettes, which does not currently happen in the UK. While we are no longer part of the EU there is value in the UK taking a consistent approach to taxation.
24. Elsewhere in this submission we note that aspects of tobacco taxation such as MET are not always working as intended and industry has moved to exploit loopholes through the pricing and marketing of tobacco products not taxed at the same level as cigarettes such as cigarillos. This evidence and the continued innovation of industry point to the need to consider whether a change in approach could support more effective taxation regime.
25. The tobacco industry and its proxies have been active in arguing that the illicit market is growing. While there is some evidence of an increase (discussed elsewhere), this is against a backdrop of the long term decline in the illegal market and big drops in smoking rates and consumption. The falls in revenue from tobacco products are primarily as a result of falling consumption not a large increase in the illegal market. In Australia, where the illegal market has grown substantially due to weaknesses in enforcement, there has been a fierce debate about reducing levels of tax on tobacco. Any review could look at this issue head on, scrutinise industry data and the substantial evidence of the costs tobacco places on public finances and the wider economy.

Recommendation

Tobacco tax escalator in future budgets: increase the tobacco tax escalator from 2% to 5% above RPI

26. We welcomed the commitment in the Autumn 2024 Budget to maintain the tobacco tax escalator above the rate of inflation for the duration of this parliament. Reducing the affordability of tobacco through tobacco taxation is an effective lever to motivate smokers to quit and discourage youth uptake, as well as generating significant tax revenues. That is why an annual tobacco tax escalator of at least RPI + 2% has been in place since 2010.^{16 17}
27. The purpose of tobacco taxes is to reduce the consumption of tobacco. This has been the stated aim of HMT across multiple Parliaments. The UK approach to tax improves public health but also supports economic growth. Smoking is a major burden on public finances and the wider economy as noted in detail in paras 5 – 7 above. Landman Economics estimates that the net impact of smoking on public finances in the UK was over £10.8 billion (bn), once tobacco excise tax income of around £8.9 bn and reduced pension payments of £0.3 bn are netted out. (See Table 7.2 in the Cost Benefit and Public Finance Report, Jun 2026).⁷
28. The overall costs of smoking in the UK to the economy are far higher, amounting to £53.2 bn with a further £46bn in QALYs due to early death (See Table 7.1 in the Cost Benefit and Public Finance Report, Jun 2026).⁷
29. Revenue from tobacco taxes for many years continued to grow even though consumption fell as the increase in taxes replaced the revenue forgone as smokers quit or reduced their consumption. In recent years tobacco clearances have dropped more

sharply resulting in falling tobacco receipts. The tobacco industry has argued this is evidence that illicit tobacco is increasing. This is a well-worn argument from the manufacturers. Tobacco manufacturers have argued, without justification, for years that high UK taxes and regulation have driven the UK's illicit market.

30. In reality a comprehensive anti-smuggling strategy, strongly enforced at the borders and at local and regional level, backed up by the implementation of tracking and tracing of tobacco products, has been highly effective in driving down the illicit trade.¹⁸ In 2000, when the anti-smuggling strategy was first launched, 15 billion illegal cigarettes were smoked in the UK, amounting to 20% of all cigarettes smoked. By 2023/24 it had fallen to an estimated 2 billion, amounting to only 10% of cigarettes smoked,¹⁹ with less than 10% of smokers reporting recently purchasing illicit between 2019 and 2022.²⁰
31. It is possible that there has been an increase in the illicit market not observed in HMRC tax gap analysis.²¹ Despite being credited by the World Bank as one of the most robust estimates of the illicit tobacco market of any country in the world, no analysis of an illegal market is infallible. However, no independent estimates of the illegal market put the size of the market anywhere close to those estimated by tobacco companies. More detail on our assessment of the current illegal market and the actions which could enhance the UK's approach are below from paragraph 89 onwards.
32. The UK has historically applied amongst the highest tax rates in the world, however, both New Zealand and Australia have higher levels of taxation and lower smoking rates than the UK. Australia has been cited as an example where high taxes have led to an increase in the illicit market and therefore a policy failure. However, independent experts disagree that taxes are the primary driver and note problems with enforcement and rising criminal activity as the main driver for the increase in the illicit market in Australia. However, despite the challenges Australia has with its illicit market, smoking rates are still falling²²:

Table 3: Comparison in rates of smoking, prices and illicit tobacco across three countries

Country	Smoking rate	Price of 20 Benson & Hedges in GB£	2023 % of consumption illicit
New Zealand	8.4% (2024) ²³	£21.35 ²⁴	16% ²⁵
Australia	7.8% (2025) ²⁶	£34.01 ²⁷	80% ²⁸
UK	10.6% (2024) ²⁹	£19.41 ³⁰	12% (FM) and 19% (HRT)

33. In the last decade smoking rates in the UK have fallen by 41% however in New Zealand they have fallen by 52% and in Australia by 51%, showing the scope for additional progress where taxes are higher.
34. New Zealand and Australia both have lessons for the UK. First, that tobacco taxation is an important tool for reducing consumption and works even in the context of a rising illicit market. Second, that enforcement is important to protect the legal market. The UK has strong enforcement infrastructure and existing high levels of taxation. Increasing taxes does not provide any new incentive to the illegal market but is likely to further decrease smoking which in turn will reduce the demand for illegal products.
35. Consideration should be given to increasing the tax escalator further to 5% above inflation in future budgets given the significant health and economic benefits of falling rates of smoking.

Recommendation

Increase the rate of Minimum Excise Tax beyond the tax escalator

36. The minimum excise tax (MET) is designed to prevent tobacco companies from selling factory-made cigarettes at very low prices. Without such a tax floor, manufacturers can offset higher duties on premium brands by keeping budget brands cheap, undermining the effectiveness of tax policy. The MET was introduced in May 2017 and initially succeeded in raising prices for economy brands, supporting public health objectives by narrowing the gap between the cheapest and most expensive products. This is particularly important for young people and price-sensitive smokers, who are more likely to be influenced by cheap tobacco.
37. However, new evidence suggests that the MET is no longer fully functioning as intended. Analysis of NielsenIQ weekly brand-level sales data from January 2023 to June 2024, triangulated with systematic supermarket price tracking, found that after the March and November 2023 above-inflation tax increases a substantial proportion of cigarette brands remained below the MET-implied price. In December 2023, over half of tracked brands were still below the MET price point a month after the tax increase, and by mid-2024 some economy brands remained nearly £1 below the expected minimum price. This indicates that tobacco companies are absorbing part of tax increases and gradually adjusting prices to maintain cheap economy brands, eroding the MET's role as a de facto minimum retail price. The MET should therefore be strengthened so that increases are fully and promptly passed through to retail prices and cheap brands cannot continue to undermine tobacco tax policy.³¹

Recommendation

Enhance the hand-rolled tobacco (HRT) tax escalator by 10% above the escalator for other tobacco products until tax per average HRT cigarette is equivalent to that of factory-made (FM) cigarettes.

38. The most significant gap in the current taxation model is the difference in levels of tax between handrolled and factory-made cigarettes. Recent additional HRT tax uplifts began in 2023. There are early signs that the approach is working, with STS data showing that the proportion of cigarette smokers using hand-rolled steadily increased from 32.1% (28.9% to 35.4%) to a high of 57.5% (55.7% to 59.4%) in 2022 but has plateaued, or possibly declined to 54.5% (52.6% to 56.4%) in 2024.³²
39. The increase in the tax on hand-rolled tobacco at a higher rate than factory-made tobacco in the Autumn 2024 budget was welcome but was not repeated in the 2025 Budget. However, this should be reconsidered, particularly in view of HMRC estimates which show that the illegal market for HRT is in decline. An enhanced escalator of 10% above the escalator for other tobacco products is needed because there is still a major disparity in excise tax rates between factory-made (FM) and HRT tobacco, especially when measured per typical cigarette, which encourages smokers to trade down to cheaper products instead of quitting. Using the average weight of a hand-rolled cigarette, which is 0.51g,³³ the current tax rate on HRT is equivalent to around 24 pence per cigarette, while that on FM is 45 pence per cigarette.
40. In 1998 fewer than one in five smokers mainly used HRT; by 2017 it was four in ten. The trend in smokers switching to HRT is not the only concerning trend. The number of cigarettes which smokers consume has fallen by 47% for factory-made products between 2008 and 2019 (from 9.5 cigarettes to 5 cigarettes a day) while over the same

period the number of HRT cigarettes smoked a day has grown by 35% (from 4.2 to 5.6).³⁴ The smokers most likely to switch to HRT are younger, low-income smokers.³⁵

41. This switch to HRT has reduced the amount of excise tax the Government collects, while also reducing the cost incentive for quitting and doing nothing to improve smokers' health. Larger than average tax increases for HRT in recent years have helped, but there is still a long way to go. We estimate that if a HRT tax escalator of 10% above the FM rate is maintained, it will take until 2032 for the rate of tax per stick for HRT and FM to be the same. Furthermore, equalisation of the tax rates on FM and HRT per cigarette would significantly facilitate the administration and collection of any 'Polluter pays' levy scheme.

Recommendation

Eliminate duty-free allowances for tobacco, or as a first step, reduce the HRT allowance from 250g to 100g to be consistent with the allowance for FM cigarettes.

42. While the UK has reduced the affordability of factory-made cigarettes significantly over the last decade, there are still gaps in the current approach to taxation that mean these tax rises have had less impact on smoking rates than they might otherwise have had. One such loophole is the level of duty-free allowances.
43. Following our exit from the EU the amount of tobacco travellers from the EU to the UK could bring back for personal use has fallen from 800 cigarettes and 1 kg of HRT per trip to 100 cigarettes or 250 grams of smoking tobacco.³⁶ Despite the change in rules, analysis from UCL³⁷ suggests that the proportion of smokers who are buying tobacco overseas has increased. From 8% in October 2020 to 32.8% in 2024 [unpublished UCL data]. Smokers from more advantaged backgrounds are most likely to buy tobacco in this way and therefore legally avoid paying the levels of domestic duty.
44. Prohibiting the importation of duty-paid tobacco for personal use from EU Member States was a positive step. However, importation of duty-free tobacco is still allowed³⁸ (200 cigarettes, or 100 cigarillos, or 50 cigars, or 250g of tobacco (including shisha tobacco) or 200 sticks of tobacco for heating. Despite a fall in cross-border tobacco purchasing during the first year of the pandemic reported by smokers in England, the proportion reporting cross-border tobacco purchases is now three times higher³⁷ than it was at the start of 2019. In line with the Government's smokefree ambition, HMT should go further and remove all duty-free allowances for tobacco products, which when the UK left the EU were extended to cover travel to GB from EU countries. Countries like Singapore have already eliminated duty-free allowances, and several countries, such as Taiwan, effectively did so because of travel bans during the COVID pandemic.³⁹
45. Access to cheap tobacco, whether illicit or cross-border shopped, encourages smokers to continue to smoke, undermining the tax-induced higher price of tobacco as an incentive to quit. Allowing duty-free tobacco from any country costs government tax revenues and is not in alignment with the Government's policy objective of *"maintaining high tobacco duty rates as an established tool to reduce smoking prevalence and to ensure that tobacco duties continue to contribute to government revenues."*⁴⁰
46. However, if the Government decides not to remove duty-free allowances, it is still important, as with excise taxes, to ensure treatment of HRT is consistent with that of FM cigarettes. Currently smokers are allowed 200 cigarettes but 250g of HRT, which is the equivalent of approximately 500 cigarettes,³³ and therefore at a minimum the allowance for HRT should be reduced to 100g.

Recommendation

Tax cigarillos at the same rate as cigarettes and eliminate the significant differential in taxation with FM cigarettes.

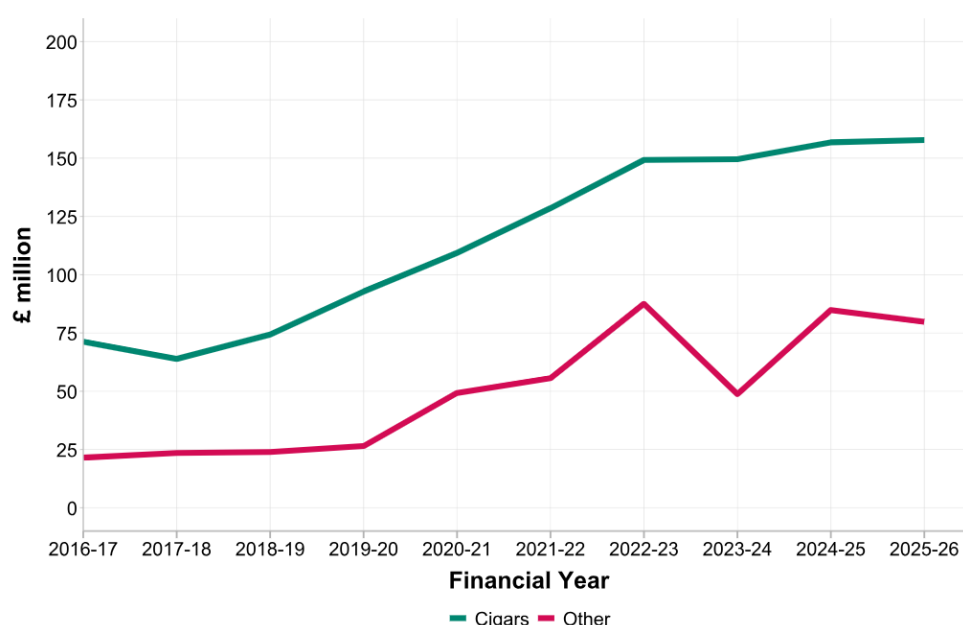
47. Due to definitions imposed through the EU cigarillos have long been classified differently from cigarettes. This has allowed them to avoid regulations such as standardised packaging and pack sizes, and prohibition of characterising flavours⁴¹ and also to attract lower rates of tax. These gaps in regulation and lower tax rates have seen cigarillos on the market that are nearly indistinguishable from cigarettes, but are taxed around 27% less.
48. These products are also being used to bypass public health legislation prohibiting the sale of mentholated cigarettes from May 2020, both Japan Tobacco International (JTI) and Imperial Brands launched mint-flavoured cigarillos, aimed at cigarette smokers, in packs of 10 in the UK (the minimum pack size for cigarettes is 20).⁴² Approximately a million adults reported still smoking menthol cigarettes in Great Britain in the first quarter of 2023 despite the prohibition in 2020⁴³ and the availability of menthol cigarillos may be playing an important role. 'Cigarillos' closely resemble cigarettes: the outer leaf wrapping, required for a cigarillo classification, covers a cigarette-like paper tube that contains the cigarette tobacco and appears to provide the main structure.⁴¹ While not prohibited by the cigar/cigarillo definition, this does highlight their cigarette-like nature.⁴¹
49. Minimum pack sizes of 20 cigarettes were made mandatory to discourage youth initiation by increasing the price at point of purchase.⁴⁴ However, cigarillos are not subject to minimum pack sizes and a pack of 10 Sterling cigarillos, very similar to cigarettes, can be bought for £7.40,⁴⁵ compared to the equivalent Sterling pack of 20 cigarettes of £16.15. The low pack purchase price enhances their youth appeal, as children and young people are more price-sensitive.⁴⁶
50. Consumption of non-cigarette combustible tobacco prevalence has increased significantly in recent years. It is estimated that around 315,000 people aged 16+ smoked using cigarillos, a significant increase in use and reflecting a wider trend of non-cigarette tobacco use growing. As of September 2023, there were around 772,800 adult non-cigarette tobacco smokers in England; around five times more than a decade earlier. The rise in prevalence differed by age, with a more pronounced rise leading to higher prevalence among younger than older ages.⁴⁷ In 2024 33% of 11-18 year olds who had tried smoking had tried using cigarillos, and 43% of those who were regular smokers.⁴⁸
51. The classification of cigarillos as cigars and regulating them as such⁴⁹ derives from the EU Directives,⁵⁰ and it is likely that the passage of the Tobacco and Vapes Bill will see existing cigarette regulations more rigorously applied to this category. It is also worth noting that the revision of EU Tobacco Tax Directive will likely address this loophole.⁵¹
52. Using the JTI brand Sterling, we have estimated the likely tax on a pack of 20⁵² (see Table 4). The cigarillo version is sold for £1.45 less than the pack of 20 cigarettes, however, it seems likely that it is much more profitable for JTI. It appears that JTI make an additional £1.93 a pack in revenue when customers buy the cigarillo version of their Sterling brand because they attract less tax. Assuming manufacturing costs are similar, the majority of this additional revenue would almost certainly be profit, which suggests the lower rate of duty is effectively acting as a subsidy for cigarillo products.

Table 4: Comparison in tax and revenue for cigarettes and cigarillos*

	Price for pack of 20	Duty	VAT	Industry revenue
20 Sterling Dual Capsule cigarillos	£14.65	£6.56	£2.44	£5.65
20 Sterling Dual cigarettes	£16.10	£9.73	£2.69	£3.72

55. The cigar category has been growing according to HMRC data from around 2017 onwards, the year after standardised packaging came in for cigarettes and HRT. This is in the context of a steady decline in cigarettes and HRT. The below graph is taken from the HMRC Tobacco Bulletin.⁵³

Figure 4: Cigar and other products yearly tobacco receipts for the previous 10 financial years



Recommendation

Raise taxes on all tobacco products: tobacco products other than cigarettes and hand rolled tobacco all have lower rates of excise tax that could be increased to reduce harms.

53. As noted above, levels of use on non-cigarette tobacco have grown as regulations have tightened on cigarettes and hand-rolled tobacco, and taxes have increased. The level of non-cigarette tobacco use has grown at a time when it is falling in other similar countries. Analysis in pre-print from Brighton and Sussex Medical School and UCL⁵⁴ using data from the International Tobacco Control Youth Survey found that between 2017 and 2024 use of non-cigarette tobacco saw a 56% increase among 16-19 year olds in England while over the same period use fell in Canada (by 14%) and the USA (by 30%). This has meant England went from having the lowest level of use among these three countries in 2017 (7.4% England, 9.2% Canada, 10.2% USA) to having the highest (11.6% England, 7.9% Canada, 7.2% USA).

* Prices taken from www.Tesco.com 21/05/26

54. This increase varies across product types. Use of cigarillos has doubled, cigar use has more than doubled, and use of smokeless tobacco has quadrupled among this age group over the last 7 years.
55. ASH surveys have found that use of heated tobacco products, while still uncommon, has grown and 1% of adults now report using heated tobacco products. Awareness of them has grown in all groups but notability in under 18s and among 18-24 year olds.
56. The generational ban on the sale of tobacco will cover all tobacco products to avoid loopholes and prevent people from using products with known harms. The Tobacco and Vapes Act also seeks to equally apply regulations to tobacco products which previously applied only to cigarettes and HRT, some aspects of which are currently under consultation. In light of the evidence of growing use and the changing regulatory environment, it is time for the tax across these products to be reviewed and increased.
57. The Government could adopt a similar approach to Germany where policy-makers have acknowledged that heated tobacco is likely to be less harmful than combusted tobacco, while still posing health risks, and have levied a tax at 80% of the tax on cigarettes. A similar approach could be taken in the UK keeping a price difference with vapes and other non-tobacco nicotine products likely to be less harmful than heated tobacco. We would also like to see the taxation of heated tobacco products move to a system of taxation per 1000 sticks rather than based on weight.
58. To provide an assessment of the approximate level of revenue that could be generated by reviewing taxes on all tobacco products Landman Economics has estimated for ASH that if all tobacco products were taxed at the same level as cigarettes, then an additional £182m in tax revenue would be raised in the first year. This is largely driven by changes in revenue for hand-rolled tobacco which makes up a large part of the UK tobacco market, but a significant contribution would also be made by cigars and cigarillos which have grown in use. A particular anomaly of UK tobacco taxes is how low the rate of tax is on pipe and chewing tobacco (less than half the tax on cigarettes). While this currently makes up a low level of consumption, addressing this gap would avoid the risk of future exploitation by an industry that has historically been adaptive and create consistency with the regulatory approach being taken by DHSC.

Table 5: Estimates of changes in revenue across different tobacco products*

Item	Excise duty per 100g tobacco	multiplier to get to cigarettes	Elasticity (OBR)	Change in revenue (£m)
Cigarettes	£67.65			
HRT	£57.43	1.178	-1	136
Cigars/Cigarillos	£50.81	1.331	-0.4	39
Pipe / chewing / other	£24.81	2.727	-0.4	5
Heating	£42.65	1.586	-0.4	2
Total				182

*See appendix 1 for assumptions

59. It may not be that a review of taxes would conclude that all products should be taxed at the same level as cigarettes, but this provides an indication of the likely level of revenue that could be generated.

Recommendation

Rapid review of the vape excise tax: As the vape excise tax comes into force there must be a strong commitment to a rapid review and an adaptive policy approach depending on market responses and to meet government's wider objectives on vaping.

60. ASH supports the Government's stated objective of the vaping products duty which is to make vaping less accessible to children, and to raise money for the NHS and smoking initiatives.⁵⁵ It is crucial that this objective is fulfilled and sustained, as we note this has not been the case for the Sugary Drinks Industry Levy.⁵⁶
61. It is still unclear what impact on price the new excise taxes will have and what impact that will have on youth uptake and use of vapes as a quitting aid. Manufacturers were able to redesign products following the introduction of the disposable vapes ban very rapidly. They brought products to market that met new regulatory standards and were sold at the same price-point. This suggests that there are significant margins on existing products and the market is able to be very responsive to regulatory change.
62. UCL analysis has found that adult consumers have shifted their behaviour and are reusing products to some extent, with the average spend on vapes falling following the announcement of the ban. It appears likely that the effect of regulation has been to lower the cost of vaping where people reuse products. For example, expenditure in those who vaped and were aged 16 increased by 143.5% from January 2021 to June 2023, as the use of disposables increased rapidly, followed by a 30.9% decline by April 2025.⁵⁷
63. A recent expert workshop run by ASH and CRUK with representation from academic experts, enforcement and a cross-government presence including HMRC and DHSC sought to assess the complexity of policy interactions on vaping. They concluded that a number of policies risk having substantial trade-offs between reductions in youth vaping and reductions in adult smokers switching to vaping. The vape excise tax was one of the policy areas deemed at risk of trade-offs
64. It is therefore uncertain what impact future regulatory changes might have on the price of products, and so HMRC and HMT will need to keep this under review to assess whether the intended goal of the tax is being achieved. Given the level of uncertainty around the impact of planned regulations and tax changes on the vaping market, a rapid evaluation and a commitment to an adaptive policy approach are needed to ensure that the tax fulfils its purpose.
65. ASH is working with UCL, University of Nottingham, University of Bath, University of Sheffield, King's and others to pool our resources and undertake our own independent review of the impact of the tax. We welcome the involvement of HMRC, HMT, and DHSC in this work.
66. One of the areas that an evaluation could consider would be the role of wider taxes, for example a tax on devices. A tax on devices, in addition to the vape liquid tax, could increase the price of an initial purchase without making too much difference to the cost of ongoing use. This could serve to create a greater barrier to purchases among children and incentivise reuse of products for those who are still treating them as disposable. It may also help to ensure that non-compliant products do not enter the UK market at a time when government is intending to more strongly regulate the design of products. While products that contain vape liquid will be subject to the Excise Movement and

Control Scheme, products that do not will be outside this scheme. This creates a risk that non-compliant products can be more easily bought into the country.

67. Heated tobacco devices could also be subject to taxation, as switching from smoking to these products offers fewer public health benefits than switching to vaping. As a result, there are fewer unintended consequences to consider.

Recommendation

Review tax rate on nicotine pouches: With product regulations increasing on nicotine pouches and plans to ban or tax nicotine pouches in EU countries, it is timely to review the taxation of this product category. We suggest it is appropriate to apply a level of duty commensurate with that to be applied to vape liquid

68. Nicotine pouches have grown in popularity in the UK⁵⁸ following significant marketing and few restrictions on their promotion, sale or contents. Under the Tobacco and Vapes Act this category will be more tightly regulated. In the first instance this will mean an age of sale and restrictions on advertising, but could also include requirements on the products such as limits on nicotine strength and child proof packaging.
69. The EU is also looking to tax these products under the draft reform of the Tobacco Tax Directive and our near neighbours in France have recently passed a complete ban. As this becomes a more regulated market there could be opportunities for illicit products, and an excise tax will allow the products to be brought into the Excise Movement and Control System alongside vape liquids creating more protection for the legal market.
70. Additionally, while nicotine pouches are very likely to be substantially less harmful than smoking, and may be less harmful than vaping, they contain an addictive substance, and it is not desirable for those who are not already addicted to nicotine to start using this product. These are currently cheap products to buy with a pack of 20 pouches typically retailing around £6.50. However, the cost of production is also low. We found a Polish manufacturer who was selling in bulk for less than a Euro per tub of 20.⁵⁹ An excise tax will give the government some control over the retail price of pouches and ensure they are not sold at pocket-money prices.
71. The Chancellor should apply a level of taxation for pouches which is in line with the vape liquid tax to maintain a price difference between these products and more harmful tobacco products while discouraging youth use. Further research may be needed to ascertain equivalence based on an understanding of how products are used.

Ensure 'anti-social' businesses contribute more

Recommendation

Raise revenue from tobacco companies, limiting their pricing tactics and profits, by implementing a 'Polluter pays' levy scheme.

Work with DEFRA to bring forward a mandatory Extended Producer Responsibility duty on tobacco companies to fund efforts to reduce tobacco-related litter.

72. The Prime Minister has said that 'anti-social' businesses must contribute more where they do not make a positive contribution to local communities. The focus of the PM's plans have been around the role of business rates with vape retailers noted as being

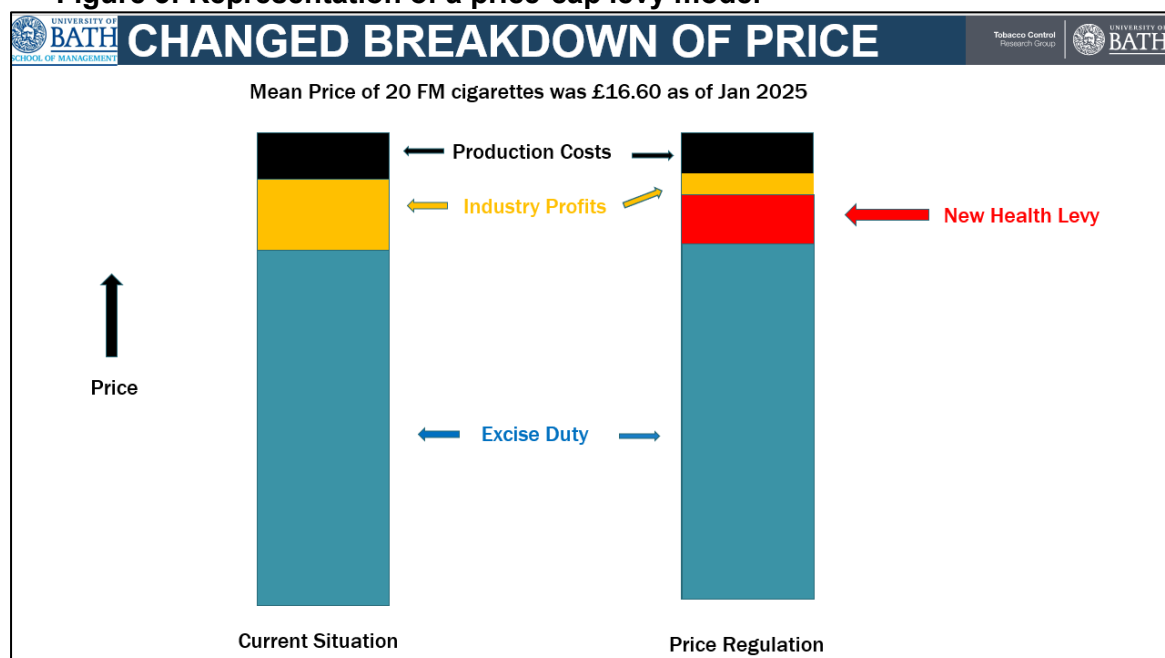
‘anti-social’ and needing to contribute more. We urge HMT to engage with public health experts, DHSC and others in the development of this policy. While there are plainly vape retailers that are anti-social, most vapes are sold to people who are actively quitting smoking, cutting down or abstaining from smoking and as such have substantial social value. There is a risk that legitimate vape retailers, who are already more likely to be following the law, will pay the price of higher business rates while non-legitimate businesses will simply not pay. There is substantial policy under development to control the vape market and any approach to Business Rates should be integrated into this. It must also include tobacco retailers, as the sale of their product has far more ‘anti-social’ consequences than vapes.

73. Indeed, there are few parts of industry more ‘anti-social’ than the tobacco industry. As noted above, consumption of tobacco through both its health impacts and its low GVA is damaging to the British economy and undermines family finances in the poorest communities. At the same time tobacco companies make significant profits while paying relatively little corporation tax.
74. Tobacco companies can make excessive profits because of their monopoly-like pricing power. Imperial Brands and Japan Tobacco International (JTI) together control 81% of the UK market for factory made cigarettes and together with Philip Morris International (PMI) and British American Tobacco (BAT) account for about 95% of the market.⁶⁰ These four companies are the largest of the tobacco transnationals known globally as ‘Big Tobacco’.
75. In other UK markets where monopoly-like pricing power could be an issue, we tend to regulate the prices the relevant companies can charge, for example for water, gas, electricity. These are life-enhancing products, yet we think it appropriate to limit their profits by regulating prices; why not also do so for tobacco, which is life-destroying?
76. This should be carried out in two stages.
- **Step 1: A corporation tax surcharge**, as applied to banks, could be implemented immediately through the Finance Bill. It has been estimated that a corporation tax surcharge on profits could raise £74 million from tobacco transnationals.⁴³
 - **Step 2: Implement legislation** to cap industry prices and hence profits, while maintaining the retail price through additional taxation, which has been estimated could raise up to £4.9bn over a five-year period.⁶¹
77. The government imposes a corporation tax surcharge on energy companies and banks to address their excess profitability. However, tobacco companies make proportionally far greater excess profits selling cigarettes which, unlike energy and banking, have only detrimental impacts on society. For example, Imperial Brands made a net operating profit margin of 66.5% in the UK in 2023,⁶² while BP’s net operating profit in September 2023 was estimated to be 11.1%.⁶³ The average for UK manufacturing is under 10%.⁶⁴
78. Step 1 should be the imposition in the forthcoming Budget of a corporation tax surcharge on the profits of the Big Four tobacco transnationals. This could be implemented immediately through the Finance Bill, but would be a temporary measure which would only be needed until the following recommendation for a ‘polluter pays’ levy scheme comes into effect. As a temporary measure it would be unlikely the industry would try to restructure their operations to avoid it, given the time and costs involved to do so.
79. However, a corporation tax surcharge would not sufficiently address the industry’s excess profitability. Detailed analysis has revealed that between 2009 and 2016 Imperial

Brands, the British company which is the market leader in the UK, received £35 million more in corporation tax refunds/credits than it paid in tax.⁶⁵

80. To address this for the longer-term we propose a 'polluter pays' levy scheme to cap producer prices and hence profits. Prior to leaving the EU such a scheme was prohibited by EU legislation, which meant that a levy could only be imposed as a form of excise tax which could be passed on to consumers. That is why after consulting on a levy on tobacco manufacturers in 2014^{66 67} HM Treasury decided not to proceed,⁶⁸ having concluded that manufacturers and importers would fully pass the levy on to consumers by raising retail prices.
81. We are no longer subject to EU legislation, and the polluter pays model we propose can now be implemented. The primary legislation necessary was tabled as amendments to the Health and Social Care Bill.
82. The straightforward 'polluter pays' model scheme, explained in the ASH policy paper 'Establishing a Smokefree Fund'⁶⁹ overcomes these problems by:
- Setting prices, thereby preventing the industry from passing the levy on to consumers (EU exit dividend – previously prevented by the EU Tobacco Tax Directive)
 - Ensuring consumer prices don't fall, which could stimulate increased smoking - the difference between current wholesale prices and capped prices would be taken as a health promotion levy.
83. Modelling carried out by the University of Sheffield and the University of Bath suggested that up to £4.9bn could be raised over a five-year period.⁷⁰ The levy could apply throughout the UK and therefore the appropriate proportion should be allocated to the devolved nations. The diagram below demonstrates how this would work, with each bar representing the wholesale price.

Figure 3: Representation of a price-cap levy model



84. A new health levy would ensure that retail prices did not drop after wholesale prices were capped, with the difference accruing to government revenues.

85. Furthermore, it would provide a greater stimulus to tobacco manufacturers to move out of selling tobacco; the excess profit currently made from selling combustible tobacco products is a major incentive to continue to actively sell and promote these products.
86. A scheme for tobacco could limit the wholesale price that manufacturers can charge, thereby limiting profits, while also preventing price being used as a marketing tool, which unfortunately tax policy, despite the introduction of a minimum excise tax (MET), has been unable to do. A new health levy would be needed to make sure retail prices did not drop.
87. DHSC has the expertise to monitor company profits to set the price and close loopholes. There is a team in place which already does this for medicines, with many more manufacturers and a large and diverse product range. The tobacco market is much simpler, with two main commodity products - factory made cigarettes and hand-rolled tobacco - and four manufacturers responsible for 95% of the market. One Full Time Equivalent is all that would be needed to carry out the work required to monitor the tobacco market.
88. This scheme would be in line with Forward Looking Measures set out by the Expert Working Group on Article 2.1 of the FCTC to which the UK is a party. The report was adopted at the last COP of the Framework Convention on Tobacco Control in November 2025.⁷¹
89. We also urge HMT to engage with DEFRA regarding their plans to bring forward an Extended Producer Responsibility (EPR) requirement for tobacco companies. This was something DEFRA was considering in 2021 but has not progressed.⁷² At the time they estimated the costs that could be recovered would be in the region of £40m. In the meantime the tobacco industry have entered into an arrangement with Keep Britain Tidy through a Community Interest Company to provide in the region of £10m to address the problem of tobacco litter. This has led to problems for local government who cannot collaborate on these campaigns without breaching their obligations under the global tobacco treaty.⁷³ A mandatory EPR which raised sufficient funds to address the burden of tobacco litter would address this problem.

Maintain and extend progress on tackling the illicit market

Recommendation

Sustain and evaluate the UK's illicit tobacco strategy and enforcement investment.

Maintain national and local enforcement funding through at least 2029, fully implement the HMRC illicit tobacco strategy, and publish an evaluation before the strategy is renewed.

90. The UK's long-term approach to illicit tobacco has been highly successful. Since 2000-01, the number of illicit cigarettes consumed has fallen by almost 90%, while illicit hand-rolling tobacco has fallen by 81%. This progress has been driven by sustained enforcement led by HMRC, Border Force and Trading Standards, alongside wider action to reduce smoking and therefore demand for illicit tobacco.
91. The Government should build on this success rather than change course. The current five-year illicit tobacco strategy, backed by more than £100 million of new funding, should be fully implemented and enforcement funding maintained until at least 2029. The strategy should then be independently evaluated to identify what has worked and inform its successor.

92. Fresh in the North East of England, with ASH and other tobacco control partners, co-ordinates the Illicit Tobacco Partnership (ITP) which exists to provide national leadership, to provide strategic advice and guidance, to influence policy development and to advocate for effective tobacco regulation. The ITP convenes the National Illicit Tobacco Group with partners including HMRC, DHSC and Trading Standards and we continue to support a collaborative, evidence-based and strategic approach to illicit tobacco.

Recommendation

Strengthen the tobacco retail and supply-chain enforcement framework. Introduce comprehensive tobacco retail licensing with robust penalties for illicit and underage sales; integrate licensing with Track and Trace; ensure all local authorities use the Track and Trace referral scheme; and publish retailer Economic Operator IDs to support enforcement.

93. Enforcement needs to make it harder for illicit tobacco to enter and remain within the retail supply chain. The Tobacco and Vapes Act provides powers to introduce retail licensing, creating an opportunity to establish stronger controls over who can sell tobacco and impose meaningful penalties on retailers who repeatedly sell illicit products or sell to children.
94. A comprehensive licensing scheme should be integrated with the national Track and Trace system, alongside greater use of HMRC's Track and Trace referral scheme by local authorities and publication of retailer Economic Operator IDs. Together, these measures would make it easier for enforcement agencies to identify retailers, trace products through the supply chain and take coordinated action against those breaking the law.

Recommendation

Strengthen local and national enforcement capacity and coordination. Restore wider Trading Standards funding to pre-austerity levels, alongside dedicated illicit tobacco funding; ensure Regional Organised Crime Units and the National Crime Agency are actively engaged; and strengthen Closure Order powers so premises selling illicit tobacco can be shut down effectively.

95. Illicit tobacco is not simply a tobacco-control issue: it is closely linked to organised crime and wider criminality, with illicit sales associated with the trafficking of drugs, weapons and people. Tackling the market therefore requires coordinated action across Trading Standards, HMRC, Border Force, police forces, Regional Organised Crime Units and the National Crime Agency.
96. The additional £10 million a year provided for illicit tobacco and vape enforcement is welcome, but it sits within a Trading Standards system whose wider capacity also needs strengthening. Trading Standards funding should be restored to pre-austerity levels, while Closure Order powers should be strengthened so Trading Standards and the police can take decisive action against shops involved in persistent illicit tobacco sales.

Recommendation

Develop a robust approach to vape enforcement. Publish a robust tax gap analysis on vape liquid following full introduction of the excise tax, build on existing practice to ensure a strong strategy is in place at borders and on the high street to prevent the importation and sale of non-duty-paid products. Maintain funding and visible presence to provide the market with confidence that the tax is being enforced.

97. The introduction of the vape excise tax provides an important opportunity to better control the vape market in the UK. The tax, alongside other regulatory measures planned by government, will likely shrink the vape market in terms of products, manufacturers and retailers. At the same time there will be greater controls in terms of powers at the border and stricter controls on the supply chain alongside investment in vape enforcement through trading standards, HMRC and UK Border Force. There will also be changing incentives to bring in non-duty paid and non-compliant products which will require an enforcement response.
98. The Government has already committed to invest in enforcement of the new vape tax and must maintain this commitment learning from the experience of controlling illicit tobacco and from other jurisdictions. However, the UK is likely to be at the forefront of effective enforcement and must also ensure that insights are shared globally. While it is evident at the retail level that many people and places that sell illegal tobacco also sell illegal vapes and other illegal products, it is unclear how similar the whole supply chain is. Almost all vape manufacture takes place in China, whether legal or illegal, whereas the illegal supply chain for tobacco is more diffuse. So, while there will be lessons to be drawn it will also require a targeted approach.
99. Additionally, to complement the tobacco tax gap analysis HMRC conducts, a similarly robust and transparent approach must be developed and published for vape liquids. We look forward to working closely with HMRC to share insights from the expert group we have established on the vape excise tax and provide evidence to inform their approach to managing and limiting the illicit market.

Recommendation

Improve intelligence, public engagement and illicit demand reduction. Develop and sustain evidence-based national campaigns that reduce demand for illicit tobacco, generate intelligence and encourage quit attempts, supported by regular surveys of smokers with sufficiently detailed regional data to better target enforcement and engagement.

100. Effective enforcement depends on understanding who is buying illicit tobacco, where they are buying it and how patterns differ between communities. Recent evidence suggests that the proportion of smokers purchasing illicit tobacco has increased nationally, but the picture varies considerably by region. In the North East, for example, illicit purchasing has declined, likely reflecting the region's long-running action to tackle illicit tobacco.
101. Regular, independently conducted surveys with robust regional samples would allow enforcement and public engagement to be targeted more effectively. These insights should be combined with sustained campaigns that discourage illicit purchasing, generate intelligence from communities and encourage smokers to quit. Ultimately, reducing smoking prevalence reduces the pool of consumers that the illicit market can exploit. Fresh has tracked the North East illicit tobacco market every year since 2009, complementing HMRC's national tax gap publications. We would support a similar approach to be taken nationally.

Recommendation

Maintain UK international leadership on illicit tobacco. Work with other countries, particularly across Europe, to share lessons from the UK's approach, strengthen cross-

102. Illicit tobacco is a cross-border problem and requires international cooperation. The UK is a party to the WHO Protocol to Eliminate Illicit Trade in Tobacco Products and has a strong record of implementing its recommendations, including establishing a national Track and Trace system following Brexit.
103. The UK should continue to share the lessons from its successful approach, particularly with European partners, and support stronger implementation of the Protocol internationally. This should include efforts to improve supply-chain controls and cooperation between countries, while ensuring tobacco manufacturers cannot influence or control the systems designed to regulate their products.

Appendix 1 Assumptions made if all tobacco products taxed as FM cigarettes

Item	Excise duty per 100g tobacco	multiplier to get to cigarettes	Elasticity (OBR)	projected change in quantity arising from 1% change in price	tax as % of total price	projected change in quantity arising from multiplier change in price	Projected tax revenue (2027/28) baseline	Tax revenue after equalisation: no quantity change	Tax revenue after equalisation	Change in revenue (£m)
Cigarettes	£67.65									
HRT	£57.43	1.178	-1	-1.00%	56.10%	-9.99%	2.256	2.658	2.392	136
Cigars/ Cigarillos	£50.81	1.331	-0.4	-0.40%	49.64%	-6.58%	0.158	0.210	0.197	39
Pipe / chewing / other	£24.81	2.727	-0.4	-0.40%	24.23%	-16.74%	0.004	0.011	0.009	5
Heating	£42.65	1.586	-0.4	-0.40%	41.66%	-9.77%	0.004	0.006	0.006	2
Total										182

More details on assumptions

The analysis makes the following assumptions:

- The excise duty rate per 100g of tobacco for cigarettes is estimated using the assumption that on average, a pack of 20 cigarettes contains 16g of tobacco. The excise duty on a pack of 20 cigarettes is estimated using the rate of specific duty at £394.09 per 1,000 cigarettes plus an ad valorem duty of 16.5% of the retail price, using information on average cigarette retail prices from the ONS's Shopping Prices Comparison Tool (reference: <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/shoppingpricescomparisontool/2023-05-03>) . This produces an estimate of £67.65 per 100g of tobacco.
- The excise duty rates per 100g of tobacco for Hand Rolling Tobacco (HRT), cigars and cigarillos, pipe tobacco / chewing tobacco etc. and heating tobacco are taken from UK Government published rates from 1 October 2026 (<https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-tobacco-duty/excise-duty-tobacco-duty-rates>). These are shown in column 1 of the table above.
- Column 2 of the table shows the multiplier required to increase the excise duty per 100g of tobacco for other tobacco products to the amount for cigarettes.
- Column 3 shows the assumed price elasticities of demand for tobacco which are taken from the OBR's recent publication "Supplementary forecast information on tobacco and vaping duty elasticities" (<https://obr.uk/supplementary-forecast-information-on-tobacco-and-vaping-duty-elasticities/>).
- Column 4 shows the projected change in quantity arising from a 1% change in price.
- Column 5 shows estimated excise duty as a percentage of the total price in the baseline (before excise per 100g of tobacco is equalised).
- Column 6 shows the estimated change in quantity of each tobacco product consumed when taxes are increased so as to equalise duty rates per 100g of tobacco.
- Column 7 shows baseline projected tax revenue for the 2027/28 tax year at the duty rates introduced as of 1 October 2026.
- Column 8 shows the estimated tax revenue after equalisation of duty rates assuming no change in quantity of each tobacco product purchased (i.e. price elasticity of zero).
- Column 9 shows the estimated tax revenue after equalisation of duty rates using the OBR's assumed price elasticities.

- Column 10 shows estimated increase in revenue arising from equalising the rate of duty on tobacco for each category of tobacco product with current duty rates on cigarettes.

Note the following additional assumptions:

- We assume full pass-through of duty increases to the consumer.
- The analysis does not take account of cross-price elasticities between different tobacco products; we plan to update the analysis in future to take account of these.
- We assume full adjustment of consumer purchasing decisions within 12 months of the duty change.
- Note that the increase in duty on HRT produces an estimated increase in tax receipts from HRT, even though the OBR estimated price elasticity of demand is -1.0, meaning that an increase in price is offset by a decrease in quantity purchased, leaving total revenue from sales of HRT (price times quantity) unchanged. This is because the *share of tax in total sales revenue* has increased, even though overall sales revenue is unchanged, and hence there is still an increase in tax receipts.

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