ASH briefing on the polluter pays tobacco levy

Four manufacturers are responsible for over 95% of UK tobacco sales. Their monopoly-like power combined with a highly addictive product produces **excessive profits** that require regulation**.**

Tobacco companies make an estimated £900m per year in UK profit, with an average net operating profit margin of about 50%, compared to a 10% average for UK manufacturing. They currently pay very little corporation tax in the UK. **A polluter pays tobacco levy would…**

- ✓ **Raise revenue:** Up to **£700m per year** to fund vital smoking cessation and wider public health activities.
- ✓ **Prevent industry from manipulating prices** to undermine the health aims of tobacco taxes. Tobacco companies respond to tax rises by suppressing price rises on budget products while increasing prices on premium products. This reduces the incentive to quit while maximising industry profits.
- ✓ **Make tobacco less profitable in the UK** and reduce industry incentives to lobby against Government actions to achieve a smokefree country.
- ✓ **Correct a moral wrong:** Smoking costs society in England £43.7billion a year, including £1.82 billion from the NHS. It is right that industry pay their share.
- ✓ **Ensure that the cost burden is not shifted to consumers:** By introducing a levy alongside a cap on manufacturer pricing, tobacco companies would be prevented from passing costs onto consumers. This approach ensures the revenue is drawn directly from industry profits, not from smokers.

A polluter pays tobacco levy is…

- **Needed**: Smoking remains the leading cause of preventable death in the UK. Investing the resources to end smoking will support the Government's ambitions to halve the difference in healthy life expectancy and shift healthcare from treatment to prevention.
- **Wanted**: Supported by the public with **76% of adults in England** in favour (including majority support from voters of all parties) and only 7% opposed.
- **Workable:** The Polluter Pays Model would cap manufacturers' prices for tobacco products at a level that would i) cover the cost of production and distribution and ii) an additional 10% profit. The difference between the capped price and the current price would be made up with **a new levy** so **the revenue raised comes from industry, not the consumer.**
- **Proportionate**: For other monopoly markets (such as utilities) Government intervenes to prevent excessive profits. They should do the same for tobacco. It should not be the public footing the Bill for the damage caused by tobacco but the manufacturers who make excessive profits selling a lethal and addictive consumer product.

Supporting information

Fiscal and policy context

Public finances are tight and the public continue to feel the squeeze of the cost of living crisis, with an unprecedented fall in living standards across the country.

An IPPR report found that "economic inactivity due to sickness could rise to new heights of 4.3 million by the end of the next parliament, if post-pandemic trends continue" and estimated that **"better population health could save the NHS £18 billion".**

Smoking costs society in England £43.7bn a year through a combination of lost economic productivity and health and social care costs, far outweighing the £6.8bn raised through tobacco taxes.

Smoking remains the leading cause of premature death and disability, responsible for half the difference in healthy life expectancy between the most and least advantaged in society.

The Government is introducing a levy on gambling to "generate £100 million for the research, prevention and treatment of gambling harms". The same principle should be applied to tobacco companies whose products kill approximately 74,600 people a year in England.

Why a levy is needed

Currently, the billions raised in tobacco taxes come from the consumer, not the manufacturer, due to tobacco companies passing the cost of taxes onto consumers through higher prices.

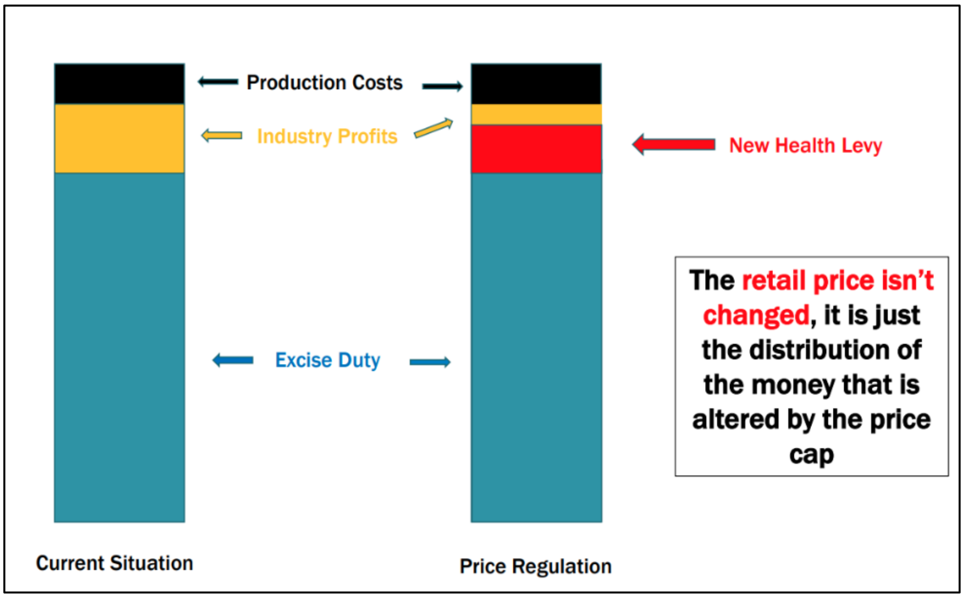
Manufacturing tobacco products is tremendously profitable. In 2018 the world's 6 largest cigarette manufacturers made a profit of more than US$55 billion. That is more than: Coca-Cola, Pepsico, Nestle, Mondelez, Fedex, General Mills, Starbucks, Heineken, and Carlsberg **combined** (US$51bn).

In other UK markets where monopoly-like pricing power could be an issue the government regulates the prices the relevant companies can charge (e.g. utilities like energy and water).

How the levy would work

The Polluter Pays Model would cap the manufacturers' prices for tobacco products at a level that would i) cover the cost of production and distribution and ii) an additional 10% profit. The difference between the capped price and the current price would be made up with a new levy so that the revenue is raised directly from profits.

As a result, introducing this levy does not 'pass on' the cost to the consumer. It may be that the Government decides to increase prices on budget products, to bring them in line with other products, however this is not a tax on people/consumers, it is a direct tax on companies that have been responsible for 8 million deaths in the UK over the last 50 years.



How will this impact economic growth?

Far from being anti-growth or anti-business, this approach recognises that tobacco is a uniquely harmful product with no long-term place in a healthy economy.

Analysis by ASH and Landman Economics shows that eliminating tobacco use in the UK would **create 135,000 new jobs** and **add nearly £10 billion to the economy**. In contrast, the industry supports just 5,000 jobs in the UK, largely because tobacco is neither produced nor packaged domestically.

In 2024, smoking cost society in England £43.7 billion, driven by lost productivity, healthcare, social care and smoking-related fires. Including the cost of early deaths, this rises to £78.3 billion. Tobacco taxes raised just £6.8 billion – less than half of the £16.5 billion direct cost of smoking to the public finances.

Smoking also significantly reduces productivity and employment. Around **230,000 people in the UK are currently unfit for work due to smoking-related illnesses**. Quitting smoking frees up spending for other goods and services, boosting economic activity. The average smoker spends over £2,300 a year on tobacco, contributing to financial hardship, and pushing more households into poverty.

The tobacco industry imposes vast costs on society while offering minimal economic return. A polluter pays levy holds the industry accountable, supports long-term health goals, and enables a just transition away from a declining, harmful industry, reducing inequality and stimulating sustainable economic growth.