■ **OPINION**

Revising the Tobacco Excise Directive: why harmonized tax rates in the EU are not realistic

With a mixed ad valorem and specific tax system, convergence in tax rates risks being a muddled concept – Part II

Fifth in a series of six papers

May 2021 *by* Donato Raponi

In my last article, I explained how rate convergence is hard enough when it comes to ad valorem taxes – as we experienced with VAT – but the difficulties are harder still for specific duties.

Harmonizing specific tax rates in Euros will imply a much different tax percentage of the retail price across the EU. This is a completely different outcome to that intended through equalising ad valorem duty rates (or VAT, for that matter).

One solution, to adjust specific tax rates by purchasing power parities, goes some way to squaring the circle.

But there are practical and administrative challenges to that approach.

Even if these hurdles are overcome, full harmonization of both ad valorem and (possibly purchasing power parity adjusted) specific excise duty rates would *also* need all Member States to adopt the same combination of specific and ad valorem excise duties.

However, the wide difference in excise structures that persists across the EU reveals how the Member States do not currently concur that there is one single right mix of ad valorem and specific excise on cigarettes.

Some countries continue to prefer a mainly ad valorem system whilst others prefer a largely specific excise on cigarettes.

That is because the EU Member States cannot be regarded as a coherent whole in economic, social and cultural terms.

National policies on tobacco tax revenue and public health are very different. And economic and social situations diverge widely too.

We learned with VAT that the Member States were not prepared to fully relinquish control over what tax rates they are able to set. The policy implications of surrendering control over the structure of tobacco taxes is, arguably, even more complicated.

It seems unlikely, therefore, that Member States will be willing to surrender sovereignty over their ability to adopt the right mix of specific and ad valorem tobacco excise duties that suits their own market.

It is, instead, more a matter of domestic policy to decide upon what excise structure is most appropriate given the combination of revenue-raising and health-related policy objectives being pursued in each particular Member state.

The Commission cannot reconcile these various factors at EU-level, and I do not believe they should try to do so.

Indeed, that is the reason why the Tobacco Excise Directive continues to give such a large degree of flexibility to Member States when it comes to setting the appropriate excise structure on tobacco products.

Although decades ago, we thought that the Union would be in a position to move towards a single tax structure on excise goods, with a uniform rate applied throughout the Single Market, over the years we came to realise that this was not possible, that the differences between the Member States were too large and that the principle that one-size-fits-all was completely unrealistic.

It is important that the Commission and, indeed the Council, avoids trying to overstep the mark when it comes to rewriting the TED. Countries value fiscal sovereignty as a tool to pursue domestic policy and the EU must always face the tricky balance between facilitating the proper working of the Single Market against allowing Member States to pursue their own national policy goals.

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