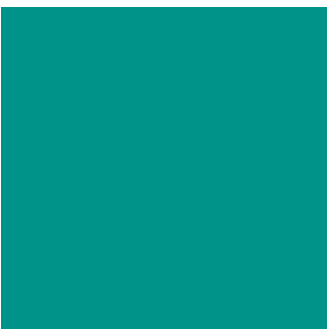




HM Revenue
& Customs

Measuring tax gaps 2016 edition

Tobacco tax gap estimates for 2015-16



Tobacco tax gap estimates for 2015-16

- 1.1 This statistical release presents estimates of the tax gap for tobacco products in 2015-16. Estimates for years previous to 2015-16 are published in 'Measuring tax gaps 2016'. Online tables which contain a full time series of the tobacco estimates can be found on our website www.gov.uk/government/statistics/tobacco-tax-gap-estimates.

Tobacco

- 1.2 The tobacco tax gap is made up of the illicit markets in cigarettes and hand-rolling tobacco and was estimated to be £2.4 billion in 2015-16. Of this £1.9 billion was lost in tobacco duties and a further £0.5 billion in VAT. In 2015-16 the cigarette tax gap was estimated to be £1.6 billion and the hand-rolling tobacco tax gap was estimated to be £0.8 billion. The central estimate should be interpreted as an indicator of long-term trends rather than a precise estimate of year-on-year changes.
- 1.3 The long term trend is that tobacco consumption is declining. This has been driven by a decrease in cigarette consumption, whereas hand-rolling tobacco consumption has remained relatively stable.
- 1.4 In 2015-16 the central estimate for cigarette consumption increased slightly to 38.5 billion cigarettes from 37.5 billion cigarettes in 2014-15. The central estimate of 38.5 billion cigarettes in 2015-16 should be interpreted in the context of statistical uncertainty, with an upper estimate of 40.5 billion cigarettes and a lower estimate of 36.5 billion cigarettes. The central estimate of 37.5 billion cigarettes in 2014-15 has an associated upper estimate of 39.5 billion cigarettes and a lower estimate of 36.0 billion cigarettes.
- 1.5 In 2015-16 the central estimate for hand-rolling tobacco consumption decreased slightly to 9,900 thousand kg (with an upper estimate of 10,700 and a lower estimate of 9,100) from 10,500 thousand kg in 2014-15.
- 1.6 The historical time series has been revised, as new data on people who falsely deny they smoke (from the Health Survey England) has become available. This information affects total tobacco consumption and the tax gaps for both cigarettes and hand-rolling tobacco. See Tobacco methodology and data issues section below.
- 1.7 The combined tobacco tax gap is the sum of the central estimates for cigarettes and hand-rolling tobacco. However, it is not possible to simultaneously combine both upper (or equivalently, lower) estimates for cigarettes and hand rolling tobacco so there is no upper or lower bound estimate for the combined tobacco tax gap. More detail on upper and lower bounds is covered in Tobacco methodology and data issues section below and fuller detail can be found in the Methodological Annex that is published alongside Measuring Tax Gaps 2016.

Table 1.1: Tobacco Tax Gap (£ million)^{1,2,3}

	2005-06	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Cigarette illicit market⁴								
Upper estimate	2,400	1,900	1,700	1,600	1,900	2,000	1,400	2,200
Central estimate	1,900	1,500	1,200	1,000	1,300	1,400	900	1,600
<i>of which VAT</i>	300	200	200	200	300	300	200	300
<i>of which duty</i>	1,500	1,200	900	800	1,000	1,100	700	1,300
Lower estimate	1,400	1,000	700	400	600	800	300	1,000
Hand rolling tobacco illicit market⁵								
Upper estimate	1,000	900	900	1,000	1,100	1,200	1,100	1,000
Central estimate	800	700	700	800	900	1,100	900	800
<i>of which VAT</i>	200	200	200	200	200	300	200	200
<i>of which duty</i>	700	600	500	600	700	800	700	600
Lower estimate	700	600	500	600	700	900	700	600
Combined tobacco illicit market⁶	2,700	2,200	1,900	1,800	2,200	2,500	1,800	2,400

1 Figures for previous years have been revised.

2 Figures are independently rounded to the nearest £100 million.

3 Includes both duty and VAT.

4 Based on the weighted average price (WAP) of all UK duty paid cigarettes.

5 Weighted average price (WAP) data for all UK duty paid hand rolling tobacco is not available prior to 2012-13, so the losses are based on the price of a 'typical brand'.

6 The upper (or lower) bounds for both cigarette and hand rolling tobacco cannot be combined. Only the central estimates are simultaneously possible.



Tobacco tax gap estimates 2015-16 is available on our website
www.gov.uk/government/statistics/tobacco-tax-gap-estimates

Cigarettes

1.8 The central estimate for the cigarette tax gap was 13% in 2015-16. There has been a long-term decrease in the tax gap from 16% in 2005-06, but year-on-year changes are variable. The central estimate should be interpreted as an indicator of long-term trends rather than a precise estimate of year-on-year changes. Total consumption is obtained from the opinions and lifestyle survey conducted by the ONS. The sample is representative of the cigarette-smoking population, but as with all surveys, it suffers from sampling error.

1.9 UK tax paid cigarette consumption has steadily declined from 49.5 billion cigarettes in 2005-06 to 32.0 billion cigarettes in 2015-16. There has been a long term decline in the estimated volume of cigarettes in the illicit market. In 2005-06 the central estimate for the illicit market was 10 billion cigarettes in the UK, compared to central estimates of between three billion and five billion in years since 2010-11.

Table 1.2: Cigarettes: Illicit market share and breakdown of volumes (billion cigarettes)^{1,2}

	2005-06	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Illicit market share								
Upper estimate	19%	16%	14%	13%	15%	15%	12%	17%
Central estimate	16%	12%	10%	8%	10%	11%	7%	13%
Lower estimate	12%	9%	6%	3%	5%	6%	3%	8%
Total consumption								
Upper estimate	66.5	58.5	53.0	49.5	47.0	43.5	39.5	40.5
Central estimate	64.0	56.0	51.0	47.0	44.5	41.5	37.5	38.5
Lower estimate	61.5	54.0	49.0	44.5	42.5	39.5	36.0	36.5
UK tax paid consumption								
	49.5	47.5	44.5	41.5	38.5	35.5	33.5	32.0
Illicit market								
Upper estimate	12.5	9.0	7.5	6.5	7.0	6.5	4.5	7.0
Central estimate	10.0	7.0	5.0	4.0	4.5	4.5	3.0	5.0
Lower estimate	7.5	5.0	3.0	1.5	2.5	2.5	1.0	3.0
Cross-border shopping³								
	4.0	2.0	1.5	1.5	1.5	1.5	1.5	1.5

1 Figures for previous years have been revised.

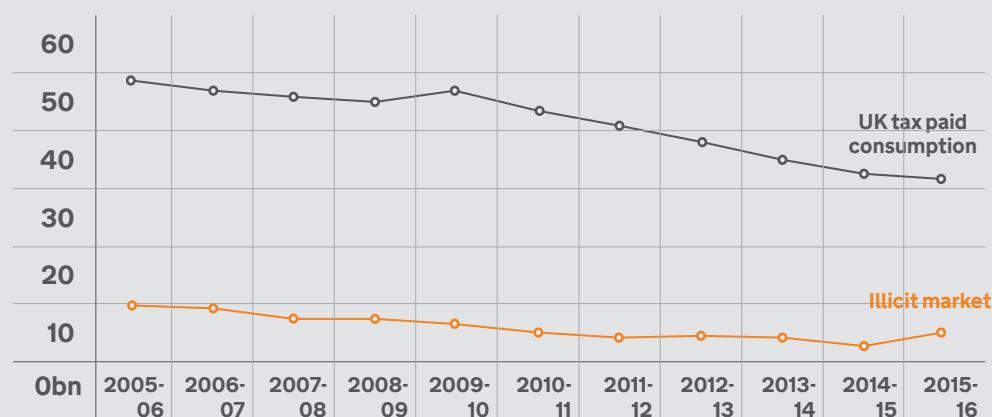
2 Figures are independently rounded to the nearest 1% or 0.5 billion cigarettes.

3 Includes duty-free as well as EU duty paid.



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Figure 1.1: Cigarette central estimate for illicit market and UK tax paid consumption (billion cigarettes)



Hand-rolling tobacco

1.10 The tax gap for hand-rolling-tobacco was estimated to be 32% in 2015-16. The long term trend is of a relatively steadily decreasing tax gap from 60% in 2005-06. The central estimate should be interpreted as an indicator of long-term trends rather than a precise estimate of year-on-year changes.

1.11 The UK tax paid consumption volume of hand-rolling tobacco steadily increased between 2005-06 and 2012-13 and has been relatively stable since then. The illicit market volume of hand-rolling tobacco has shown a long term decline since 2005-06 and in 2015-16 was estimated to be 3,200 thousand kg.

Table 1.3: Hand-rolling tobacco: Illicit market share and breakdown of volumes (thousand kg)^{1,2}

	2005-06	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Illicit market share:								
Upper estimate	65%	49%	46%	43%	43%	44%	40%	38%
Central estimate	60%	44%	39%	37%	37%	40%	35%	32%
Lower estimate	55%	39%	33%	31%	32%	36%	30%	27%
Total consumption								
Upper estimate	11,200	11,400	11,400	11,400	12,100	12,300	11,200	10,700
Central estimate	10,200	10,600	10,400	10,600	11,200	11,500	10,500	9,900
Lower estimate	9,100	9,700	9,500	9,700	10,300	10,800	9,800	9,100
UK tax paid consumption								
Central estimate	3,200	5,100	5,500	6,000	6,200	6,300	6,300	6,200
Illicit market								
Upper estimate	7,200	5,600	5,200	4,900	5,200	5,500	4,400	4,000
Central estimate	6,100	4,700	4,200	4,000	4,200	4,700	3,700	3,200
Lower estimate	5,000	3,800	3,200	3,100	3,300	3,900	3,000	2,400
Cross-border shopping³								
Associated with upper estimate	700	700	600	600	700	500	400	500
Associated with central estimate	800	700	700	700	700	500	500	500
Associated with lower estimate	900	800	800	700	800	600	500	500

1 Figures for previous years have been revised.

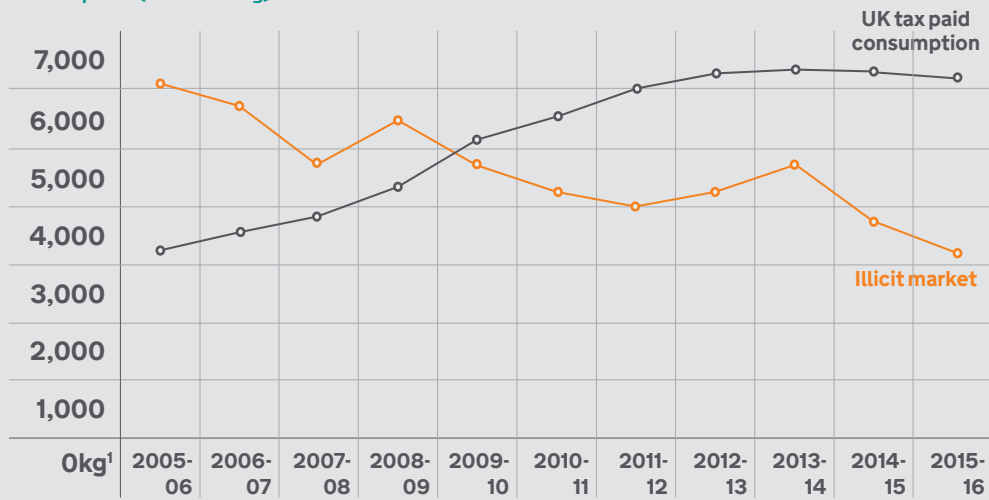
2 Figures are independently rounded to the nearest 1% or 100,000kg.

3 Includes duty-free as well as EU duty paid.



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Figure 1.2: Hand-rolling tobacco central estimate for illicit market and UK tax paid consumption (thousand kg)



1 Thousand kg

Tobacco methodology and data issues

- 1.12 The estimates are produced using a 'top-down' methodology; that is, total consumption is estimated, from which legitimate consumption is subtracted, the remainder being the illicit market.
- 1.13 Total consumption is estimated using data from the ONS Opinions and Lifestyle survey (OPN). Legitimate consumption is based on the returns HMRC receives from the volumes of tobacco on which duty has been paid; as well as an estimate of cross-border shopping and duty-free sales.
- 1.14 In addition to the uplift that accounts for under-reporting, there is an uplift that accounts for people who falsely deny smoking, which is derived from the Health Survey for England (HSE).
- 1.15 The estimates are presented within a range defined by the upper and lower estimates. The range provides an indication of the size of the illicit markets in cigarettes and hand-rolling tobacco, depending on how dual smoker survey respondents are treated.
- 1.16 The upper bound for cigarettes corresponds to a scenario where the majority of dual smokers consume cigarettes. The lower bound for cigarettes is calculated when the majority of dual smokers are assumed to smoke hand rolling tobacco. The upper and lower bounds for hand-rolling tobacco are calculated in a similar way. This means that the upper (or lower) bounds for both cigarettes and hand-rolling tobacco cannot be possible at the same time.
- 1.17 The central estimate reported here should be interpreted as an indicator of long term trends rather than a precise estimate of year-to-year changes. The range provides an indication of the size of potential systematic errors due to the use of survey data.

- 1.18 Information on people who falsely deny tobacco use from Health Survey England has been updated. This affects total consumption estimates and has led to revisions to previously published estimates. The update was due to an improvement to the methodology rather than a shift in behaviour (i.e. an increase or decrease in people falsely denying tobacco use). Therefore the time series has been updated. For more information on this revision and full details on how tax gaps are estimated can be found in the 'Methodological annex' which accompanies the 'Measuring tax gaps 2016' publication.



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