

New vaping tax misses the mark

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Abstract

The vaping industry has vociferously opposed a new tax on vaping products. But only the largest containers of e-liquid will feel hefty price increases – more than double in some cases. Young people who are starting to vape are more likely to buy disposable vapes, which attract less tax. As currently structured, the excise tax is not sufficiently targeted at reducing, or preventing, the use of vaping products among youth.

As of 1 June 2023, nicotine and nicotine-substitute solutions in vaping products are taxed at a flat excise duty rate of R2.90/ml.¹ National Treasury's original proposal considered applying a tax based on both nicotine content and the volume of the solution.² However, following public comments submitted to Treasury, it became apparent that a mixed system would be administratively complex for both the taxpayers and South African Revenue Service (SARS) to implement.² A flat excise duty rate was announced in the 2022 Budget as an administratively-feasible option.³

Throughout the world, governments impose excise taxes on products like alcohol and tobacco to reduce their demand. The South African government implemented a tax on vaping products for the same reason. Reducing demand is necessary as there is growing evidence that vaping products are not harmless.² The new vaping tax has enraged vaping lobby groups and vaping manufacturers.^{4 5 6 7} The vaping industry argues that e-cigarettes are less harmful than traditional cigarettes. It also claims that the tax will spawn an illicit industry, that people will go back to smoking traditional cigarettes, and the tax will not dissuade the youth from starting vaping.⁶ In one article the industry claims that the excise tax will increase the retail price of e-cigarettes by more than 100%.⁵ Another article claims that the retail price will increase by 217%.⁴ In this paper, we analyse the price-increase claims. We do not explore the rest of the industry's claims (some are addressed by the government²).

Disposable vapes, which are closed systems thrown away once the liquid is finished, have become increasingly popular among the youth. These are not teenagers switching from smoking cigarettes to e-cigarettes, but rather teenagers who are initiating a potential lifelong addiction to nicotine through vapes. The vaping industry claims it sells only to people aged 18 and older, but this isn't true. In 2022, nine schools

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(both publicly and privately funded) in three South African provinces were surveyed.⁸ Among the 5583 learners in grades 8–12 who completed the survey, 15% used vaping devices.⁸ The prevalence is higher among grade 11 (17%) and grade 12 learners (27%).

These high prevalence rates are not surprising given that vaping devices are marketed to the youth. Vaping devices come in many shapes, flavours, and colours.⁹ One vape sold on Takealot is shaped as an ice lolly.¹⁰ Airspops disposable vapes, made by a UK-company called Airscream, are very popular in South Africa. Pick n Pay sells a 3ml AirsPops for R95 (the price has not changed since at least August 2022 to 14 June 2023). The fact that the retail price for these products has not changed suggests that the new excise tax is either absorbed by the industry or there is old stock on the market. AirsPops are also sold at Spar, by informal traders, and online (for instance, on Takealot, together with many other brands of disposable vapes).

The market is rapidly evolving and expanding. When we checked BAT's Vuse website in August 2022, they did not sell disposable vapes. A search done on 12 June 2023, shows that Vuse now also sells disposable vapes in nine flavours (e.g. berry watermelon) and in two sizes (2ml and 4.8ml).¹¹

There is growing competition in both the closed disposables vapes market and the open systems market. Open systems allow the user to refill the liquid in a vaping device. E-liquids are sold in a variety of nicotine strengths and volumes (typically from 20 ml to 100 ml). Nicotine-free e-liquids are not supposed to contain nicotine, although trace quantities are sometimes present. The increased competition in the vaping market has put downward pressure on e-liquid prices. In fact, Barry Buchman, the managing director of Vaperite ('the largest vape and cannabis paraphernalia retail outlet chain in South Africa'¹²), described the downward trend in e-liquid prices over the past few years as a 'race to the bottom'.⁵

Since 2004, the National Treasury has targeted an excise tax burden of 40% on cigarettes. This means that the excise tax should be set such that it comprises 40% of the recommended retail price of popular-priced cigarettes. Since the excise tax on cigarettes is set as a specific tax (in 2023/24, the rate is R20.80 per pack of 20 cigarettes), higher-priced cigarettes are subject to a lower tax incidence, and lower-priced cigarettes to a higher tax incidence. In recent years the excise tax increases have generally exceeded the retail price increases, with the result that the average excise tax incidence has increased and is currently about 45% for popular-price cigarettes. If VAT is included, the total tax incidence on popular-price cigarettes is around 58%.

While equivalence with cigarette taxation is a controversial topic, the current tax on e-cigarettes yields tax burdens consistently below the tobacco tax burdens (except for the 100ml e-liquid). The new tax will affect disposables the least, and e-liquids sold in large containers the most (Table 1). Under the current tax of R2.90 per ml, a 3ml AirsPops is subject to an excise tax of R8.70, plus 15% VAT on excise (R1.31), which would increase the price of a unit from R95 to R105.01 (Table 1). The excise tax incidence is only 10%. Similarly, the excise tax incidence of Nevoks disposable e-cigarettes is 14% and Vuse disposables only 6% (for the 2ml product) and 9% (for the 4.8ml product).

Per millilitre of e-liquid, the larger containers are relatively cheaper than the smaller containers. Vaperite sells 100 ml of Spook e-liquid for R280 (irrespective of nicotine strength). The new tax on 100ml of Spook e-liquid will be R290, plus VAT on excise ($R290 \times 0.15 = R43.50$), which means that the retail price would increase to R613.50, a more than 119% price increase, and a total tax incidence of 54% (Table 1). While this price increase is substantial, this applies only to the largest containers. From the vaping industry's perspective, this is the worst-case scenario. The impact of the tax on the prices of smaller containers is much less.

Table 1: The likely impact of the vaping excise tax on the prices of selected vaping products

	Flavours	ml of e-liquid	Retail prices on 12 June 2023* (no excise taxes applied)	Specific excise tax (R2.90/ml) + 15% VAT on excise	Retail price with specific excise and VAT	% change in the retail price	Specific excise tax share of retail price (%)
Disposables							
Vuse Go (BAT)	9 flavours (e.g. berry blend)	2	R100.00	R6.67	R106.67	7%	6%
Vuse Go Max (BAT)	9 flavours (e.g. berry watermelon)	4.8	R170.00	R16.01	R186.01	9%	9%
AirsPops One Use (Airscream)	28 flavours (e.g. pink crystal)	3	R95.00	R10.01	R105.01	11%	10%
AirsPops One Use (Airscream)	9 flavours (e.g. rose lychee)	6	R159.00	R20.01	R179.01	13%	11%
AirsPops One Use (rechargeable) (Airscream)	8 flavours (e.g. dragon fruit)	12	R249.00	R40.02	R289.02	16%	14%
Nevoks Bar rechargeable (Nevoks)	Rainbow Candy Ice	12	R249.00	R40.02	R289.02	16%	14%
BOLT (sold by Vaperite)	15 flavours (e.g. blue energy drink)	5	R120.00	R16.68	R136.68	14%	12%
Moti Pop (sold on Takealot)	At least 3 flavours (e.g. juicy grape). Ice lolly shape	5	R149.00	R16.68	R165.68	11%	10%
E-liquid							
Vuse (BAT)	24 flavours (e.g. berry mix)	20	R124.95	R66.70	R191.65	53%	35%
313 Airspops (Airscream)	22 flavours (e.g. mangolicious)	30	R229.00	R100.05	R329.05	44%	30%
Burtz (sold by Vaperite)	10 flavours (e.g. strawberry banana)	30	R180.00	R100.05	R280.05	56%	36%
Burtz (sold by Vaperite)	5 flavours (e.g. cherry berry ice)	75	R240.00	R250.13	R490.13	104%	51%
Spook (sold by Vaperite)	15 flavours (e.g. manic mango)	30	R180.00	R100.05	R280.05	56%	36%
Spook (sold by Vaperite)	16 flavours (e.g. freaky fruit)	100	R280.00	R333.50	R613.50	119%	54%

**Note: Although the prices are from 12 June 2023 (i.e. after the tax was implemented), it is unlikely that these prices include the excise tax. The price of a 3ml Airspops disposable on 24 August 2022 was R95 (the same price as 12 June 2023), and in a BusinessTech article published on 12 June 2023,⁵ Vaperite managing director Barry Buchman said that a 100ml bottle of e-liquid costs R280 (without excise or VAT), which is the price we use in the table.*

Users of 100 ml bottles of e-liquid are likely to be seasoned vapers and are more likely to vape as an alternative to smoking cigarettes. Youths who are experimenting with or starting vaping are not likely to purchase large containers of e-liquid; they would typically start with disposable vapes. Large containers have a much higher tax

incidence than disposable vapes. This is a problem, because the excise tax is not well-targeted at reducing the consumption of vaping products among the youth. In our submissions to the National Treasury and Parliament’s Select Committee of Finance,¹³ ¹⁴ we argued that in order to address this anomaly the government should implement a minimum excise tax amount. We suggested a minimum tax amount of R50 per unit/container. Such a minimum amount would have no additional tax impact for e-liquid containers with more than 17.5 ml, but would have an impact on small-volume containers, especially disposables (Table 2). The tax incidence on a 2ml Vuse disposable would increase from 6% to 37%. The tax incidence of e-liquid (sold in units of 20 ml or more) would remain the same.

Table 2: The likely impact of a R50 minimum excise tax on the prices of selected vaping products

Product (producer/retailer)	Flavours	ml of e-liquid	Retail prices on 12 June 2023 (no excise taxes applied)	Specific excise tax (R2.90/1 ml), floor of R50 per unit + 15% VAT on excise	Retail price with specific excise, floor of R50 per unit + 15% VAT	% change in the retail price	Specific excise tax share of retail price (%)
Disposables							
Vuse Go (BAT)	9 flavours (e.g. berry blend)	2	R100.00	R57.50	R157.50	58%	37%
AirsPops One Use (Airscream)	9 flavours (e.g. rose lychee)	6	R159.00	R57.50	R216.50	36%	27%
AirsPops One Use (rechargeable) (Airscream)	8 flavours (e.g. dragon fruit)	12	R249.00	R57.50	R306.50	23%	19%
E-liquid							
Vuse (BAT)	24 flavours (e.g. berry mix)	20	R124.95	R66.70	R191.65	53%	35%
Burtz (sold by Vaperite)	5 flavours (e.g. cherry berry ice)	75	R240.00	R250.13	R490.13	104%	51%
Spook (sold by Vaperite)	16 flavours (e.g. freaky fruit)	100	R280.00	R333.50	R613.50	119%	54%

Other than imposing a minimum excise tax on all vaping products, we propose that the National Treasury should, each year, increase the excise tax on e-cigarettes by the inflation rate, plus a pre-announced additional percentage. This will ensure that e-cigarettes become less affordable over time. Pre-announced tax changes are done in countries such as Australia, which increased the excise tax on cigarettes by 12.5% above the nominal increase in average wages for eight consecutive years from 2013 to 2020.¹⁵ Through a multi-year approach, tax increases are more predictable.

Conclusion

The vaping industry's response to the excise tax on vaping e-liquid has been predictably fierce. By focusing only on large containers, the industry has created the impression that the tax increases will have a large impact on the prices of all vaping products. However, these large containers comprise only a modest proportion of the market. Most vaping products will experience only limited price increases under the new tax. A concern for the public health community is that vaping products that are most used by youth are subject to the lowest tax burden.

South Africa does not need a new epidemic of addiction. The excise tax on vaping products will go some way to reduce the demand for these products. Unfortunately, there are flaws in the current tax system. We hope that National Treasury will address these in future Budgets.

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