

Illegal traders to profit from excise tax increase - tobacco alliance

"Ridiculous" is how the South Africa Tobacco Transformation Alliance (Satta) has described the 8% increase in the excise charged on tobacco products, [announced in the Budget Speech](#) last night.



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The tax hike will see a box of 20 cigarettes go up by R1.39 cents, while cigars will go up by R7.71 cents.

Satta, which represents the entire legal cigarette production value chain, said the tax hikes will significantly benefit cigarette smugglers and distributors of illicit tobacco products. The alliance has consistently argued that excise charges should not be increased, in order to avoid the switching from legal to illegal products.

"We have petitioned Parliament, we have petitioned the Finance Minister, and we have petitioned organised business. But rather than realise the downside of increasing excise charges, Government has gone ahead with this increase – and in so doing, made illicit tobacco products even more attractive to already-stretched consumers," Satta said in a statement.



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25 Feb 2021



Satta said it understands Government's desire to increase tax revenue, but this is being done in the incorrect manner.

"An 8% excise increase equates to an increase of R1.39 in the price of a legally produced packet of cigarettes. It means nothing to those who manufacture and sell illegal cigarettes, apart from making their illicit products even more affordable. It will drive more and more people towards the illicit market – which means Government will make even less money than it made before."

"The excise increase is effectively double the rate of inflation. It punishes those who respect the law and are prepared to pay the necessary taxes. And it gives an additional advantage to those who deal in smuggling, illicit manufacturing and under-the-counter sales."



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Recovery from tobacco ban

Satta added that the ban on tobacco products has had a devastating impact on the sector. Many farmers went out of business and many others are still struggling to recover from 8 months of lost business due to the Covid-19 lockdown and the ban on cigarette sales.

According to Satta research, the illicit market grew by 3.1 billion cigarettes in a single year - a loss of excise revenue of almost R13bn for the government, and billions more for farmers, processors and manufacturers.

"We believe government should have tried to strike a balance when it comes to potential excise revenues from the sale of tobacco products, bearing in mind lessons learnt during Covid-19 lockdowns. All stakeholders have to reverse the undesirable consequences of illicit trade. The answer to this is to ensure that the legal market can recapture lost volumes and, in doing so, grow Government excise revenues," Satta said.

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