

ОВЧАРЕНКО Віктор Петрович

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Копія: Shpak, Ihor; ВОРОБЕЙ Світлана Іванівна; КРАСІЛЬНИК Олександр Володимирович; СВИРИДА Віталій Вікторович; ОРЛЯНСЬКИЙ Олексій Андрійович; ХЛЄБНИКОВА Інна Ібрагимівна; Mansour, Mario; FADT1AST
Тема: RE: regarding the rates of excise tax on heated tobacco products (HTPs) in the draft law No. 11090

Попередження: Цей лист надійшов з зовнішнього поштового сервісу. Не натискайте посилання та не відкривайте вкладення, якщо ви не впізнаєте відправника та не знаєте, що вміст безпечний

Dear Viktor,

Many thanks for your message.

We tried to provide an initial assessment of the excise taxation approach to heated tobacco products (HTPs) in relation to traditional cigarettes as part of our review of excise reform considerations in the report we submitted in December 2023. With respect to the treatment of HTP/HnBs, we noted the following:

- Based on the available evidence (which has some caveats), electronic nicotine delivery systems (ENDS, also called e-cigarettes) and heat-not-burn (HnB) devices that uses heated tobacco provide a reduced harm alternative to combustible tobacco. However, the evidence of comparable harm of HnB appears less reliable than for ENDS.
- To the extent that ENDS and HnB products are less harmful than cigarettes, lower excise rates on these products may be warranted to support substitution to these products that lowers total social costs from tobacco and nicotine. However, youth consumption of tobacco and nicotine requires special consideration and a sufficiently high market price for ENDS and HnB to discourage consumption.
- We suggested to retain the rate on ENDS below the rate of cigarettes, but above the rate that would, based on the available evidence, reflect comparable harm. For HnB products we proposed a rate based on comparable tobacco weight for these products and suggested use of a rate between EUR45 and EUR90 per 1000 heated tobacco sticks, noting that revenue objectives and health objectives will need to be balanced. Your envisaged rate of EUR72 per 1000 heated tobacco sticks in 2028 is within that range.

Best regards, Jan

From: ОВЧАРЕНКО Віктор Петрович <ovcharenkovp@minfin.gov.ua>

Sent: Tuesday, November 12, 2024 12:15 PM

To: Loeprick, Jan <L.Loeprick@inf.org>

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Subject: regarding the rates of excise tax on heated tobacco products (HTPs) in the draft law No. 11090

[External email – Caution]

Dear Jan,

yesterday (11.11), Danylo Hetmantsev, Chairman of the Parliamentary Committee on Finance, Taxation and Customs Policy, met with IMF representatives Gavin Gray and Geoff Keim.

During the meeting, the issue of consideration by the Verkhovna Rada of the Draft Law of Ukraine “On Amendments to the Tax Code of Ukraine on Revision of Excise Tax Rates on Tobacco Products” (Reg. No. 11090) was raised. This draft law was adopted by the Verkhovna Rada on June 04, 2024 as a basis and is being prepared for consideration in the second reading.

In particular, the issue arose regarding the increase in excise tax rates on heated tobacco products (HTPs) provided for in the draft law at a lower rate than for traditional cigarettes.

As a result of the meeting, it was agreed that the IMF's Fiscal Affairs Department should receive the position of the proposed rule in a working order.

For reference: The provisions of the draft law No. 11090 propose to amend the Tax Code of Ukraine, which, in particular, provide for:

expression of the specific excise tax rate on tobacco products in euros, since the previous schedule of increasing excise tax rates expressed in the national currency due to inflationary processes did not achieve the expected effects of bringing them to the minimum level of 90 euros per 1000 pieces, as set out in Directive 2011/64/EU;

*introduction of a schedule of gradual increase in specific excise tax rates and minimum excise tax liability for cigarettes over 2025-2028 to reach the European minimum level (EUR 90 per 1000 units) with a simultaneous equivalent increase in specific rates for tobacco, manufactured tobacco and **lower growth rates of excise tax on HTPs (up to EUR 72/1000 units)** see table below).*

Table

Schedule of the current specific excise tax rates for HTPs and minimum excise tax liability for cigarettes and the increase of such rates in 2025-2028 in accordance with the provisions of the Draft Law No. 11090

Name of the tobacco product	The current rate specified in the Code, per 1000 pcs.				Proposals for new rates per 1000 pcs. (Draft Law No. 11090)			
	2024		2025		2025	2026	2027	2028
	UAH	EUR	UAH	EUR	EUR	EUR	EUR	EUR
Cigarettes with filter	2516,5	63,5	3019,9	76,1	78	82	86	90
HTPs	2516,5	63,5	3019,9	76,1	70,4	70,8	71,14	72

Note!

The growth rate of excise tax rates according to the draft law No. 11090, %:

for cigarettes - 22.5 / 5 / 5 / 5

on HTPs - 11 / 0.5 / 0.5 / 0.5 / 0.5

In the context of the rapid development and growth of the global market for new tobacco products, the Ministry of Finance is constantly monitoring and analyzing European practices to further address current and future challenges of the domestic tobacco market.

Accordingly, the provisions of the draft law No. 11090 on the establishment of a lower growth rate of excise tax on HTPs were developed taking into account the practice of most European countries whose excise policy is based on the approach of potentially reducing the risk of consumption of such products for human health. Thus, according to the European Commission's database, the average excise tax burden on HTPs in EU member states in 2023 is 2.5 times lower than that on cigarettes. In particular, the excise tax rates for HTPs in individual EU member states in terms of kilograms per thousand units of products based on tobacco content are as follows Poland - 21.3 euros/1000 units, Estonia - 32.6 euros/1000 units, Slovenia - 35.4 euros/1000 units, Czech Republic - 37.3 euros/1000 units, Austria - 50.0 euros/1000 units, Romania - 51.5 euros/1000 units, Bulgaria - 51.6 euros / 1000 units, the Slovak Republic - 57.3 euros / 1000 units, Lithuania - 60.2 euros / 1000 units, Denmark - 61.6 euros / 1000 units, Latvia - 66.5 euros / 1000 units, the Netherlands - 66.1 euros / 1000 units.

The implementation of the proposed excise policy will create conditions for the gradual replacement of traditional cigarette smoking with less harmful alternative tobacco products, and will provide guaranteed tax revenues, since the market for HTPs, unlike cigarettes, is developing only in the legal segment. The latter statement is supported by the results of scientific and analytical studies, in particular:

1) *Growford Institute's 2024 study* - there is no illegal market for HTPs in Ukraine, as the production of heating sticks is a high-tech process that requires the installation of expensive modern equipment;

2) *the results of a study on the collection of empty discarded fuel rods conducted in the first quarter of 2024 by the international research agency Nielsen*, according to which 99.9% of all collected fuel rods in Ukraine were labeled with legal excise tax stamps;

3) *information received by the Ministry of Finance of Ukraine from the Polish-Ukrainian Chamber of Commerce* - the level of the counterfeit market (counterfeit products) of HTPs in both Poland and Ukraine is very low due to the complexity and high cost of their production.

(letters and studies are attached)

In view of the above, and given the limited timeframe for the adoption of Draft Law 11090, we ask you to express Your position on the application of the reduced excise taxation approach to HTPs in relation to traditional cigarettes as soon as possible.

Also, would it be convenient for you to hold a short online meeting next week to discuss this issue?

If you have any additional questions, please contact us.

Best regards,

Viktor