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HARMONIZATION OF THE EXCISE DUTIES ON MANUFACTURED TOBACCO

The Commission recently forwarded two proposals to the Council for directives on the harmonization of excise duties on manufactured tobacco.<sup>1</sup>

Background

These proposals are a sequel to the first directive in this field, which was adopted by the Council on 19 December 1972 and came into force on 1 July 1973, and provided for harmonization in stages, the first of which covers the twenty four months from 1 July 1973 to 30 June 1975, although neither the number nor time-scale of the subsequent stages was determined.

Under this directive, Member States shall apply no taxes to manufactured tobacco apart from VAT and excise duty. Provision was also made for the Council, acting on a proposal from the Commission, to give a detailed definition and classification of the taxable products. This is necessary because the excise duty should be identical throughout the Community by groups of products. The first directive also laid down more detailed harmonization rules, in particular for cigarettes.

Content of the second directive

This second directive gives a precise definition of the five groups of manufactured tobacco already provided for in the first (cigarettes, cigars, and cigarillos, smoking tobacco, snuff, chewing tobacco). It should be pointed out that this definition and classification posed awkward problems, in particular where borderline cases were concerned.

Content of the third directive

The third directive extends the application of the first directive for a further twelve months, i.e. until 30 June 1976. This was necessary because the enlargement of the Community has made it even more difficult than before to lay down satisfactory criteria for harmonizing excise duties (e.g. choice and relationship between specific tax calculated per unit and ad valorem tax).

The two proposals for directives represent, therefore, progress in the harmonization of excise duties on manufactured tobacco, since they provide a precise definition of the taxable groups of products, and also a certain slackening of pace, due partly to difficulties which arose with the enlargement of the Community, but it should be possible to make good this delay during one of the later stages.

<sup>1</sup>COM(74)339 and 342.

After the adoption of these two directives, it will be necessary to lay down the following in order to complete the harmonization of excise duties on manufactured tobacco:

- (i) for cigarettes: the relation between the specific element and the ad valorem element of the excise duty (the first directive provides for a mixed system for cigarettes);
- (ii) for the remaining products: the structure of the excise duties (choice between specific tax, ad valorem tax and mixed system, and in the latter case, the relationship between the two elements);
- (iii) for all products: the rate of the excise duty by groups of products.