

The price tag of proposed excise tax on vape solutions

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2 Feb 2022

National Treasury published a draft discussion paper in December 2021 on the proposed taxation of electronic nicotine delivery systems (ENDS) and electronic non-nicotine delivery systems (ENNDS), commonly known as e-cigarettes.



Source: [Unsplash](#)

According to National Treasury, e-cigarettes are battery-powered devices that do not burn or use tobacco leaves but vaporise e-liquid solutions which a user inhales.

In its discussion paper, National Treasury acknowledges that there is uncertainty about the actual health-related risks of e-cigarettes. Consequently, it wishes to engage with stakeholders on its fiscal policy recommendations for the taxation of e-cigarettes, as countries like the Philippines, Kenya and Russia are doing.

Both non-nicotine and nicotine solutions are being targeted

National Treasury proposes to introduce a specific excise tax on both the non-nicotine and nicotine solutions used in e-cigarettes and intends to use its existing policy guidelines applicable to other excisable products to do so. For example, traditional tobacco products are subject to excise duties at a rate of 40% of the price of the most popular brand in each tobacco category.

When applied to e-cigarettes, users could pay excise duty ranging from R33.60 to R346 per product, depending on the nicotine content and size of that product. The average excise rate for e-cigarettes is proposed at R 2.91 per millilitre and apportioned in a ratio of 70:30 between nicotine and non-nicotine elements.

Essentially, users could pay R 2.03 per millilitre of e-cigarette solution containing nicotine and 87 cents per millilitre of e-cigarette solution that contains no nicotine, if the draft proposals are accepted and become legislation.

Products with a higher nicotine content, it is proposed, will attract a higher rate of duty compared with lower-nicotine products.

Proposals could stimulate illicit trade

National Treasury's proposals to tax e-cigarette solutions that contain no tobacco or nicotine may, in particular, be questioned by some stakeholders, as it does not necessarily support government's stated policy intention of reducing the consumption of tobacco products. It also could stimulate the illicit trade in e-cigarettes, as has happened in the tobacco sector.

It is also worth noting that manufacturers and importers who become liable for the proposed excise taxes on e-cigarettes will need stringent certifications by accredited laboratories, which use either South African National Accreditation or International Laboratory Accreditation Co-operation (ILAC) approved methodologies. Where such certifications are not available, a penalty rate of duty is being proposed, which is another factor that affected stakeholders should scrutinise with care.

E-cigarette users, manufacturers and importers are encouraged to carefully consider this comprehensive draft discussion document and make relevant proposals to National Treasury. Comments on the draft discussion document are due by 7 February 2022.

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