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Copy No:

No: 36/2019

Memorandum for Executive Council

SUBJECT **MID-YEAR CHANGES TO CUSTOMS DUTY TARIFFS**

Memorandum by Chairman of the Economic Development Committee

- ADVICE SOUGHT**
1. **Executive Council is asked to:**
 - a. **Approve the following changes to Customs Duty Tariffs during the current financial year:**
 - i. **An increase in the duty on tobacco products by 13.98% to come into effect from 1 October 2019;**
 - ii. **A change in the customs duty tariff for vehicles from value based to a fixed rate based on emissions to support the policy on reducing carbon emissions to come into effect from 1 December 2019.**
 - b. **Approve the attached Customs and Excise (Tariffs) (Amendment No.2) Regulations, 2019 (Annex A)**

BACKGROUND & CONSIDERATIONS

Tobacco Duty

2. In February 2019 the Chairman of the Public Health Committee and the Director of Health presented to the Economic Development Committee (EDC) the key findings from a Report on Changing Duty Taxes in Saint Helena, by Michael Kofi Boachie and Laura Rossouw, December 2018. Based on the Report, the Health Directorate proposed to increase the level of customs duty applied to tobacco products by 13.98% in order to work towards meeting the World Health Organisation (WHO) requirements on the Convention on Tobacco Control. The Report can be found in Annex B with an update summary related to our recommended option provided in Annex C.
3. Members at that meeting noted the potential health benefits that could result if fewer people smoked tobacco and recognised that higher prices might be a deterrent to young people who might otherwise start smoking. Members supported the proposal in principle and agreed that the possible revenue reduction implications and other details would need to be considered by the Tax and Revenue Working Group (TRWG).
4. The TRWG was given a presentation by the Health Promotion and Social Marketing Lead regarding the negative health impacts of tobacco smoking and the proposal to increase tobacco duties. The

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paper states that “*aside from being simple to administer, the tax should be able to 1) reduce tobacco consumption and smoking prevalence (especially among the youth), and 2) generate government revenue. St Helena has a strong tobacco tax system in that the application of the duty is simple.*”

5. The paper also states that “*the main recommendation for St Helena is to increase the level of real duty tax on cigarettes in the coming years to make cigarettes less affordable. This should lead to both an increase in government revenue and a decrease in smoking prevalence or smoking intensity. St Helena’s duty tax structure is ideal in that it is administratively simple, and would be efficient in increasing cigarette prices, for the ultimate goal of increased government revenue and reduced smoking prevalence. This is in line with the WHO recommendations and FCTC article 6 guidelines (WHO, 2011).*”
6. The research simulated a number of policy options, each with a different impact on cigarette retail prices, cigarette consumption, smoking prevalence, government revenue and the duty tax burden. Of these, a price increase of 13.98%, followed by an increase of inflation plus 1% each year estimated revenue per annum to increase to £1.1m annually from £0.9m currently plus a reduction in smoking prevalence from around 24% to 23% over five years. The revenue estimates are high level and should there be more success in lowering smoking prevalence, then this revenue would not be forthcoming. To be cautious, we would suggest not to expect an increase in revenue as a result of this change.
7. Customs duty on Tobacco products was last increased in April 2019 by 5.1%, following the previous policy of increasing prices by Inflation + 1%. It is recommended that, should the 13.98% uplift be agreed by Executive Council to come into force in October 2019, because the changes are being made mid year, we recommend no further uplift in duty on 1 April 2020. At this time it is recommended for the duty to increase again by inflation + 1% on 1 April 2021 but this will be reviewed again for a decision in 2020.
8. The new rates of customs duty on tobacco products are provided in the table below and shows the change made in April 2019 rates and the proposed new rates. The proposed tariff change will add 28p to a packet of 20 cigarettes.

Table 1: Tobacco Products tax rates

Tariff Category	Original Rate (£) per Kg (Pre April 2019)	Current Rate (£) per Kg (April 2019 change)	New Rate (£) per Kg (Proposed)
Tobacco unmanufactured	22.37	23.51	26.80
Cigars, cheroots and cigarillos, containing tobacco	73.91	77.68	88.53

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Cigarettes containing tobacco	275.46	289.51	329.98
Other tobacco manufactures	275.46	289.51	329.98

9. It was noted that the sugar tax was successful in 2018-2019 because the tax was raised hand-in-hand with investment in targeted marketing. The Health Directorate is promoting smoking cessation so this tax increase will assist them in achieving their overall objective.
10. The Tobacco Duty proposals are one of several measures that together are intended to reduce the burden of tobacco smoking on the St Helena community. Alongside are:
- ✓ Legislation proposals, currently being finalised, that include a range of evidence-based measures that are proven across many countries to both deter youth uptake of smoking and support adults to quit.
 - ✓ Ongoing strengthening of the ‘Quit Support’ available. Staff are receiving additional training from international experts in October 2019 focused on supporting patients who wish to quit or to support patients who are not yet motivated to develop an intention to quit. The service is now strengthening its recall procedures to encourage patients to come back for further support and to try different types of nicotine therapy available to find the one that works most effectively for them. The Health Directorate has provided training across clinical staff groups on ‘Brief Interventions’ which encourages patients to receive further smoking cessation support; and the Health Directorate is developing its data entry and recording systems to better capture smoking / quitting on clinical records.
 - ✓ Robust population survey data has been collected on smoking in the wider community, and on quit intentions, and awareness of cessation support services. This survey will be repeated annually to measure progress in smoking cessation and to identify areas that need further strengthening. Initial data indicates a surge in smoking cessation uptake and intentions between 2018-19, and this also has fed into planning to support patients who may then relapse and need more intense support to finally quit.
 - ✓ Social Marketing focused on people who have attempted to quit, but have since relapsed (“fallen off the wagon”) is being developed and will launch in Spring 2019 and link to advice on more effective quitting and enhanced follow up by the smoking cessation service.

Vehicle Duty

11. In December 2018 EDC considered changes in customs duties for the 2019 year. TRWG recommended a reduction in duty for zero emission vehicles to encourage residents to be greener. It was noted that the

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current structure of the tariff for customs duty on vehicles might not be conducive to achieving the wider national goal of Altogether Greener and encourage the use of low carbon emission vehicles and reduce the carbon footprint of the Island. This is demonstrated by the following example:

A newer zero emission vehicle purchased for £20,000 will under the current tariff of 15% be charged £3,000 customs duty. In contrast an older less efficient, higher emission vehicle purchased for £2,000 will under the current tariff of 35% be charged £700 customs duty.

12. The value of vehicles vary significantly depending on a number of factors including make, model, age and performance and so a tariff based on values does not necessarily support the intended outcomes. A better way to ensure that low emission vehicles are charged a lower duty than high emission vehicles, and therefore incentivise import of low emission vehicles in place of high emission vehicles, is to change the calculation of duty based on value to a fixed rate based upon emissions alone.
13. By charging a fixed rate per vehicle per emission band, the public is no longer strongly incentivised to buy cheaper, high emission vehicles. The change would also reduce the risk of false declaration of value of the vehicle to reduce customs duty payable. It will also reduce administrative burden on Customs Officers who would no longer need to verify or validate value of vehicles imported.
14. The structure of the new tariff is expected to generate at least as much revenue as was collected before the change and will ensure the change is revenue neutral. The following table summarises the change in the structure:

Table 2: Motor Vehicle tax rates

Emission Bands	Tax tariff as % of sales price (current tariff)	Tax rate per vehicle (£), (new rates)
0g per km	15%	£200
1-100g per km	15%	£450
101-120g per km	25%	£900
121-165g per km	35%	£1,260
166-185g per km	40%	£1,530
185-200g per km	45%	£2,660
> 200g per km	45%	£3,500

15. The rates were chosen pro rata which means that the fees increase proportionally as emissions increase. The calculation was based upon comparing the mid-range of emissions of each band to each other. For example, the midrange of 101-120g is 110.5g and the midrange of 121-165g is 143.5g. And as 110.5g is 77% of 143g, it would be a given that

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the new rate of the 101-120g per km range would be around 77% of the rate of the 121-165g per km range, rounded to a sensible number. The reason for doing this is to ensure the tax paid by a vehicle proportionally reflects emissions.

16. The existing rates already use emission banding to calculate duty. But an additional band is suggested to be added to the upper end (>200g per km) to disincentivise the importation of vehicles with very high emissions.
17. The policy intends to incentivise the importation of zero emission cars. It is suggested a token £200 is charged for these lowest emission cars to reflect a contribution to road maintenance costs and future landfill costs. This is rather than charging zero tax on zero emission vehicles.
18. The CO2 emissions from the motorcycle fleet average (UK) is 110g per km. There is a developing market of zero emission motorcycles which are not yet commercialised, however more commercially feasible models are likely to be available in the coming years. In the meantime, Euro 4 emission standards apply to motorbikes built from 2016 and mopeds from 2017; Euro 5 standards apply to all sales of two and three-wheeled vehicles from 2020.
19. It is recommended that the customs duty on motorcycles and quad bikes also be changed from a value based tariff to a fixed rate based on emissions. The following rates should be applied in order to achieve the same level of revenue; around £32,500 over three years:

Table 3: Motorcycle and Quad Bike tax rates

Emission Bands	Tax rate as % of sales price (current rates)	Tax per motorcycle (£) (new rates)
0g per km	35%	200
>1g per km	35%	700

20. It is recommended that Motor Vehicles for Transport of Goods and Special Purpose Vehicles (SPVs) continue to be charged import duty tariff at 35% of value. This is because SPVs are too varied to standardise a rate for – this could cover vehicles from mobile bakeries to cranes.
21. As these changes are coming in mid year it is recommended that there is no uprating three months later on 1 April 2020 to take in account of inflation; the next inflationary increase in fixed rates will be agreed next year to come into force on 1 April 2021.

FINANCIAL IMPLICATIONS

22. The policy intention behind this tariff change to tobacco products is not to raise revenues but to support healthier lifestyles and the national goal of Altogether Healthier. However, it is possible that the proposed tariff changes to Tobacco products may increase revenues from

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tobacco by 9%. As mentioned previously in the memo, this depends on continued smoking prevalence and if the campaign does better than expected in reducing the number of smokers or frequency of smoking, then there may be no additional revenue raised. There are no other financial implications associated with this decision.

23. In terms of the vehicle duties, again the policy intention behind the tariff change is not to raise revenues but to support the reduction in carbon emissions and the national goal of Altogether Greener. It is anticipated that this tariff change will influence decisions made on importing low emission vehicles and therefore there is a risk to revenue, however the rates proposed factors in some element of behavioral change to mitigate this risk to ensure that overall there is no loss of revenue to SHG. This will be closely monitored. Overall however, it is expected that there will be no loss and no gain in revenues from changes in the vehicle tax duty, only that those importing cars with lower emissions will pay less, whilst those importing cars with higher emissions will pay more.
24. In the three-year period between June 2016 and May 2019, around £250,000 of duty was collected for cars; which amounts to approximately £85,000 per annum. This was based on 187 cars worth £690,000 in total imported in three years. The following table shows the average value of cars imported over three years within each existing emission band, and the minimum, maximum and average import duty paid:

Table 4: Average value and tax paid on imported cars

	Average value of car	Average tax paid per car	Max tax paid by a car	Min tax paid by a car
0-100g per km	£4,627	£694	£1,740	£105
101-120g per km	£3,092	£680	£2,324	£113
121-165g per km	£3,645	£1,275	£9,818	£33
166-185g per km	£2,457	£983	£4,000	£80
> 185g per km	£4,324	£1,946	£15,476	£338

25. If no behavioural change was factored in then additional revenue generation would be around £35,000 additional per annum. However, it is likely that some will switch to buying lower emission cars and therefore it is more likely that the scheme will be revenue neutral, meaning that no significant additional or loss in revenue is expected.

ECONOMIC IMPLICATIONS

26. 'Sin taxes' i.e. the taxation of unhealthy products is generally an accepted win-win for public policy. The tobacco tax will achieve a balance encouraging a reduction in smoking whilst maintaining revenues.

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CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES

27. One of the tax principles agreed by the Tax and Revenue Working Group is to benefit those who are greener. The vehicle duty change helps to achieve this by rewarding purchase of low emission vehicles.
28. N/a

PUBLIC / SOCIAL IMPACT

29. One of the considerations highlighted during the development of the changes was whether the further increase in tobacco duty this year would provide a disproportionate burden on low income households. The Health Promotion and Social Marketing Lead indicated that the increase in tax, alongside the wider actions of the health strategy on smoking, has the potential to benefit people on low incomes especially as smoking takes a larger proportion of household income. International evidence shows that tobacco tax tends to encourage more people on low income to quit and so the health benefits are strongest for this group.
30. In the current basket for the minimum income standard there are no items which would see a price increase as a result of these changes.
31. Reducing smoking prevalence will have health benefits and the reduction of particulate emissions will improve air quality and have a positive effect on respiration.
32. In terms of the vehicle rates; there is no intention to significantly nudge a change in lifestyle choices on St Helena. Many St Helenians like to drive SUVs and this is still possible whilst being greener. Low emission cars and SUVs have been available for over a decade and the variety is increasing; lower emission SUV models include the Range Rover Sport Hybrid (62g/km) and Land Rover Discovery Sport (123g/km). In terms of roomy family cars, models such as the Nissan Leaf (0g/km), BMW I series (0g/km) and Ford Focus 1.5 Eco Blue Diesel (104g/km) are available.

ENVIRONMENTAL IMPACT

33. Cigarette litter is one of the most common complaints and the most difficult to manage. Encouraging a reduction of smoking may therefore have a positive effect on waste management.
34. Providing a financial incentive to import low or no carbon vehicles will have a positive environmental effect through reducing St Helena's carbon footprint.

PREVIOUS CONSULTATION / COMMITTEE INPUT

35. A number of discussions have taken place with EDC regarding both changes. The changes to tobacco duty was not endorsed by the EDC, however because the policy changes are cross cutting and considered to be of national importance, the proposal to increase the duty on Tobacco

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therefore is being presented to Council without the recommendation of the EDC. The tobacco duty changes were discussed and supported by the Public Health Committee as part of the overall Health Strategy initiatives.

36. The changes to vehicle duty tariffs were endorsed by the EDC. It was noted that customs are currently using manufacturer standards when deciding which emission bands an imported vehicle falls into. Work is being progressed by the Government Garage to see whether emissions testing equipment could be purchased to provide more accuracy. Furthermore, should this equipment be financed and procured, the EDC said they would like to see the progression of an emission based road tax in the future. This work should not hold up the changes to duty proposed as the principle of changing import duty tariffs to fixed rates still applies whether or not the vehicle is banded through manufacturer standards or an on site emission test.
37. There is likely to be positive reaction to the change in duty for low emission cars, if the public is aware of the variety of low emission vehicles and costs which are available to them.
38. There may be mixed reactions to the change in tobacco duty. Tax rises are generally unpopular, but there is a good health justification which can be reasonably explained.

PUBLIC REACTION

PUBLICITY

39. It is recommended that in addition to the publication of the changes to Regulations in the ExCo Report and associated broadcast, further detailed information should be released to ensure that there is greater understanding of the policy intentions behind the tariff changes, that this is not a revenue generating initiative but rather changes to support the national goals of Altogether Healthier and Altogether Greener. The Chair of the Economic Development Committee along with officials will give radio interviews on these changes.
40. The Health Directorate proposes that they will expand marketing around 'quit support' available and reiterate the campaign they began the previous year, albeit with some changes to approach, to focus on those who have 'fallen off the wagon' when it comes to quit attempts.

SUPPORT TO STRATEGIC OBJECTIVES

41. This paper supports the following Strategic Objectives in the Ten Year Plan:
 - Altogether Healthier:* We will support initiatives that will provide affordable healthy food products
 - Altogether Wealthier:* We will ensure that the tax and benefit system protect the most vulnerable.
 - Altogether Greener:* We will continue to encourage low carbon vehicle use through tax incentives

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**LINK TO
SUSTAINABLE
ECONOMIC
DEVELOPMENT
PLAN GOALS**

42. N/a

**OPEN /CLOSED
AGENDA ITEM**

43. Recommended for the open session.

LAH

Corporate Services
14 August 2019

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