

## Written Evidence from HM Revenue & Customs

### Executive Summary

- The enforcement of the Tobacco and Vapes Bill will primarily be led by Trading Standards and complemented by a wider cross-government strategy to tackle the illicit tobacco trade led by HM Revenue & Customs (HMRC).
- HMRC's strategies have had a significant impact in reducing the illicit tobacco trade. We do not anticipate a significant change to the illicit tobacco market as a result of the Bill in the short-term. Nevertheless, our refreshed strategy in January 2024 is supported by £100 million of new funding over five years and ensures we can respond to new threats.
- HMRC are implementing a new duty on vaping products in 2026. We are currently consulting on proposals to tackle non-compliance with the requirements of the duty. These proposals are expected to support wider efforts to control and monitor the vaping market.

### Introduction

1. This paper sets out evidence from HM Revenue & Customs (HMRC) to the House of Commons Public Bill Committee, to support the Tobacco and Vapes Bill passing through Parliament.
2. HMRC is the UK's tax, payments and customs authority. We have responsibility for the collection and administration of taxes. We play a key role in tackling the illicit market in tobacco, given the significant amount of tax revenue lost through illicit sales. We will also implement a duty on vaping products from 1 October 2026, as announced at Spring Budget 2024.
3. While HMRC does not have measures in the Bill and will not be enforcing its provisions, we have provided evidence on our wider role mentioned in paragraph 2. This is to demonstrate the wider, cross-government approach taken to tackle risks and threats from the illicit trade in tobacco. This also includes our consideration of the changes that would be introduced by the Bill.
4. This paper aims to help demonstrate the strong, comprehensive enforcement that will be taken in all areas of tobacco and vaping, as the government delivers its plans to create the first smokefree generation.

### Government agencies with responsibilities around illicit tobacco

5. The UK tackles the illicit market in tobacco through a coordinated effort between various government departments and agencies.
6. HMRC is responsible for the overall illicit tobacco strategy. HMRC is also responsible for inland and overseas delivery of the strategy, and civil and criminal investigations of fiscal offences.

7. Border Force is responsible for the seizure of illicit tobacco and collection of revenue at the border. Border Force and HMRC primarily work to disrupt the operations of large-scale organised crime groups, who produce and supply illicit tobacco through bulk methods.
8. Trading Standards is responsible for enforcing consumer protection laws around tobacco at the local retail level. This involves enforcing age restrictions on tobacco sales and taking action against false marketing of products. This also involves some local enforcement activity on behalf of HMRC.
9. The Department of Health and Social Care (DHSC) play an indirect role through public health measures and messaging against the harms of tobacco.

#### **HMRC's approach to tackling illicit tobacco**

10. HMRC has dedicated significant resource to tackling illicit tobacco and has set out its approach to doing so in published strategies dating back to 2000. This, and consequent strategies with Border Force, have reduced the estimated duty gap – a measure of how much revenue from tobacco duty is lost to non-compliance – for cigarettes by a third (from 16.9% in 2005 to 11% in 2021 to 2022) and for hand-rolling tobacco by a half (from 65.2% to 33.5% in the same period). This was against the background of a significant rise in tobacco duties which other things equal would increase the incentives for illicit tobacco.
11. Between April 2015 and March 2023, we protected over £19 billion in revenue, and seized more than 10.6 billion cigarettes and 1,600 tonnes of hand rolling tobacco. Over 1,500 people have been convicted in relation to tobacco crime over the same period.
12. In January 2024, HMRC and Border Force published a new illicit tobacco strategy, '[Stubbing Out the Problem](#)'. The strategy is supported by new funding of £100 million over five years for HMRC, Border Force and Trading Standards. It will also establish a new Illicit Tobacco Taskforce, to combine the expertise of various agencies and enhance our ability to disrupt organised crime.
13. The funding will be used to scale up ongoing work as well as support new activities set out in the strategy. This includes increasing our detection capabilities at the border and our number of Fiscal Crime Liaison Officers overseas, to tackle the supply of illicit tobacco before it reaches the UK.

#### **Impact of the Tobacco and Vapes Bill on HMRC's approach to tackling illicit tobacco**

14. The legal duty to enforce provisions in the Bill will primarily be for Trading Standards (as local weights and measures authorities) rather than HMRC. However, HMRC will continue to ensure strong enforcement of the wider illicit tobacco trade.
15. We do not expect to see a significant change in the illicit market as a result of the Bill in the short-term. However, we recognise that the nature of tobacco fraud continues to evolve, and we will

keep our approach under review. Our latest strategy shows how we have taken into account current changes in risks and lessons learned from implementing the previous strategy. The government's commitment to additional funding of £100 million over five years ensures we are resourced to respond to new and evolving threats.

16. Our experience has shown that, when new tobacco control measures are introduced alongside strong enforcement, we have been able to reduce or maintain the size of the illicit market. As mentioned in paragraph 10, the estimated duty gap has reduced or remained broadly steady despite a period of increasing tobacco duty rates.
17. Our recent strategy also identified a greater need to now tackle the illicit trade by reducing the demand for products (i.e. targeted communications aimed at the consumer). The measures in the Bill should prevent people from starting smoking in the first place, therefore reducing demand for tobacco in both the legitimate and illicit markets.

#### **HMRC enforcement of Vaping Products Duty**

18. At Spring Budget 2024, the government announced it will introduce a Vaping Products Duty (VPD) from 1 October 2026. The proposals for the new duty are currently out for [consultation](#) and are expected to be legislated for in late 2024 or early 2025. While VPD is therefore not within scope of the Tobacco and Vapes Bill, it will complement wider measures and enforcement around the vaping market.
19. The proposal is for VPD to be an excise duty. Including the liquid in vaping products within the excise regime will subject their manufacture and import to greater control and monitoring by HMRC. This builds on HMRC's experience with existing excise taxes and products, such as alcohol and tobacco, which are already more closely supervised.
20. Our consultation also discusses measures to tackle non-compliance with the requirements of the duty. This includes declaration and payments via digital channels to minimise fraud and error; civil and criminal powers for HMRC to seize products and equipment/vehicles used to produce or transport illicit product; and penalties for those who do not meet their obligations.
21. We will share intelligence with agencies such as Border Force and Trading Standards, who will have enhanced capabilities around vaping by the time the duty is introduced.
22. We also intend to recruit operational staff to enforce the duty, integrating with existing tobacco compliance teams and building on HMRC's success in driving down the tobacco tax gap.