



Ahead of Committee Stage of the Finance Bill 2025-26, JTI has the following observations on Clause 88 (Rates of [tobacco] duty effective from 1 October 2026) and Part 4, Clauses 112-138 (Vaping products duty).

OVERVIEW

JTI supports the introduction of excise duty on all vaping products (including non-nicotine vapes) from 1 October 2026 as set out in Clauses 112-138 (Vaping products duty)

However, JTI categorically rejects the need for an additional compensatory increase in tobacco duty at the same time, included within Clause 88.

Recent very large above-inflation increases in tobacco duty (totalling 36% for cigarettes and 66% for hand-rolling tobacco since the start of 2023)¹ have reduced the sale of legal tobacco products, in line with the Government's stated intention, but also have stimulated significantly increased demand for illegal tobacco volumes.

In the UK there is widespread distribution and sale of illegal tobacco and vaping products, controlled by serious organised crime groups that reach across all parts of the country.² In the past year, the National Crime Agency has identified illegal tobacco and vapes as a driver in wider criminal activity that use retail outlets as a front^{3 4}. This was also acknowledged at the 2025 Budget, where the Chancellor of the Exchequer stated “....[We're] undertaking additional enforcement activity on high streets, focusing on illicit tobacco and vaping products and more targeted criminal interventions to tackle the most serious fraud and evasion by small businesses, by deploying 350 newly recruited criminal investigators as part of a new team in HMRC's Fraud Investigation Service”⁵.

While HMRC estimates that 14% of cigarette and 27% of hand-rolling tobacco consumption is from illegal or other non-UK duty paid sources,⁶ JTI believes this is a significant understatement of the scale of the problem. Our own data shows the consumption of tobacco from non-UK duty paid sources has reached levels not seen since the mid-2000s, currently accounting for 34% of cigarette and 54% of hand-rolling tobacco consumption⁷.

Immediate Government action is required to stem the concerning rise in illegal tobacco and tackle the corrosive side effects this activity has on UK high streets and communities. This action should include:

- Substantially increasing investment in frontline enforcement capabilities in the fight against illegal tobacco, particularly for Trading Standards. The Public Accounts Committee estimated that every £1 spent by HMRC on compliance recovers £18⁸.
- Meaningfully increasing the penalties for smuggling and selling illegal tobacco.
- **Cancelling the compensatory tobacco duty increase planned for 1 October 2026 to coincide with the introduction of the vaping products duty (Clause 88).**

CLAUSE 88: RATES OF [TOBACCO] DUTY EFFECTIVE FROM 1 OCTOBER 2026

Clause 88 is unusual in that it sets out duty rates that will be effective at, or around, the next Budget.

Within clause 88, two tobacco duty events are combined, to take effect on 1 October 2026:

- The annual increase of RPI plus 2% duty increases for all tobacco products (normally expected to be announced at Autumn Budget 2026)
- A one-off compensatory increase in tobacco duty to coincide with the introduction of vaping products duty, which purports to maintain the price differential between vaping and tobacco products

The rationale for this compensatory increase, described as being “to ensure tobacco does not become comparatively more attractive [than vaping products]”, is disingenuous.

Currently, a typical 2 x 2ml vaping pod pack costs around £5.99⁹ - approx. £2.99 per pod - compared to the lowest price pack of cigarettes of £13.00¹⁰. Even if the additional £0.44 of duty per 2ml pod and £0.09 of VAT were to apply now, the price of vaping products would still be a quarter of the price of the lowest priced pack of cigarettes.

In addition, the price differentials between tobacco products and vapes will have already increased substantially since the vaping duty was initially announced in Spring Budget 2024, due to the annual increases in tobacco duty. By 1 October 2026::

¹ Based on changes announced in the Budgets of March 2023, November 2023, October 2024 and October 2025 to the rates for cigarette MET and specific duty on hand-rolling tobacco. MET increased from £347.87 per 1,000 prior to March 2023 to £471.93 (+36%) and specific duty on hand-rolling tobacco from £302.34 per kg to £503.80 (+67%)

² [Gangs, death threats and £3 cigarettes — my year on our high streets, Sunday Times, December 6 2025](#)

³ [Operation Machinize: Hundreds of barbershops targeted in NCA-coordinated crackdown - National Crime Agency](#)

⁴ [Operation Machinize 2: Thousands of businesses targeted in coordinated crackdown on high street crime - National Crime Agency](#)

⁵ [Budget 2025 \(HTML\) - GOV.UK](#)

⁶ Measuring tax gaps 2025 edition: tax gap estimates for 2023 to 2024. HM Revenue & Customs, June 2025

⁷ The latest data from JTI's Pack Swap survey (Q3 2025), which is based on the analysis of cigarette packs and hand-rolling tobacco pouches collected through face-to-face consumer interviews conducted over 48 weeks of the year

⁸ HMRC performance in 2021-22. House of Commons Committee of Public Accounts, December 2022

⁹ [Results for "refillable pod" - Tesco Groceries](#) accessed January 26 2026

¹⁰ [Results for "cigarettes" - Tesco Groceries](#) accessed January 26 2026



- Duty on a pack of 20 cigarettes will have increased by £1.79 v £0.53 on a 2 ml pod
- Duty on a pack of 30g hand-rolling tobacco will have increased by £5.30 v £0.53 on a 2 ml pod

This differential will continue to grow due to the already high tax base for tobacco. Factoring in inflation of 3% and a 2% escalator, over the next 3 years:

- Duty on a pack of 20 cigarettes could increase by £1.47 v £0.06 on a 2 ml pod
- Duty on a pack of 30g hand-rolling tobacco could increase by £2.58 v £0.06 on a 2 ml pod

The most recent revision of the HMRC/Border strategy '*Stubbing out the problem: A New Strategy to Tackle Illicit Tobacco*' published in January 2024¹¹ that set out a revised plan to tackle the illegal tobacco market did not provide confidence as to how the illegal market would be addressed.

Despite the promise of £100 million of additional enforcement funding over five years, the paper states that "*no matter how much we strengthen our current strategy, supply will always find a way to enter the market where a demand for it exists. The profit margins available in the global illicit tobacco trade mean OCGs will go to great lengths to maintain supply, are willing to constantly adapt to tight controls, and are able to quickly recover from setbacks*".

JTI therefore calls for the compensatory increase to be removed from Clause 88. Failure to do so will only increase the widening price difference between legal and illegal tobacco products and further incentivise consumers to purchase from the black market.

REFERENCE: PER PACK INCREASES / PRICE DIFFERENTIALS

		Per pack increases					
		With compensatory increase			Without compensatory increase		
		Cigarettes (20)	Hand rolling (30g)	Vaping duty (2ml pod)	Cigarettes (20)	Hand rolling (30g)	Vaping duty (2ml pod)
2024 Budget	Actual	£0.54	£2.32		£0.54	£2.32	
2025 Budget	Actual	£0.57	£0.97		£0.57	£0.97	
2026 Budget	Actual	£0.55	£0.96		£0.55	£0.96	
2026 (one off)	Actual	£0.66	£1.58	£0.53			£0.53
Total to 2026		£2.32	£5.83	£0.53	£1.66	£4.25	£0.53
<i>Difference</i>		<i>£1.79</i>	<i>£5.30</i>		<i>£1.13</i>	<i>£3.72</i>	
2027 Budget	Estimated	£0.47	£0.83	£0.02	£0.47	£0.83	£0.02
2028 Budget	Estimated	£0.49	£0.86	£0.02	£0.49	£0.86	£0.02
2029 Budget	Estimated	£0.51	£0.89	£0.02	£0.51	£0.89	£0.02
Total to 2029		£1.47	£2.58	£0.06	£1.47	£2.58	£0.06
<i>Difference</i>		<i>£1.41</i>	<i>£2.52</i>		<i>£1.41</i>	<i>£2.52</i>	
Total		£3.79	£8.41	£0.59	£3.13	£6.83	£0.59
<i>Difference</i>		<i>£3.20</i>	<i>£7.82</i>		<i>£2.54</i>	<i>£6.24</i>	

REFERENCE: THE ROLE OF SERIOUS & ORGANISED CRIME GROUPS

While many people see the trade in illegal tobacco as a victimless crime and there is little social stigma associated with purchasing cheap illegal tobacco, the illegal tobacco market in the UK is increasingly dominated by serious organised crime groups that work across borders and are involved in other serious crimes¹².

These groups don't just deal in tobacco. They also smuggle drugs and weapons and are intricately involved in human trafficking and modern slavery. These players are not petty criminals – they are organised international criminal networks. This includes Fujian-based Chinese triads, which the BBC reported in July 2025 operate a "vast" illegal tobacco business in the UK¹³.

Academics and crime researchers have also warned that the illegal tobacco trade is closely linked to some terrorist groups. A RUSI research paper identified the illegal tobacco trade as a core funding stream for various Islamist terrorist organisations¹⁴.

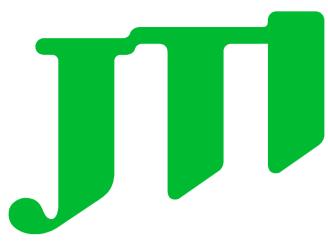
The previous Conservative Government acknowledged the illegal trade's links to serious organised crime groups in 2024 through The Khan Review, in which Dr Javed Khan acknowledged that "*Smuggled tobacco is almost always linked to organised crime. Criminal*

¹¹ HMRC, *Stubbing out the problem: A New Strategy to Tackle Illicit Tobacco*, January 2024.

¹² HM Revenue & Customs & Border Force. (2024, January 29). *Stubbing out the problem: A new strategy to tackle illicit tobacco*. GOV.UK. Updated March 1, 2024

¹³ BBC News. (2025, July 3). *The sale of illegal cigarettes signals a deeper problem with UK high streets*

¹⁴ RUSI. (2020, February 7). *Are Your Cigarettes Funding Terror Attacks? Examining the Intersection of Terrorist Financing and Illicit Trade*.



*gangs flood our most deprived communities with illicit tobacco, which is sold to children at pocket money prices. The proceeds are often used to fund wider organised crime like drug dealing and sex trafficking*¹⁵.

Dr Khan urged the Government to improve the monitoring and enforcement of the illegal tobacco market through a multi-agency approach, bringing together “HMRC, trading standards, police, and public health”. He also recommended that the Government invest £15m a year to fund local Trading Standards specifically to address illegal tobacco, give Trading Standards new powers to close down retailers known to be selling illegal tobacco, and introduce enhanced enforcement for alternative tobacco products which are routinely sold “with no regard for regulations on packaging, display or notification”¹⁶.

Action must be taken.

¹⁵ [The Khan review: Independent review by Dr Javed Khan OBE into the governments ambition to make England smokefree by 2030](#).

¹⁶ *ibid*