



Communication and Marketing Department
Isebe loThungelwano neNtengiso
Kommunikasie en Bemerkingsdepartement

Private Bag X3, Rondebosch 7701, South Africa
Welgelegen House, Chapel Road Extension, Rosebank, Cape Town
Tel: +27 (0) 21 650 5427/5428/5674 Fax: +27 (0) 21 650 5628

www.uct.ac.za

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New vaping tax misses the mark - UCT experts

The vaping industry has vociferously opposed a new tax on vaping products. But only the largest containers of e-liquid will feel hefty price increases, according to the University of Cape Town (UCT) experts Dr Nicole Vellios and Professor Corné van Walbeek.

As of 1 June 2023, nicotine and nicotine-substitute solutions in vaping products are taxed at a flat excise-duty rate of R2.90/ml. Vellios said reducing demand for vaping products is necessary as there is growing evidence that vaping products are not harmless. Scientists at Johns Hopkins University in the US found that vaping aerosols contain thousands of unknown chemicals and substances not disclosed by manufacturers, including caffeine and industrial chemicals (such as pesticides and flavourings). These industrial chemicals may be toxic and may cause respiratory irritation.

According to Vellios, young people starting to vape are more likely to buy disposables, which attract less tax. As currently structured, she said the excise tax is not sufficiently targeted at reducing or preventing the use of vaping products among youth.

Disposable vapes, which are closed systems thrown away once the liquid is finished, have become increasingly popular among the youth. A survey, conducted in 2022 in nine schools (both publicly and privately funded) in three provinces, found that 15% of the 5583 surveyed learners in grades 8-12 used vaping devices. The prevalence is higher among grade 11 (17%) and grade 12 learners (27%).

"These high prevalence rates are unsurprising given that vaping devices are marketed to the youth. The devices come in many shapes, flavours, and colours. One vape sold on Takealot is shaped as an ice lolly. Airspops disposable vapes, made by a UK company called Airscream, are very popular in South Africa. Pick n Pay sells a 3ml AirsPops for R95. The price has not changed since at least August 2022 to 14 June 2023. The unchanged retail price suggests that the new excise tax is either absorbed by the industry or there is old stock on the market," said Vellios.

Vellios, based at UCT's Research Unit on the Economics of Excisable Products (REEP), said there is growing competition in both the closed disposables vapes and open-systems markets. "Open systems allow the user to refill the liquid in a vaping device. E-liquids are sold in a variety of nicotine strengths and volumes (typically from 20 ml to 100 ml). The increased competition has put downward pressure on e-liquid prices," she added.

The new tax will affect disposables the least and e-liquids sold in large containers the most, explained Vellios. Under the current tax of R2.90 per ml, a 3ml AirsPops is subject to an excise tax of R8.70, plus 15% VAT on excise (R1.31), which would increase the price of a unit from R95 to R105.01.

“Per millilitre of e-liquid, the larger containers are relatively cheaper than the smaller containers. Vaperite sells 100 ml of Spook e-liquid for R280 (irrespective of nicotine strength). The new tax on this will be R290, plus VAT on excise, which means the retail price will increase by more than 119% to R613.50, with a total tax incidence of 54%. While this increase is substantial, it applies only to the largest containers. From the vaping industry’s perspective, this is the worst-case scenario. The impact of the tax on the prices of smaller containers is much less,” she said.

Van Walbeek, professor of economics and director of REEP, said users of 100 ml bottles of e-liquid are likely to be seasoned vapers and more likely to vape as an alternative to smoking cigarettes. He added that youths experimenting with or starting vaping are unlikely to purchase large containers of e-liquid and they would typically start with disposable vapes.

“Large containers have a much higher tax incidence than disposable vapes. This is a problem because the excise tax is not well-targeted at reducing the consumption of vaping products among the youth,” he said.

To address this anomaly, he said government should implement a minimum excise tax amount. “We suggest a minimum tax of R50 per unit/container. Such an amount would have no additional tax impact for e-liquid containers with more than 17.5 ml, but would have an impact on small-volume containers, especially disposables. The tax incidence on a 2ml Vuse disposable would increase from 6% to 37%. The tax incidence of e-liquid (sold in units of 20 ml or more) would remain the same.”

Other than imposing a minimum excise tax on all vaping products, Vellios and Van Walbeek propose that Treasury should increase the excise tax on e-cigarettes annually by the inflation rate, plus a pre-announced additional percentage to ensure that e-cigarettes become less affordable over time. Pre-announced tax changes are done in countries such as Australia, which has increased the excise tax on cigarettes by 12.5% above the nominal increase in average wages for eight consecutive years from 2013 to 2020. Through a multi-year approach, tax increases are more predictable.

Van Walbeek commented: “The vaping industry’s response to the excise tax on vaping e-liquid has been predictably fierce. By focusing only on large containers, the industry has created the impression that the tax increases will greatly impact the prices of all vaping products. However, these large containers comprise only a modest proportion of the market. Most vaping products will experience only limited price increases under the new tax. Vaping products most used by youth are subject to the lowest tax burden.”

South Africa does not need a new epidemic of addiction, he said. “The excise tax on vaping products will go some way to reduce the demand for these products. But there are flaws in the current tax system. Treasury needs to address these in future Budgets.”

Note: This media release is based on a summary version of the article in [Econ3x3](#).

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Issued by: UCT Communication and Marketing Department

Ridovhona Mbulaheni

Media Liaison Assistant
Communication and Marketing Department
University of Cape Town
Rondebosch
Tel: (021) 650 2333
Cell: (064) 905 3807
Email: ridovhona.mbulaheni@uct.ac.za
Website: www.uct.ac.za