
Session Five:

Enforcement Strategies



2010 IRS Research Conference



**HM Revenue
& Customs**

Measuring and Tackling the Illicit Market for Excise Goods

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Methods of Estimating Illicit Markets

- Bottom up
 - Results of enquiries and/or seizures
 - Dependent on operational strategy/performance
 - Direct taxes (e.g. Income tax, Corporation tax)
- Top down
 - Results of national surveys
 - Dependent on third party sources
 - Indirect taxes (e.g. Tobacco, alcohol and oil excise duties)

Overview of Top Down Methodology

Illicit Market = **Total Consumption**
– **Legitimate Consumption**

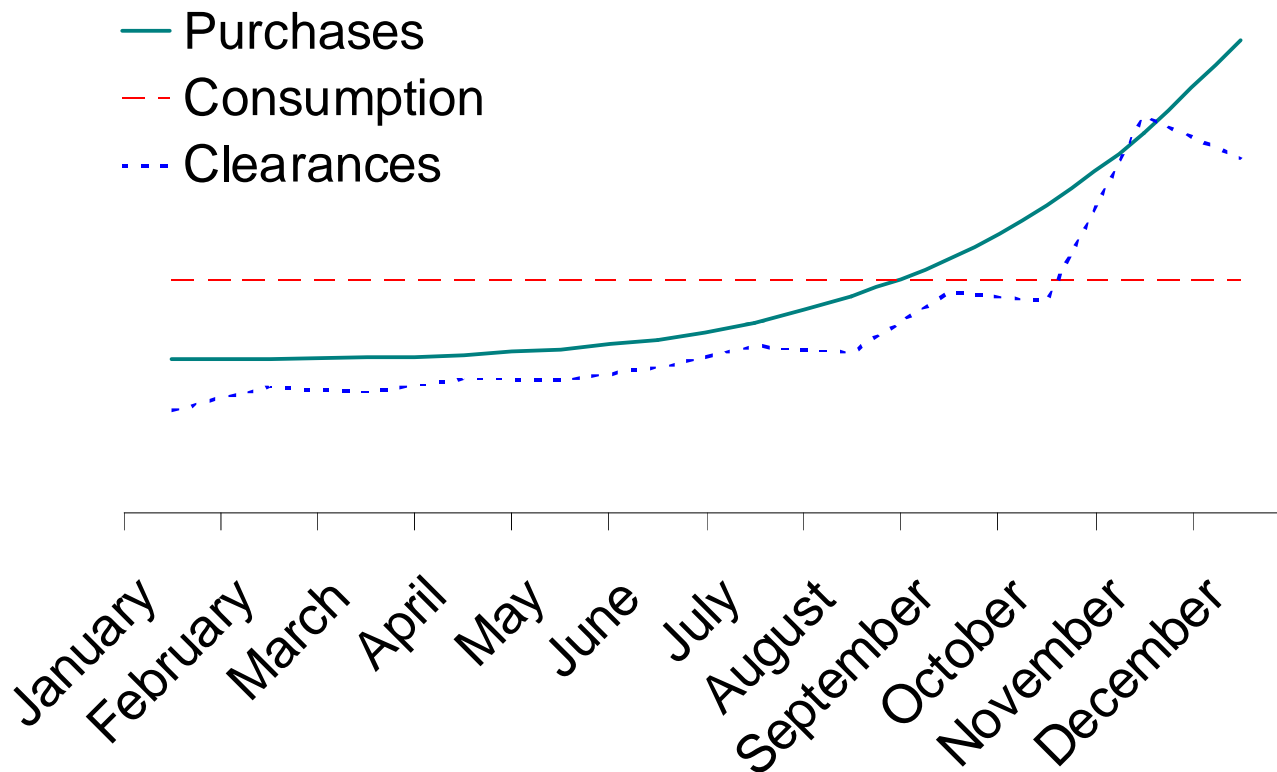
- Total Consumption
 - Surveys of expenditure, consumption etc.
- Legitimate Consumption
 - Clearances declared by excise traders
 - Surveys of cross-border shopping

(Domestic Shelf) Life Span



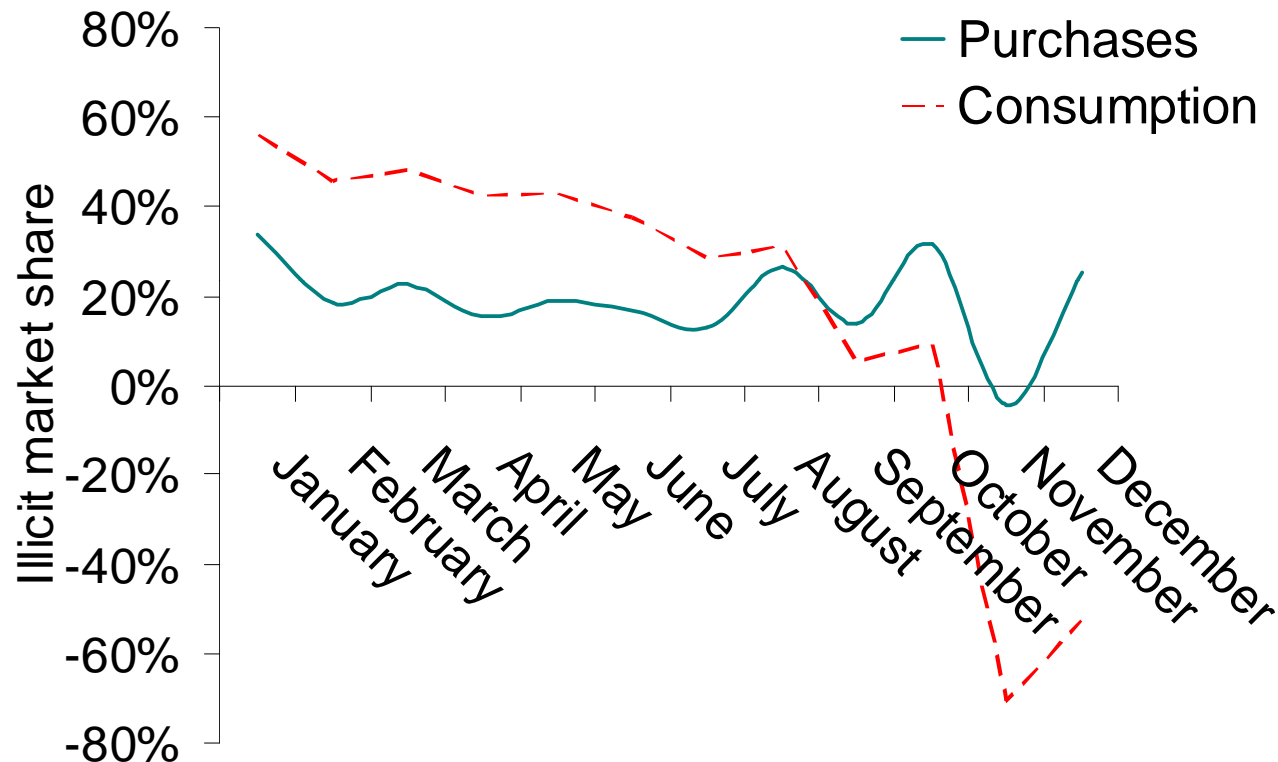
- Choice of survey dependent on life span of goods

Seasonal Effects – Trends



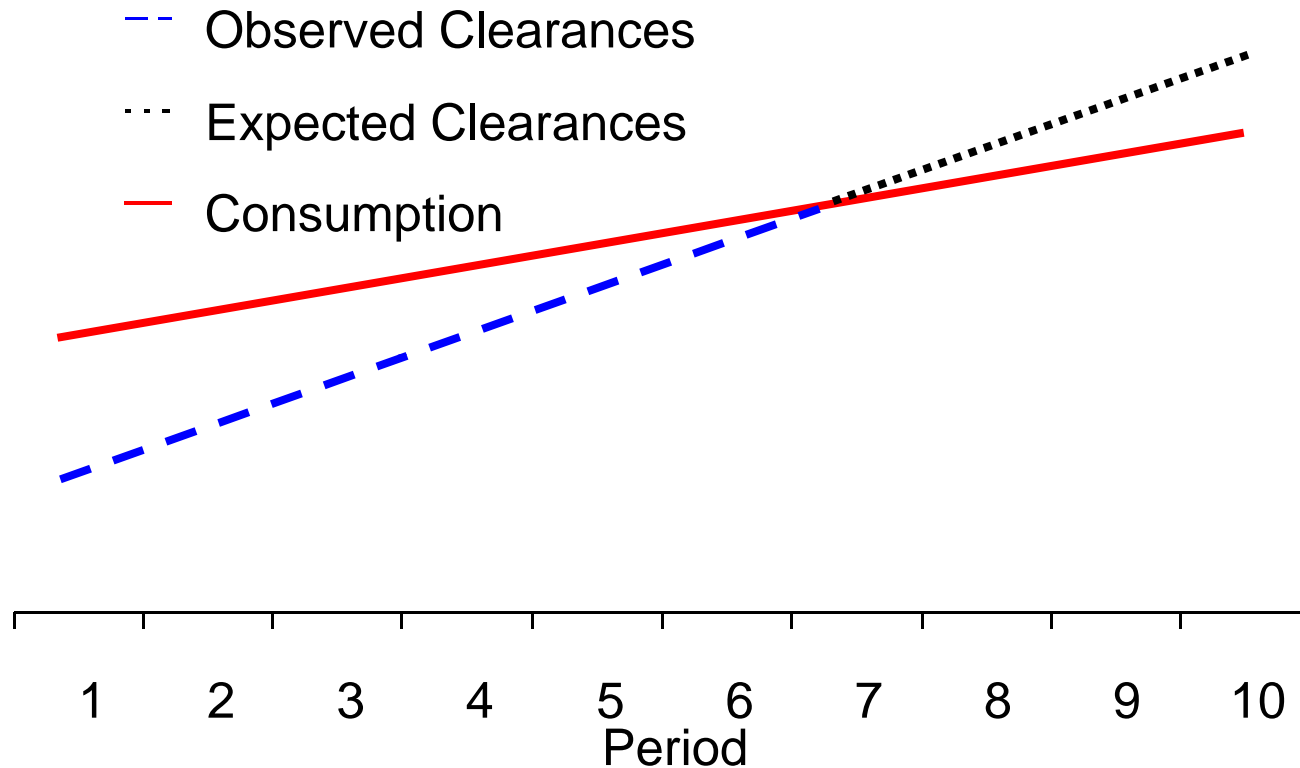
- Choice of survey dependent on seasonal patterns in purchases or consumption of goods

Seasonal Effects – Market share



- Choice of survey dependent on seasonal patterns in purchases or consumption of goods

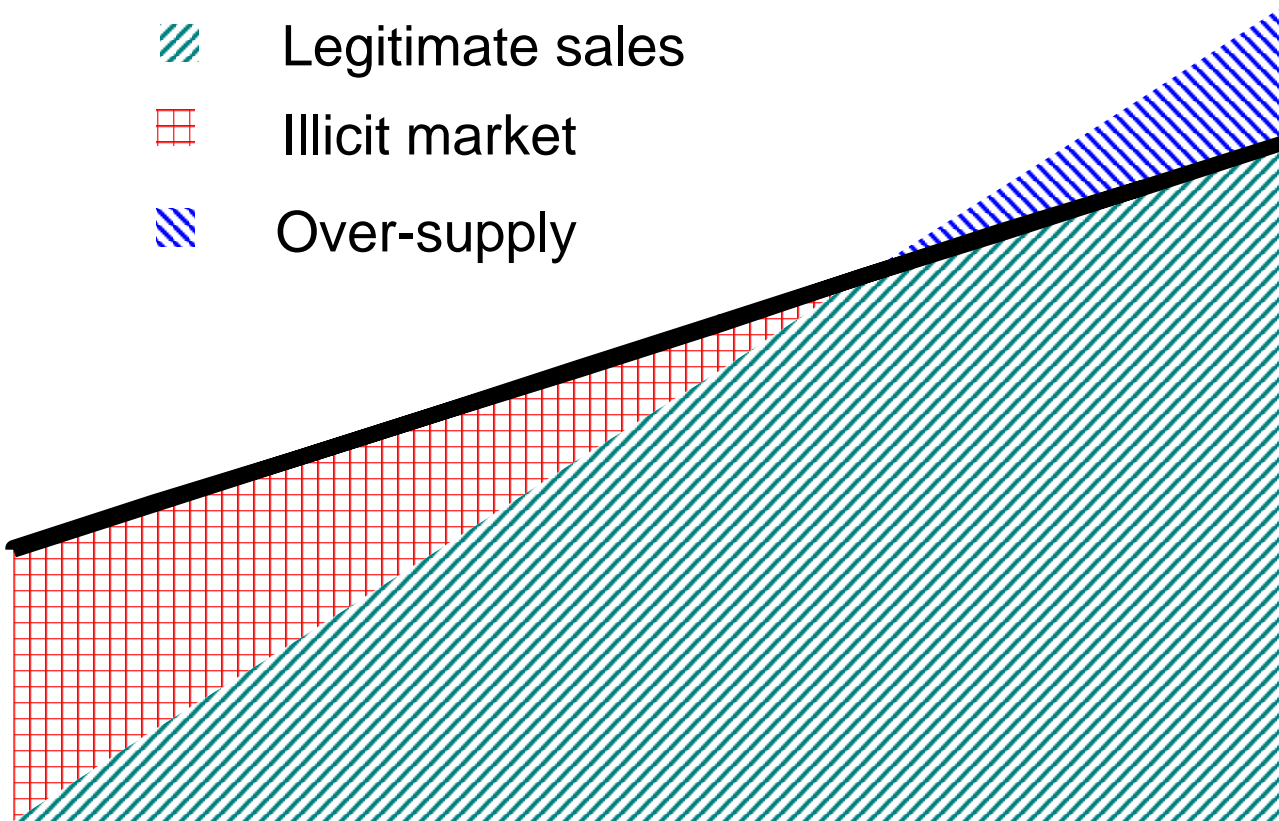
Negative Tax Gaps



If an illicit market reduces in size, the demand for legitimate goods increases faster than the demand for all goods

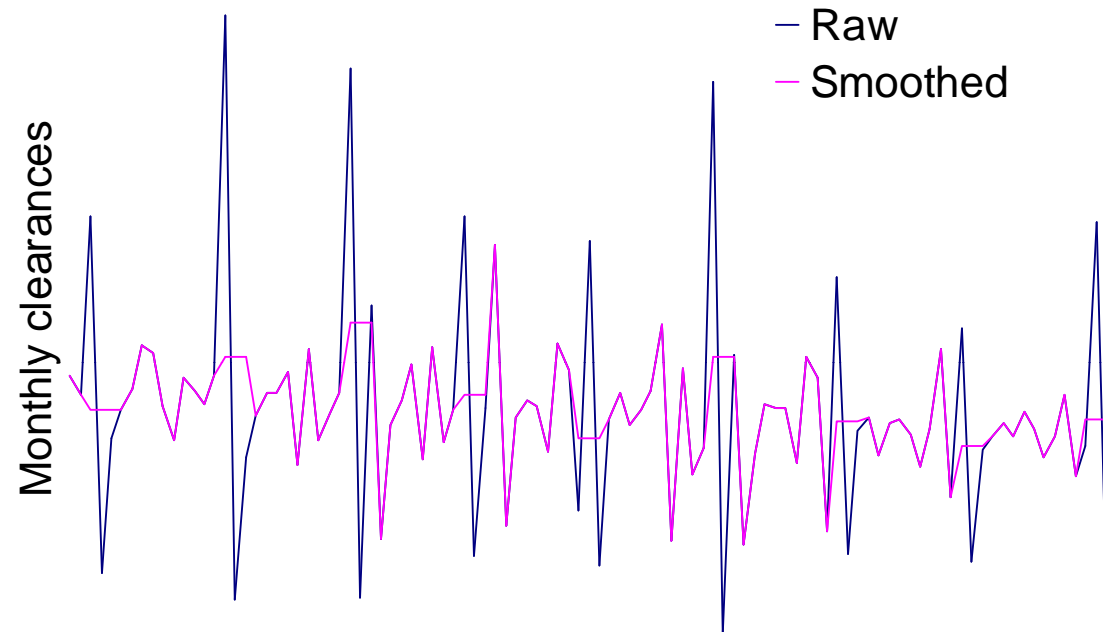
Negative Tax Gaps

- Total consumption
- ▨ Legitimate sales
- ▨ Illicit market
- ▨ Over-supply



This results in an over-supply of goods and a negative tax gap

Forestalling



To avoid duty rate changes, manufacturers release goods early. HM Revenue & Customs:

- uses legislation to reduce the level of forestalling;
- smoothes the clearances to reduce the distortions.

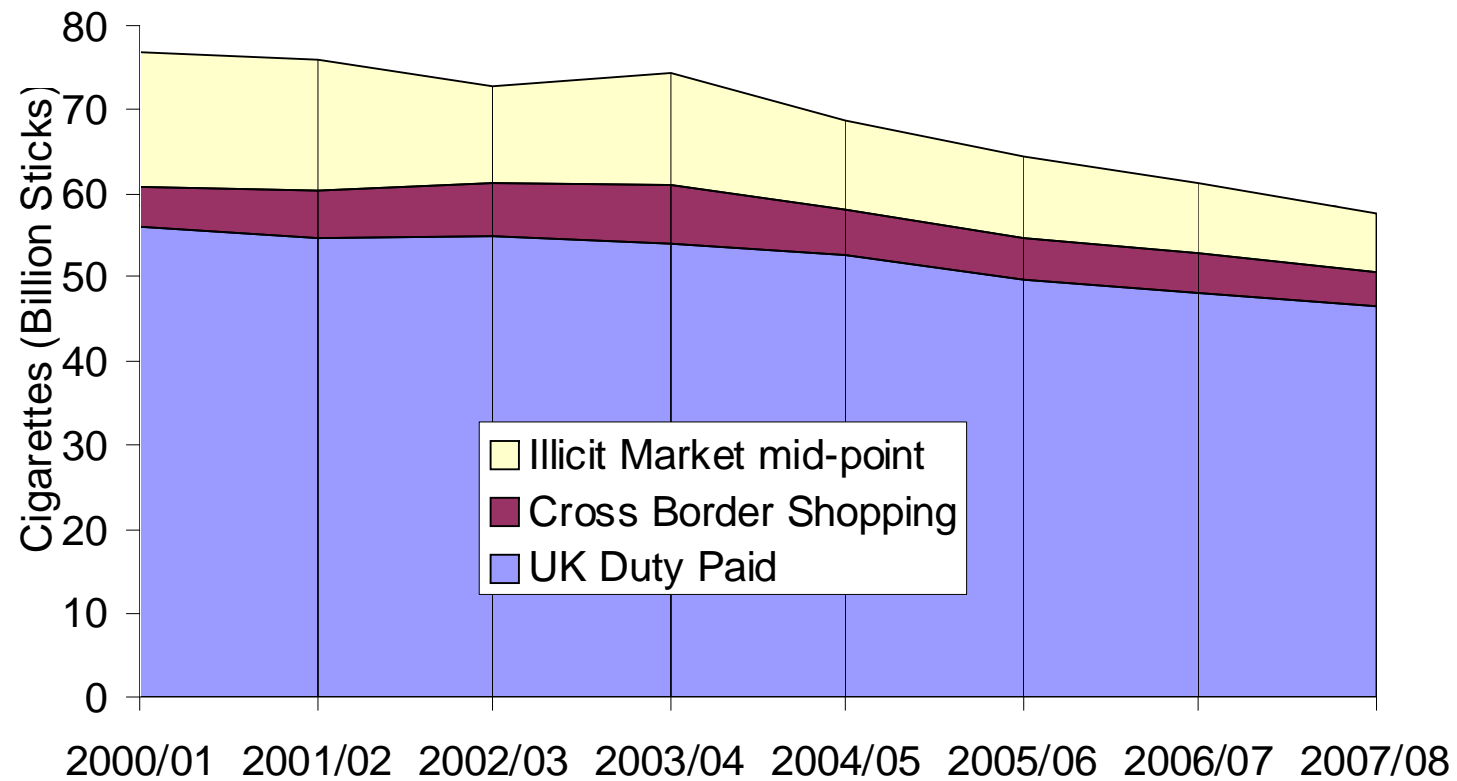
Cross-border shopping

- The UK is a net importer of excise goods
- Surveys reveal the volume of legitimate cross-border shopping
- Depending on the survey, these volumes need to be added to the legitimate and/or total consumption of those goods



Market Estimates

Total UK Cigarette Market 2000/01 - 2007/08



International Over-supply

Duty not to facilitate smuggling

- (1) A manufacturer of ... tobacco shall so far as is reasonably practicable avoid ... facilitating the smuggling into the United Kingdom of ... tobacco.
- (2) In particular, a manufacturer in supplying ... tobacco ... shall consider whether the size or nature of the supply suggests that the products may be required for smuggling into the United Kingdom

Finance Act 2006

International Demand

The legitimate level of demand for any UK brand in a second country can be determined from:

- UK market share
- UK consumption rates
- UK residents in the second country
- UK residents' cross-border shopping
- Non-UK resident market share
- Non-UK consumption rates
- Non-UK populations

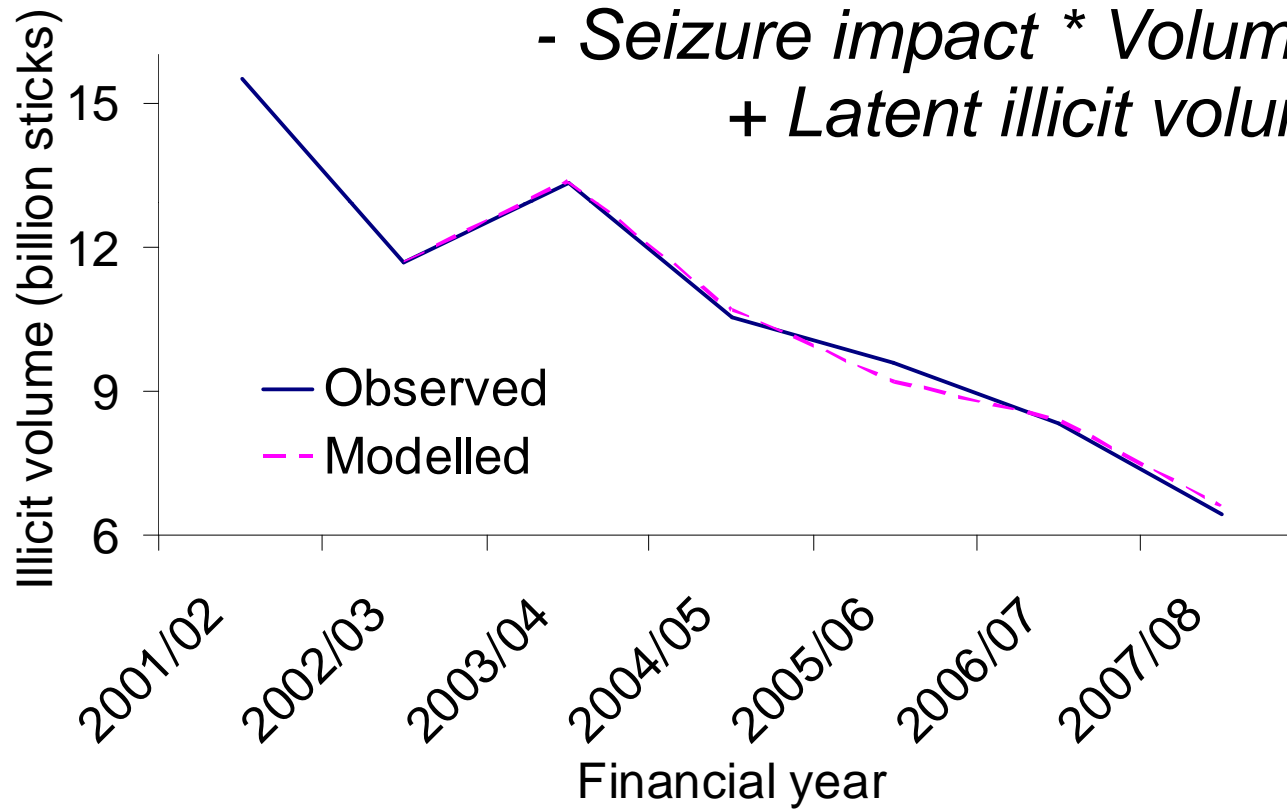
Effect of Seizures

Illicit volume

*= Illicit rate * Total consumption*

*- Seizure impact * Volume of seizures*

+ Latent illicit volume



Any Questions?

Total UK Cigarette Market 2000/01 - 2007/08

