

Taxation – Lecture 9

INDIRECT TAX SYSTEM: EXCISE TAX (EVIDENCE FROM THE CZECH REPUBLIC)

Content

- Excise tax – theoretical background
- Evidence from the EU
- Evidence from the Czech Republic

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Theoretical back-d: history

- **Selective taxes on goods and services, often referred to as excise taxes, are among the oldest forms of taxation in the world.** The salt excise, for instance, was considered a gold mine for the European sovereign during the Middle Ages, **because sources of supply were few and could be easily controlled.** Interestingly, the prominence of excise taxation in the sixteenth and seventeenth centuries owed much to the Dutch, whose duties on beer, sugar, salt, spirits, and other goods were called “excijsen”. In fact, excise taxation was so widely applied that an English observer noted that a fish dish eaten in Holland pays 30 excises’. **From la terre classique de la fiscalite´, as Holland was called at that time, excise taxation spread to other European countries.** Many German states, for instance, followed the Dutch example, and the apparent success of the ‘new imposts’ also led to their introduction in England and its colonies, including the USA.

In Europe, during the nineteenth century, many of the ‘small’ excises (so-called because they yielded comparatively little revenue)

Theoretical back-d: history

were abolished or absorbed into general taxes on goods and services, often referred to as sales taxes, which were widely introduced in the first quarter of the twentieth century and transformed into general consumption or value added taxes (VATs) during the 1970s and 1980s. The 'big' excises – on tobacco products, alcoholic beverages, and petroleum products – remained, but little attention was given to them in the professional literature.

This has changed greatly in recent years, primarily due to **the rise and awareness of environmental problems**. Greenhouse gases, for instance, lead to global warming; they are generated by the **burning of fossil fuels, such as coal, petroleum, and natural gas**. This has led to a **burgeoning literature on the use of 'economic instruments', such as excises, to restrain harmful emissions**. As another example, the perceived health costs of smoking have induced the World Health Organization to initiate a campaign to reduce tobacco consumption, among others through an increase in the

Theoretical back-d: history

tobacco excises. More generally, **the difficulties in extracting revenue from the capital income tax base due to greater capital mobility and the distortionary effects of high taxes on labor supply and demand have induced various governments to re-examine the revenue-substituting potential of excise taxation.**

Clearly, excise taxes have come a long way from the **simple efficient revenue-raising measures** they once were to the **complex policy tools** that they have become today.

Theoretical back-d: definition

- Broadly speaking, the **distinguishing features of excise taxation** are **selectivity in coverage, discrimination in intent, and often some form of quantitative measurement in determining the tax liability**. This contrasts with **general consumption taxes, such as VATs and retail sales taxes (RSTs)**, which are typically defined to **include all goods and services** for sale in the tax base other than those specifically exempted. **VATs and RSTs, moreover, are levied only to raise revenue**, whereas **excises** are often also justified on other grounds, or viewed as **servicing a special purpose**. Beyond that, **excise tax collection is usually linked to physical controls**, whereas the **VAT or RST liability is generally verified through checks on books of account and other documentary evidence**.
In sum, excise systems comprise all selective taxes and related levies and charges on tobacco, alcohol, gambling, pollution, driving, and other specific goods, services, and activities.

Theoretical back-d: objectives

- **To Raise Revenue for General Purposes** - in practice, most excises have probably been enacted for revenue purposes, the main consideration being that they could be administered more easily than other taxes. **Excises on tobacco, alcohol, petrol, and motor vehicles are good potential sources of revenue, because the products are easy to identify, the volume of sales is high, and the fact that there are few producers simplifies collection. Also, there are few substitutes that consumers would find equally satisfactory, so that consumption remains high despite excise-induced price rises.**

The differentially higher taxation of excisable products for revenue purposes also has an economic rationale. **The absence of close substitutes for addictive or indispensable products, such as tobacco, alcohol, and energy, implies that the demand for them is inelastic. This means that the potential for distortion of economic decisions by the imposition of excise taxes is relatively small.** More generally, economic

Theoretical back-d: objectives

theory prescribes that as long as **goods are unrelated in consumption, tax rates should be higher on the good with the lowest elasticity**. As an extension of the **Ramsey rule**, it has been proved that, **since leisure cannot be taxed, efficient taxation requires taxing products that are consumed jointly with leisure at a relatively high rate**. If **cigarettes and beer, or, perhaps more likely, pleasure boats, are complements to leisure**, then **taxing them improves resource allocation**.

- **To Reflect External Costs** - furthermore, **excises are often rationalized as charges for the external cost that consumers or producers of excisable products impose on others**. Although **the principle of consumer sovereignty implies that rational, fully informed persons who weigh up all the costs and benefits of their actions should be free to smoke, drink, gamble, pollute, and drive, physical, financial, and psychological costs imposed on others should be accounted for in price if they cannot be charged directly or**

Theoretical back-d: objectives

indirectly (for example, through higher insurance premiums) **to the perpetrators**. Thus, the existence of external costs could establish a case for government intervention, among others through excise taxation.

Charging consumers or producers for external costs is known as the Pigouvian prescription (Pigou, 1918), which holds that **efficient consumption or production can be achieved through the tax system by imposing an excise on the activity equal to the marginal cost of the damage caused to other people**.

Global warming through fossil-fuel burning perhaps represents the classic case for internalizing external costs through appropriately designed excise taxes imposed on carbon emissions or, less directly, energy. The impact of burning fossil fuels on global climate change is a pure public 'bad' and the damage caused to the global climate is a function simply of the total amount of carbon dioxide and other

Theoretical back-d: objectives

greenhouse gases emitted, which in turn can be directly related to the quantities of different fossil fuels used and their characteristics. **This observation has induced various countries to redesign their energy taxes in line with environmental objectives by differentiating the related excises by type of fossil fuel.** The effects of lead pollution, acid rain, and other environmental 'bads', furthermore, have been countered by favouring less polluting products (for example, unleaded versus leaded petrol) and by introducing new taxes to raise the price of polluting products or processes (for example, on fertilizers, pesticides, sulphur, disposable containers, basic chemicals, and batteries).

- **To Discourage Consumption** - information failures are other instances that justify government intervention, even in the absence of explicit external costs. Thus, research has indicated that the price elasticity of demand for cigarettes and alcoholic beverages among the young is, on average, twice the price

Theoretical back-d: objectives

elasticity among adults. In the event, excise-induced price rises would have a powerful effect in deterring the young from smoking and drinking. More generally, **public health objectives** – paternalistic or not – **can be furthered through the imposition of excises which restrain the consumption of products regarded as unhealthy.**

- **To Charge Road Users for Government-Provided Services** - excise taxation can also play an important role in regulating various external (including environmental) and other costs associated with road transport. **Road (and similar transport) services resemble goods produced in the private sector that are used optimally when their price, commonly referred to as the economic user charge, equals the total social costs of operating the road network. Accordingly, road user charges should contain charges for efficient road use and for damage, as well as charges for externalities, such as congestion, pollution, noise, and accidents. Road user**

Theoretical back-d: objectives

charges can be set to cover the total costs of operating the road network or the difference between the marginal social cost and the average private cost of road use.

Motor fuel taxes (in contrast to motor vehicle taxes) can be set at a level that is a reasonable proxy for road maintenance charges as they reflect varying consumption per vehicle-kilometre. If most motorized traffic uses the surfaced portion of the highway system, setting the economic user charge according to the variable maintenance cost of surfaced roads may be a fair approximation of marginal cost.

Theoretical back-d: design

- Obviously, the objectives specified above require appropriately designed instruments to achieve or approximate them. In the field of taxes on tobacco, alcohol, and petroleum, for instance, **there is the question of whether specific rates (fixed amounts per quantity) or ad valorem rates (fixed percentages of trade price), or some combination of these rates, should be used. Uniform specific rates reduce relative price differences between low-priced and high-priced brands, whereas uniform ad valorem rates increase absolute price differences. In imperfect markets, the choice between these two rates depends on whether the primary aim of tax policy is to discourage consumption or to raise revenue.**

Thus, **specific tobacco excises** can be designed by reference to the **weight of tobacco, the number of cigarettes, or their nicotine or tar content**, while the **specific alcohol excise** can be based on **volume, alcohol content, or some combination of these**

Theoretical back-d: design

attributes. Similarly, in the environmental field, **harmful emissions can be restrained through taxes, tradable pollution permits, or command-and-control regulations.**

Theoretical back-d: problems

- **Externalities** - an attractive reason for using excise taxes is to reduce the externalities generated in the production, and especially consumption, of specific goods and services. The most prominent examples are the taxation of tobacco, alcohol, and gambling. It is, however, well known that such an approach is only a compelling reason for levying a tax, and only then leads to a socially improved allocation of resources, when two conditions are met:
 - **The externality must be 'substantial'** - The world is full of externalities. If the government decided to tax all externalities, it would be intervening everywhere. Hence, only those externalities that are clearly of greater consequence than others should be addressed. However, it is doubtful whether the excise taxes we observe meet that condition. Is it, for instance, obvious that the social costs of gambling are much larger than the social costs of engaging in dangerous sports (such as, for example, skiing or amateur

Theoretical back-d: problems

soccer)? It may well be that dangerous sports produce higher external social costs (for example, in terms of socially insured health costs and working days lost) than gambling. But dangerous sports are not subject to a special excise tax. In fact, many countries heavily subsidize sporting activities.

- **Approaches other than taxation may be more effective in reducing external effects.** - Smoking may be a case in point. **The use of tobacco has been penalized for a long time by a substantial special tax, but most countries obviously do not consider that to be sufficient.** In recent years, in addition, various types of smoking restrictions have been introduced. One reason may be that such direct intervention makes clear that the government disapproves of smoking (“expressive function of the law”). **Taxes do not serve this function of moral disapproval.**

These considerations suggest that **the identification of an external effect is certainly not sufficient reason for imposing an excise**

Theoretical back-d: problems

tax. This conclusion conforms to economic theory, but its consequences have not always been taken seriously.

- **Undesired Side Effects** - imposing a higher excise tax on a particular good means that the relative price of a substitute good falls at the same time, and that the latter's consumption increases. Empirical research indeed suggests that raising the price of alcohol raises the level of consumption of marijuana. But even keeping preferences constant, such an undesired effect does not necessarily occur if the income effect is sufficiently strong. Various goods subject to excise taxation may also be complementary, i.e. taxing alcohol reduces the consumption of both alcohol and drugs.
- **Undesired Effects on Equity** - in order to raise a particular sum of revenue, goods and activities with low price elasticity should be taxed more highly than those with high price elasticity (Ramsey rule). But in many cases, **this requirement raises serious distributional concerns.** Often, consumers with less ability to find a substitute

Theoretical back-d: problems

for more highly taxed goods or services have below-average incomes and are therefore taxed more heavily than higher-income consumers. Moreover, they often belong to minority groups, which need to be protected in the political process.

- **Tax Compliance - in addition to the extent of evasion, it is important to consider how the respective underground activities affect societies.** In many cases (for example, gambling, drug, and alcohol production and consumption), the external effects are much larger when occurring in the black economy. In so far as this applies to a particular excisable good, the tax should be used restrictively. But it should always be kept in mind that **an outright prohibition of such consumption leads to much worse consequences.**
- **Administrative Costs - the cost of raising an excise tax varies greatly and often depends to a large extent on technological developments.** Thus, up until recently, road taxes were considered to be costly to administer. This seems to be much less the case today.

Theoretical back-d: conclusions

- **There is no such thing as an ‘ideal’ economic policy, and certainly not an ‘ideal’ tax policy. Each economic policy has its advantages and disadvantages, which must be studied carefully. When undertaking such comparisons, it is important not to focus on extreme policies, such as total prohibition on the one hand or exclusive application of excise taxes on the other hand – for example, steering all traffic by road taxes. Rather, it is necessary to search actively for ways to apply excise taxes in combination with other policy instruments.** Such a policy mix is difficult and cumbersome, but is the only approach promising results in the interest of the population at large.

EU: common provisions

- **Excise duties are indirect taxes on the sale or use of specific products. They are usually applied as an amount per quantity of the product e.g. per kg / per hl /per degree alcohol / per 1000 pieces etc. All revenue from excise duties goes entirely to the Member States.**
- **EU legislation on excise duties was largely prompted by the launch of the Single Market in 1993. As tax controls at the borders between Member States were abolished, common rules were needed to facilitate cross-border trade in certain products and to prevent competitive distortions. Therefore, EU legislation was adopted to ensure that excise duties for certain products were applied in the same way, and to the same products throughout the Single Market, and that Member States applied (at least) a minimum rate of excise duty.**
- **In the EU, Member States must apply excise duties to: Alcohol, Tobacco, Energy.**

EU: common provisions

- **For commercial transactions**, in general, **the excise duty is paid in the Member State of consumption.** To facilitate this, excise goods are transported from one Member State to another under duty-suspension until they reach their final destination.
- **If commercial consignments have already been released for consumption** (and therefore the duty is paid) **in one Member State**, and are then transported to another Member State as final destination, a system of reimbursement is in place to avoid double taxation.
- **For private individuals**, who buy excise goods for their own use, the tax is paid in the Member State of origin i.e. where they buy the goods. This is the case even if they bring these goods into another Member State.
- **For distance selling** (sale to a private person in another Member State), the principle of taxation in the Member State of destination applies. Therefore, products which have already been

EU: common provisions

released for consumption and which are transported to another Member State will be subject to excise duty in the Member State of destination. **The person liable to pay the excise duties is the vendor.** To avoid double taxation, Directive 2008/118/EC provides for a system of reimbursement of the excise duty paid in the first Member State, subject to conditions to be determined by that Member State.

- **For buyers: It is necessary to check if vendor includes the excise duties of “buyer’s” Member State in the selling price.** If the vendor does not comply with the requirements under Directive 2008/118/EC a buyer may become the person liable. Also it is necessary to **check if the price of transport is included in the price. If a buyer agrees to arrange the transport separately he/she becomes liable for the excise duty in “his/her” Member State.**
- **For vendors:** It is necessary to bear in mind that under Directive 2008/118/EC in most Member States **a tax representative in the Member State of destination is required. This means that a**

EU: common provisions

vendor cannot send excise goods to a private person without having appointed a tax representative in that Member State of destination. Thus it is always necessary to check the national excise procedures before dispatching goods to private persons.

EU: movement of excise goods

- **Alternatively, an authorized warehouse-keeper (or a registered consignor) can move excise products – under duty suspension– from a tax warehouse (or the place of importation into the EU) to:**
 - Another tax warehouse
 - A registered consignee
 - A point of export from the EU (Directive 2008/118/EC)
 - An exempt consignee referred in Directive 2008/118/EC
- **All excise goods which are transported between Member States must be accompanied by required documents:**
 - **Electronic Administrative Document (eAD) for goods which are under duty-suspension.**
 - **Simplified Administrative Document (SAAD) for goods on which duty has been paid in the Member State where they were dispatched.**

EU: movement of excise goods

- **The authorized warehouse-keeper in the Member State of departure must provide a guarantee for excise goods they dispatch, under duty-suspension, to another Member State, until the excise duty has been secured (Report of Receipt has been received) in the Member State of destination.**
- The Excise Movements and Control System (EMCS) is the highly developed computerized system for tracing the movement of excise goods travelling within the EU under duty suspension.

EU: excise duties - alcohol

- **EU excise duty rules for alcohol aim to prevent trade distortions in the Single Market, ensure fair competition between businesses, and reduce administrative burdens for operators.** Increasingly, excise duties are also seen as a **means of supporting other policies, such as health policies.**
 - **Alcoholic beverages** – excise duties for alcohol are regulated through two main pieces of EU legislation.
 - **Directive 92/83/EEC** sets out the structures of excise duties on alcohol and alcoholic beverages, the categories of alcohol and alcoholic beverages subject to excise duty, and the basis on which the excise duty is calculated. It also includes special provisions, for example, reduced rates for small breweries and distilleries, certain products and geographical regions.
 - **Directive 92/84/EEC** sets out the minimum rates that must apply to each category of alcoholic beverage.

EU: excise duties - alcohol

Categories and the minimum rates

Product	Rate expressed per	Minimum Rate
Beer	Hectolitre per degree Plato or Hectolitre per degree alcohol	0.748€ 1.87€
Wine (still and sparkling)	Hectolitre of volume	0€
Intermediate Products (e.g. port, sherry)	Hectolitre of volume	45€
Spirits	Hectolitre of pure alcohol	550€

EU legislation only sets harmonized minimum rates. Member States are free to apply excise duty rates above these minima, according to their own national needs.

For private individuals, who buy alcohol for their own use, the tax is paid in the Member State of origin i.e. where they buy the alcoholic beverages. This is the case even if they bring these goods into another Member State.

EU: excise duties - alcohol

- **Alcohol Not For Human Consumption - alcohol which is not intended for human consumption is exempt from excise duties under EU rules.** This includes, for example, alcohol used for industrial purposes, to produce foodstuffs and medicines, or to manufacture cosmetics, biofuels, paints, anti-freeze and cleaning products.

Specific rules apply to the categories of alcohol which are exempt from excise duties, in order to prevent fraud and protect consumers from the serious health risks of illegal alcoholic drinks. In particular, alcohol not intended for human consumption must be "denatured" i.e. rendered undrinkable with the addition of foul tasting or smelling agents and a chemical marker. the denaturing process must take place in a tax warehouse. This is to ensure proper oversight of the denaturing process and prevent alcohol on which excise duty has not been paid from being released into circulation and illegally sold for consumption.

EU: excise duties - tobacco

- **EU excise duty rules for tobacco products aim to prevent trade distortions in the Single Market, ensure fair competition between businesses, and reduce administrative burdens for operators. Increasingly, excise duties for tobacco are also seen as a means of supporting other policies, particularly health policies.**

Excise duties for tobacco products are regulated principally through Directive 2011/64/EU . The Directive defines the product categories, structure and minimum rates for excise duties on manufactured tobacco.

EU excise duty rules broadly differentiate between cigarettes and other tobacco products.

- **Cigarettes - excise duty on cigarettes must consist of two components:**
 - **a specific component i.e. a fixed amount per 1000 cigarettes.**
 - **an ad valorem component i.e. a percentage of the retail selling price**

EU: excise duties - tobacco

These two components must be the same for cigarettes of all price categories.

Minimum rates are set out in the Directive, which Member States must respect, although they are free to go above these minima in the taxes they apply.

In addition, the overall excise rate must be:

- **At least EUR 90 per 1000 cigarettes**
- **At least 60% of the weighted average retail selling price**

Member States that apply excise duty of EUR 115 or more, however, do not need to comply with the 60% criterion above.

EU: excise duties - tobacco

How it works: Sample Calculation for pack of 20 cigarettes

Retail Selling Price (excluding taxes)		EUR 0.7
+ Excise duty		
	<i>specific:</i>	<i>EUR 1.0</i>
	<i>ad valorem:</i>	<i>EUR 0.8 (27% of RSP)</i>
Total excise duty:		EUR 1.8 (60% of RSP)
= Price (excluding VAT)		EUR 2.5
+ VAT 20%		EUR 0.5
= Retail Selling Price (including all taxes)		EUR 3.0

EU legislation only sets harmonized minimum rates. Member States are free to apply excise duty rates above these minima, according to their own national needs.

EU: excise duties - tobacco

For private individuals, who buy cigarettes for their own use, the tax is paid in the Member State of origin i.e. where they buy the cigarettes. This is the case even if they bring these goods into another Member State.

- **Minimum rates are set out for three different categories of tobacco products, other than cigarettes. The structure for taxing "other tobacco" is slightly different than for cigarettes.** Member States can choose between applying a specific component or an ad valorem component, or if they wish, they may apply a mixture of the two.

EU: excise duties - tobacco

Minimum rates are set out for three distinct categories of "other tobacco"

Product Category	Minimum Rate
Fine-cut smoking tobacco	46% of the weighted average retail selling price* or 54€ per kilogram*
Cigars and Cigarillos	5% of the retail selling price or 12€ per 1000 or per kilogram
Other smoking tobaccos	20% of the retail selling price or 22€ per kilogram

* To gradually increase, by 2020, to 50% or 60€

EU: excise duties - energy

- **EU excise duty rules cover all energy products used for heating and transport, as well as electricity.**
- **The primary goal of EU energy tax legislation is to ensure that the Single Market runs smoothly and to prevent distortions in competition and trade within the EU.**
- **In addition, energy taxation can play an important role in achieving wider EU goals. In particular, it can help achieve Europe's objective of becoming a competitive, low-carbon and energy efficient economy.**

Modern trends

- **In the aftermath of the financial crisis, governments in many countries still have a strong need for cash. Whether the need is to finance targeted stimulation programs for the economy, or whether it is to generally make up for the gaps left behind by a shrinking economy, indirect taxes have proven to be the first choice for generating revenue for a number of years.** And they continue to be. This trend can be explained with the large number of prominent advocates who all promote the shift from direct to indirect taxes, such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the European Commission. **A number of international studies have indicated that value-added taxes (VAT) and excise taxes have the least impact on growth.**

An equally strong reason for this ongoing development is that international tax competition and the weakened economy simply do not allow for ever-increasing corporate or personal income taxes.

Modern trends

- **A truly global trend that leads to higher indirect tax revenue is the increase of excise taxes. Not only are the rates increasing, but governments are being creative in inventing new taxes.** For example, a relatively new trend is the introduction of **excise taxes on health-related products (other than alcoholic beverages and tobacco products), such as snack taxes and sugar taxes on “unhealthy” food.** In many countries, these taxes may be linked to spending on health and welfare, and **they may become more widespread as populations age and the pressures on government spending in these areas increases.**

In addition, **there are still attempts to increase the tax burden on financial transactions, although there is no common global approach to achieving this.** Some countries have increased the supervision of the banking industry and tightened regulations. In Europe, the preferred approach has been to levy taxes on financial transactions. France introduced a financial transactions tax in August

Modern trends

2012, and on 1 January 2013, Hungary introduced a tax of 0.1% of the amount concerned in the course of any payment service.

- **Indirect taxes are adapting to new economic realities** - one of the peculiarities of indirect taxes is that they are very strongly intertwined with the economy. Their tax object usually is an economic transaction, such as the sale of a good or the provision of a service. **If the nature of these transactions or the way that such transactions are handled change, this immediately has a strong impact on indirect taxation (think about e-commerce, virtual currencies etc.)**

Evidence from the CR: general info

- **Excise taxes in Czech Republic are important taxes. Typical examples of excise duties are in Czech Republic on gasoline, tobacco and alcohol. These selected products are the objects of the excise tax, if they are produced in the EU or if they are imported do EU.** Excise duty is also a tax levied on the producer of these goods. In Czech Republic is it a separate tax from VAT, and is different from it in that VAT. **Both taxes pay the consumer.**
- **A taxpayer is a person or legal entity which:**
 - **operate a tax warehouse** (it is a place, where taxpayer produces, processes, stores, receives or dispatches the selected products)
 - **import selected products**
- **You are not the taxpayer if you purchase the products for your own consumption** (maximum permissible quantity):
 - 90 l of wine or 60 l of sparkling wines,
 - 110 l of beer, 10 l of spirit, 20 l of intermediary products

Evidence from the CR: general info

- 800 units of cigarettes, 1 kg tobacco for smoking, 200 units of cigars,
- 40 kg of petroleum oils in pressure vessels,
- 40 kg of liquefied petroleum gases in pressure vessels
- **Excise tax = tax base * tax rate**
This formula stands for all excise taxes.
- **A taxable period for excise taxes is one month. The taxpayer must submit his tax return by the 25th day of the next month.**
- **The tax administrator is locally relevant Customs Office.**
- **For the Tax on Tobacco there is no need to fill and submit a tax return. The taxpayer has to buy special tobacco stamps.** The tax is paid by using these tobacco stamps. The using of tobacco stamps means, placing the tobacco stamp on a unit of package and under the transparent cover.

Evidence from the CR: general info

- The taxpayer of the excise taxes must pay the tax by:
 - 40 days after the end of the taxable period - the Tax on Petroleum Oils,
 - 55 days after the end of the taxable period - the Tax on Spirit,
 - 40 days after the end of the taxable period - the Tax on Beer,
 - 40 days after the end of the taxable period - the Tax on Wine and Intermediary Products.
- The maximum tax duty paid on account of the Customs Office is:
 - Max. 100 mil. CZK for a tax warehouse – the Tax on Petroleum Oils
 - Max. 40 mil. CZK for a single tax warehouse (if you operate more than one, the deposit could be max. 120 mil. CZK for all of them) – the Tax on Spirit
 - Max. 80 mil. CZK for a single tax warehouse – the Tax on Beer
 - Max. 50 mil. CZK for a single tax warehouse (if you operate more than one, the deposit could be max. 100 mil. CZK for all of them) – the Tax on Tobacco

Evidence from the CR: alcohol

- **If there is more than 1.2 % of ethanol in the product, this product is liable to the tax on spirit.**
- Spirit used for:
 - producing some food products,
 - manufacturing and preparing of pharmaceuticals,
 - flavoring or adding special aroma to products,
 - the State Material Reserves,
 - is exempt from excise duty.
- **The tax base is a hectoliter (100 liters) of ethanol at the temperature of 20°C.**
- Types of spirit products and excise duty rates in EU and CR:
 - **Alcoholic beverages -**
 - **Beer – if there is more than 0,5 % of alcohol in the product, this product is liable to excise tax on beer. Beer is not an object of this tax if it is used for:**

Evidence from the CR: alcohol

- **production of vinegar,**
- **production of some food products,**
- **manufacturing and preparing of pharmaceuticals.**

The tax base is a hectoliter of beer. Minimum excise duty in EU is 0.748 EUR per hl/degree of alcohol of finished product (Article 6 of Directive 92/84EEC). In Czech Republic is the standard rate 0.872 EUR per hl/degree of alcohol of finished product. In Czech Republic are the reduced rates: under 200 000 hl the rate is from 0.436 EUR per hl/degree of alcohol of finished product to 0.784 EUR per hl/degree of alcohol of finished product.

- **Wine – if there is more than 1.2 % of alcohol, but less than 22 % of alcohol in the product, this product is liable to excise tax on wine and intermediary products. Wine and intermediary products are not the objects of this tax, if they are used for:**

Evidence from the CR: alcohol

- **production of vinegar,**
- **production of some food products,**
- **manufacturing and preparing of pharmaceuticals.**

Similarly to the tax on beer, some producers of wine are not liable to the tax on wine, if they produce wine just for themselves and they do not produce more than 500 liters of wine in one calendar year.

The tax base is a hectoliter of wine or intermediary products. The rate in Czech Republic is 0 EUR per hectoliter still wine and 84.97 EUR per hectoliter sparkling wine.

- **Fermented beverages other than wine and beer - the rates are the same as by wine.**
- **Intermediate products - the rates are the same as by wine.**

Evidence from the CR: alcohol

- **Ethyl alcohol** - minimum excise duty in EU is 550 EUR or 1000 EUR per hectoliter of pure alcohol (Article 20 of Directive 92/83EEC). In Czech Republic is the rate 834.24 EUR per hectoliter of pure alcohol. The reduced rate is 482.97 EUR per hectoliter of pure alcohol.

Evidence from the CR: alcohol

Example 1: Manufacturer produces 42 % rum. Price excluding VAT for 1 bottle (1 liter) is 50 CZK. What will be the total price including VAT and excise tax?

Solution:

Tax rate for 1 liter of rum is 285 CZK (28 500 CZK per hl).

The tax on spirit = $285 * 0.42 = 119.70$ CZK

Price of bottle excluding VAT = $50 + 119.70 = 169.70$ CZK

VAT = $169.70 * 0.2 = 33.94$ CZK

Price of bottle = $169.70 + 33.94 = 203.64 = 204$ CZK

Evidence from the CR: alcohol

Example 2: Small independent brewery sold in a given period 2 000 hectoliters of beer 10° and 5 000 hectoliters of beer 12°. Annual production of this brewery is 90 000 hl. Calculate the total amount of excise duty.

Solution:

$$2\,000 * 10 * 22.40 = 448\,000 \text{ CZK}$$

$$5\,000 * 12 * 22.40 = 1\,344\,000 \text{ CZK}$$

$$448\,000 + 1\,344\,000 = 1\,792\,000 \text{ CZK}$$

Evidence from the CR: tobacco

- **Cigarettes, cigars, cigarillos and tobacco are liable to the excise tax on tobacco products.**
- **There are two types of tax base in the Czech Republic:**
 - **sale price, if the percentage tax rate is used (the sale price is directly fixed by state),**
 - **units or kilograms, if the fixed tax rate is used.**
- **The tax rate is a combination of a fixed and percentage tax rate. There is also minimum tax rate. The total tax is the sum of a fixed tax rate and a percentage tax rate, but it must be at least the minimum tax.**
- **Types of tobacco products and excise duty rates in EU and CR:**
 - **Cigarettes** - the tax rate is 0.037 EUR/unit and 28 % of the retail price, minimum excise duty 70 EUR per 1 000 pieces.
 - **Cigars and Cigarillos** - the tax rate is 41.69 EUR per 1000 pieces.

Evidence from the CR: tobacco

- **Fine cut smoking tobacco** - the tax rate is 46.41 EUR per kg.
- **Other smoking tobaccos** - the tax rate is 46.41 EUR per kg.

Example 3: A pack of cigarettes (20 units) is sold in the store for 80 CZK. What will be the excise tax?

Solution:

Percentage part + fixed part = the excise tax of cigarettes

$$(80 * 0.28) + (20 * 1.12) = 22.4 + 22.4 = 44.8 \text{ CZK}$$

$$\text{The minimal tax} = 20 * 2.10 = 42 \text{ CZK}$$

Evidence from the CR: petroleum oils

- **Petroleum oils are:**

- all the motor petrols and aviation petrol-type fuels,
- medium oils and heavy gas,
- heating oils,
- waste oils,
- liquefied petroleum gases, biogas and compressed gases,
- mixtures of petroleum oils.

- **Petroleum oils that are not an object of this tax:**

- petroleum oils used not for driving motors or heating,
- other petrols used for producing products that are not object of excise taxes,
- waste oils assigned for use (especially in mineralogical and metallurgical processes).

- **The tax base is usually 1 000 liters of petroleum oil at the temperature of 15 °C. The tax base of liquefied petroleum gases and compressed gases is 1 ton.**

Evidence from the CR: petroleum oils

- Types of petroleum oils and excise duty rates in EU and CR:
 - Leaded petrol - minimum excise duty in EU is 421 EUR per 1000 liter. In Czech Republic is the rate 497.86 EUR per 1000 liter.
 - Unleaded petrol - minimum excise duty in EU is 359 EUR per 1000 liter. In Czech Republic is the rate 429.95 EUR per 1000 liter.
 - Propellant gas oil - minimum excise duty in EU is 302 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
 - Industrial gas oil - minimum excise duty in EU is 21 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
 - Heating gas oil for business use - minimum excise duty in EU is 21 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.

Evidence from the CR: petroleum oils

- Heating gas oil for non business use - minimum excise duty in EU is 21 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
- Propellant kerosene - minimum excise duty in EU is 302 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
- Heating kerosene for business use - minimum excise duty in EU is 0 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
- Heating kerosene for non business use - minimum excise duty in EU is 0 EUR per 1000 liter. In Czech Republic is the rate 361.32 EUR per 1000 liter.
- Heavy full oil - minimum excise duty in EU is 15 EUR per 1000 kg. In Czech Republic is the rate 17.14 EUR per 1000 kg.

Evidence from the CR: petroleum oils

- Propellant LPG - minimum excise duty in EU is 125 EUR per 1000 kg. In Czech Republic is the rate 142.82 EUR per 1000 kg.
- Industrial LPG - minimum excise duty in EU is 41 EUR per 1000 kg. In Czech Republic is the rate 46.84 EUR per 1000 kg.
- Heating LPG for business use - minimum excise duty in EU is 0 EUR per 1000 kg. In Czech Republic is the rate 0 EUR per 1000 kg.
- Heating LPG for non business use - minimum excise duty in EU is 0 EUR per 1000 kg. In Czech Republic is the rate 0 EUR per 1000 kg.

Evidence from the CR: petroleum oils

Example 4: In January, gas station sold 240 000 liters of petrol with a lead content of 0.010 g / l and 150 000 liters of petrol with lead content of 0.019 g / l. Determine the amount of excise duty.

Solution:

240 hectoliters * 12 840 = 3 081 600 CZK

150 hectoliters * 13 710 = 2 056 500 CZK

3 081 600 + 2 056 500 = 5 138 100 CZK

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