

The Fiscal Turning Point in Tobacco Excise Policy: Revenue Sustainability, Elasticity, and Policy Recalibration

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For many years, I have examined the effectiveness of regulatory frameworks governing highly taxed consumer goods, with an emphasis on the unintended behavioural and fiscal consequences of sustained excise increases, currently as a lecturer in public finance at Karlsruhe Institute of Technology. My work focuses on the interaction between taxation, market substitution, cross-border dynamics and the emergence of illicit supply channels. My research and teaching activities benefit from the practical relevance that results from my additional role as tax and fiscal policy spokesperson in the Rhineland-Palatinate Chambers of Commerce and Industry Working Group.

Australia has pursued a unique tobacco taxation strategy over the past decade and while its approach has been widely recognised for its public health impact, recent fiscal and market developments suggest that structural dynamics within the regulated market are changing. 2020 indicates a potential turning point. Australia's tobacco excise revenue peaked at approximately A\$14.3 billion in 2019–20 and fell to approximately A\$9.8 billion in 2023–24¹, a 32% decline. This decline outpaced the shrinking smoking prevalence, resulting in a higher share of illicit tobacco being consumed, posing a greater burden on the public health system, while excise revenue continues to decline. This divergence raises important questions regarding elasticity and the sustainability of the regulated market, warranting for careful reassessment.

The objective of this submission is therefore not to question the primacy of public health as the main objective, but rather, to assess whether the current excise escalation pathway continues to operate optimally under the developing market conditions. Finally, this paper presents a potential taxation reform and discusses whether a tax moratorium could better maintain regulatory control, fiscal sustainability, and public health outcomes.

The Current Situation in Australia

Regulatory Commitment to Tobacco Control

Australia has developed an extensive tobacco control regime built around repeated excise escalators, plain packaging, advertising restrictions, and legislative consolidation under the Public Health (Tobacco and Other Products) Act 2023. This framework has been associated with declining smoking prevalence over time.² However, its continued effectiveness depends on the functioning of the regulated market through which these instruments operate.

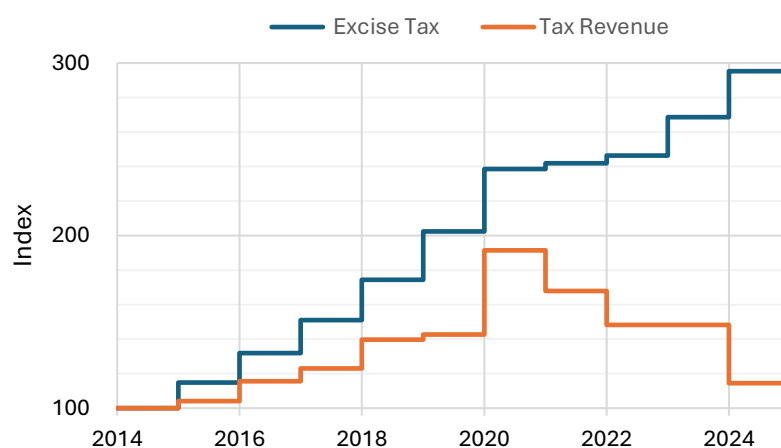
¹ Australian Government (2025). [Australian Taxation Office](#).

² Australian Government (2025). [Department of Health, Disability and Ageing](#).

A widely recognised principle in global tobacco control was articulated by former WHO Director-General Dr Margaret Chan: “Tobacco taxation offers a ‘win-win’ policy option for governments, where raising tobacco taxes will both generate extra revenue and reduce consumption.”³

As shown in Figure 1, illustrating the evolution of the tobacco excise rate and associated tax revenue between 2014 and 2020, this “win-win” dynamic appeared to function effectively for a considerable period. Rising excise rates were accompanied by strong growth in excise revenue. Tobacco excise revenue reached approximately A\$14.3 billion in 2019–20 before subsequently declining to approximately A\$9.8 billion in 2023–24, despite continued rate increases.

Figure 1. Evolution of Tobacco Excise and Tax Revenue Index 2014 - 2024



Source: [Australian Taxation Office, Tobacco in Australia](#); Own Calculations.

The resulting policy concern extends beyond fiscal implications. As nicotine consumption migrates outside the legal supply chain, regulatory oversight is weakened, product standards enforcement becomes more difficult, and criminal market participation increases. In this context, the sustainability of the regulated market becomes a central policy consideration.

Economic Mechanisms Behind Declining Revenue

The recent revenue trend can be understood through established economic principles. Tobacco demand, while relatively inelastic compared to many consumer goods, is not perfectly inelastic. At very high effective price levels, additional excise increases may generate disproportionately stronger behavioural responses. Consumers will reduce their consumption in response to steep price increases and will seek to a degree to supplement their consumption via the illicit markets as well as by switching to alternative nicotine products.

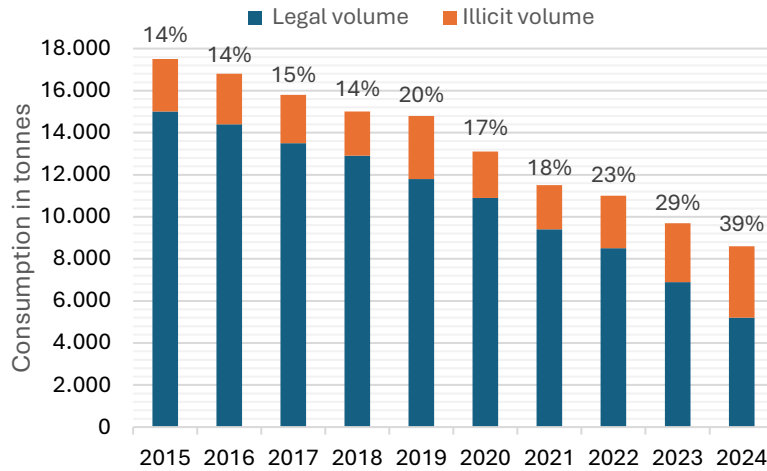
This phenomenon can also be observed in Australia in the last few years. Enforcement authorities have reported increased illicit tobacco activity, and independent analyses indicate growth in non-duty-paid supply channels.⁴ While precise estimates of illicit market share vary depending on methodology, the overall direction of change is consistent with widening price differentials between legal and illicit

³ WHO (2015). [The economic and health benefits of tobacco taxation](#).

⁴ University of Sydney (2025). [Tobacco excise revenue has tanked amid a booming black market](#).

products. As shown in Figure 2, while total consumption has declined, illicit consumption has increased sharply, accounting for approximately 39% of total tobacco consumption.

Figure 2. Consumption of Legal and Illicit Tobacco (total tobacco) 2015 - 2024

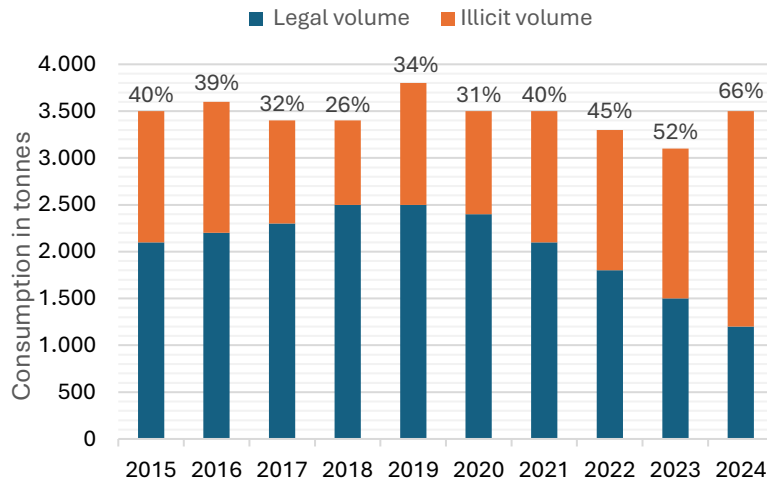


(The percentages indicate the size of the illicit volume relevant to the overall volume each year)

Source: FTI Consulting (2025). [Illicit Tobacco in Australia 2024](#).

Figure 3 shows an even more pronounced trend in the fine-cut tobacco segment, where the illicit share is estimated at approximately 66%. Such a shift has substantial fiscal implications and represents a significant erosion of the taxable base.

Figure 3. Share of Legal and Illicit Fine Cut Tobacco 2015 - 2024



(The percentages indicate the size of the illicit volume relevant to the overall volume each year)

Source: FTI Consulting (2025). [Illicit Tobacco in Australia 2024](#).

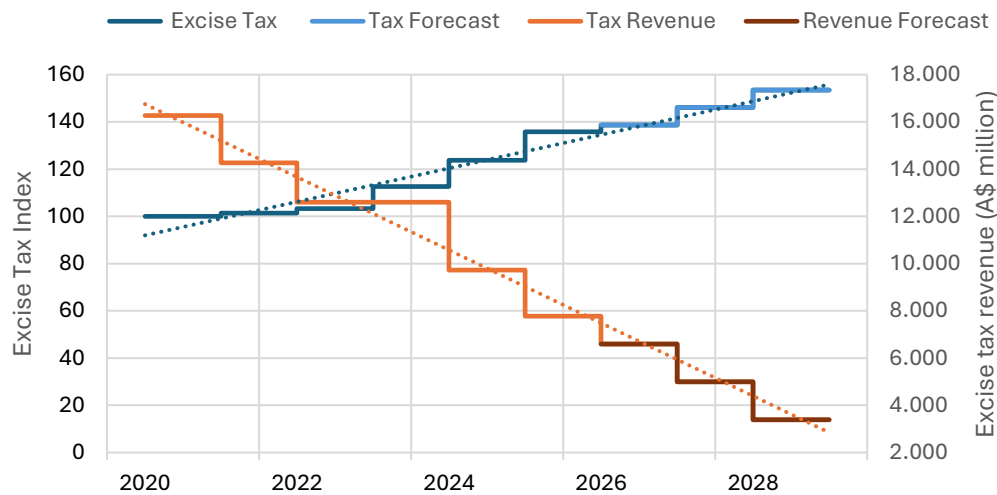
Policy Recommendations

Under these conditions, a tax moratorium would represent a warranted intervention. A temporary suspension of further real excise escalators, combined with a return to inflation-only indexation during a pre-defined evaluation period, would help stabilise the legal market and limit further widening of the price differential between duty-paid and non-taxed products. If a more immediate and sizable

impact is aimed, a policy recalibration restoring the competitiveness of legal market vs. illegal players via temporary tobacco tax reductions, combined with mandatory reflection on price as well as sustained and enhanced enforcement activities, could also be considered.

Without a change in the excise tax level, the outcome will be drastic. Using data from 2020 to 2025 and performing a linear regression, it is clear that tax revenue will continue to decline (see Figure 4). By 2028, revenue will be only A\$3.4 billion, which is a decrease of about 80% compared to 2020. According to Oxford Economics, this trend can be prevented with several measures.⁵ Their analysis shows that the share of legally consumed tobacco can be increased by 64% while still reducing overall tobacco consumption, leading to a sharp increase in tax revenue.

Figure 4. Predicted Tax Revenue 2014 - 2024



Source: [Australian Taxation Office, Tobacco in Australia](#); Own Calculations.

A calibrated, long-term excise framework would therefore maintain high taxation on tobacco. Australia’s tobacco control framework has been internationally recognised for its ambition and public health impact. However, recent revenue trends suggest that the system may have reached a fiscal inflexion point. The substantial decline in excise revenue since its 2019–20 peak, together with a sharp contraction in legal sales and expansion of non-taxed supply, indicates that continued automatic real increases may no longer maximise fiscal or regulatory outcomes.

The “win–win” proposition from the WHO holds only within certain behavioural bounds. Once those bounds are exceeded, revenue erosion and loss of regulatory control become increasingly likely. A recalibrated excise trajectory would allow Australia to continue reducing smoking prevalence while restoring fiscal stability and strengthening the integrity of the regulated market.

⁵ Oxford Economics (2026). [An economic assessment of the drivers of the illicit cigarette trade in the EU.](#)