



National Harm Reduction Association - Densaulyk



“Analysis of the application of differential taxation for certain groups of goods”

Nur-Sultan, 2021

Introduction

Taxes appeared in ancient times and gradually took a leading position in the process of generating public revenues and, as the functions of the state developed and became more complex, taxes in addition to their fiscal function began to serve as an instrument of state regulation of socio-economic processes.

The tax system of a state is formed under the influence of many factors. The socio-economic policy, the living standards, the needs and other elements are the basis for determining the direction towards which the state and the society are developing.

Depending on the needs of a society in preserving the environment and maintaining public health, tax policy is built not only out of the need to ensure that state budget is replenished, but also to create the conditions that stimulate changes in consumer demand for certain groups of goods, depending on their positive or negative properties or qualities.

In this regard, in the development of a tax system it is especially important to take into account interests of all participants in tax relationship. The principle of optimality in taxation implies the optimal choice of objects of taxation and tax rates from the point of view of implementing the fiscal function of taxes, the creation of conditions for economic growth and the achievement of social justice.

The purpose of this study is to conduct a comprehensive analysis of the experience of selected countries in the implementation of tax (excise) policies in relation to goods that can enhance the risk of developing non-communicable diseases and pose a threat to human health, in particular, we refer to alcoholic beverages, transport, tobacco and sugar-sweetened beverages.

The analysis aims to study the existing tax systems and partially determine the impact of the regulatory function of such taxation on consumer demand.

STRUCTURE OF THE STUDY

1. Type of tax: excise	4
2. Alcohol markets in the EAEU countries	5-6
2.1. Experience of the USSR	5-6
2.2. Experience of Kazakhstan	7-10
2.3. Experience of Russia	11-13
2.4. Experience of Belarus	13-15
2.5. Experience of Armenia	15-16
2.6. Experience of Kyrgyzstan	17-18
2.7. Conclusions	18
3. Taxation of passenger cars in the EAEU	18-27
4. Excise tax on sugar-sweetened drinks	29-32
5. Taxation of tobacco products in the EAEU countries	32-33
5.1. Experience of Kazakhstan	33-40
5.2. Experience of Russia	40-43
5.3. Experience of Belarus	43-45
5.4. Experience of Kyrgyzstan	46-47
5.5. Experience of Armenia	47-49
5.6. Conclusions	49
6. Summary	49-50

1. Type of tax: excise

An excise tax is an indirect tax levied on taxpayers who produce, import or sell certain types of goods. The excise tax is included in the price of the goods and is thus passed on to the end consumer.

Excise rates can be divided into the following categories:

fixed: fix amounts of money which are imposed on each unit of taxable base;

combined: these are rates that are calculated according to a formula with a fixed indicator and different coefficients;

ad valorem: these are rates in percentages which are calculated on the basis of the value of excisable products.

Excise tax is not just a source for replenishing the state budget but also a tool for regulating prices for consumer goods that can potentially harm human health or the environment. An increase in the excise tax on such goods can partially reduce their consumption or use.

2. Alcohol markets of the EAEU countries

2.1. Experience of the USSR

From the point of view of state regulation, in the EAEU member states the alcohol market has historically changed in the same direction.

For a long period after the Great Patriotic War, the population consumed mainly vodka, as a result of which there was an increase in crime, car accidents, injuries at work and at home, family breakdowns.

At the same time, despite the preference for vodka, the USSR authorities repeatedly made attempts to combat excessive consumption of vodka and increase the consumption of light alcoholic beverages.

For example, in 1972 the Presidium of the RSFSR Supreme Soviet issued a decree “On enhancing the combat against alcohol abuse and alcoholism”. Within its framework, prices on strong alcoholic beverages have been increased and the production of especially strong vodka of 50 and 60 degrees of alcohol, which had started after the war, have been stopped and it was allowed to sell drinks of more than 30 degrees of alcohol strictly from 11 AM to 7 PM. Strong drinks also disappeared from public cafeterias, except for restaurants, while on holidays it was prohibited to sell them at all¹.

At the same time, the peak rates of alcohol production were achieved in the year of the 1980 Olympics Games. That year, the following volumes were produced:

- vodka and alcoholic beverages: 295 million decaliters (1 decaliter = 10 liters);
- grape wines: 323 million decaliters;
- fruit and berry wines: 149 million decaliters;
- cognac: 9,4 million decaliters;

¹ <https://lenta.ru/articles/2020/06/27/buhaem/>

- beer: 613 million decaliters;
- champagne: 178 million bottles².

It is evident that the national policy was aimed at increasing the demand for such light alcoholic drinks as beer, wine and champagne. Thus, only 30% of the consumed alcohol was strong and at that time work was under way to develop the alcohol drinking culture.

Also, in May 1982 a government commission of the USSR was created and by the autumn of the same year it had prepared the following proposals:

- a) to increase the production of beer and wine;
- b) to expand the network of cafes and pubs.

Thus, the USSR leadership was seeking to solve the problem by changing the structure of consumption of alcoholic beverages rather than by reducing their production.

At the same time, there was a hasty and ill-considered decision to introduce prohibition (Dry Law) in 1985, the lamentable consequence of which was the cutting down of almost a third of all vineyards of the USSR, though there was no such direct instruction.

The economic damage from the Dry Law was felt until the mid-90s. In the first year of the anti-alcohol campaign alone, the Soviet budget missed 37 billion rubles.

Officially registered per capita sales of alcohol in the country during the years of anti-alcohol campaign decreased by more than 2,5 times. In 1985-1987, a decrease in state sale of alcohol was accompanied by an increase in life expectancy and birth rate, and a decrease in mortality. During the period when the anti-alcohol Decree was in force, 5,5 million babies were born per year, which was 500 thousand more per year than for every year in the previous 20 or 30 years, with 8 per cent less of underweight

² <https://news.rambler.ru/other/38881457-skolko-vlasti-sssr-zarabatyvali-na-prodazhe-alkogolya/>

babies. The life expectancy of men increased by 2.6 years and reached the maximum value in the entire history of the USSR, while the overall crime rate decreased³.

3

https://ru.wikipedia.org/wiki/%D0%90%D0%BD%D1%82%D0%B8%D0%B0%D0%BB%D0%BA%D0%BE%D0%B3%D0%BE%D0%BB%D1%8C%D0%BD%D1%8B%D0%B5_%D0%BA%D0%B0%D0%BC%D0%BF%D0%B0%D0%BD%D0%B8%D0%B8_%D0%B2_%D0%A1%D0%A1%D0%A1%D0%A0

2.2. Experience of Kazakhstan

The alcoholic industry is a specific industry that has a number of features that distinguish it as a special sector of the economy that determines a wide range of social, economic and even political interests of both the state and the society as a whole.

According to international practice, the state has always paid attention to the development of alcohol market. Basically, measures of state regulation are carried out through administrative and economic measures, in particular, pricing, production surveillance, restrictions on time and place of sale.

In Kazakhstan, significant changes in the alcohol market have taken place since 2013.

On the instructions of the First President, it was necessary to gradually increase the prices for strong alcoholic beverages and reduce the prices for wine and beer, which was aimed at changing the structure of consumption of alcoholic beverages in favor of the low alcohol ones.

The instructions were based on the rating of the World Health Organization (WHO), according to which Kazakhstan took the 34th place in 2011 in terms of alcohol consumption per capita. According to this rating, every Kazakhstan resident drank almost 11 liters of pure alcohol a year. At the same time, the critical volume was 8 liters per consumer.

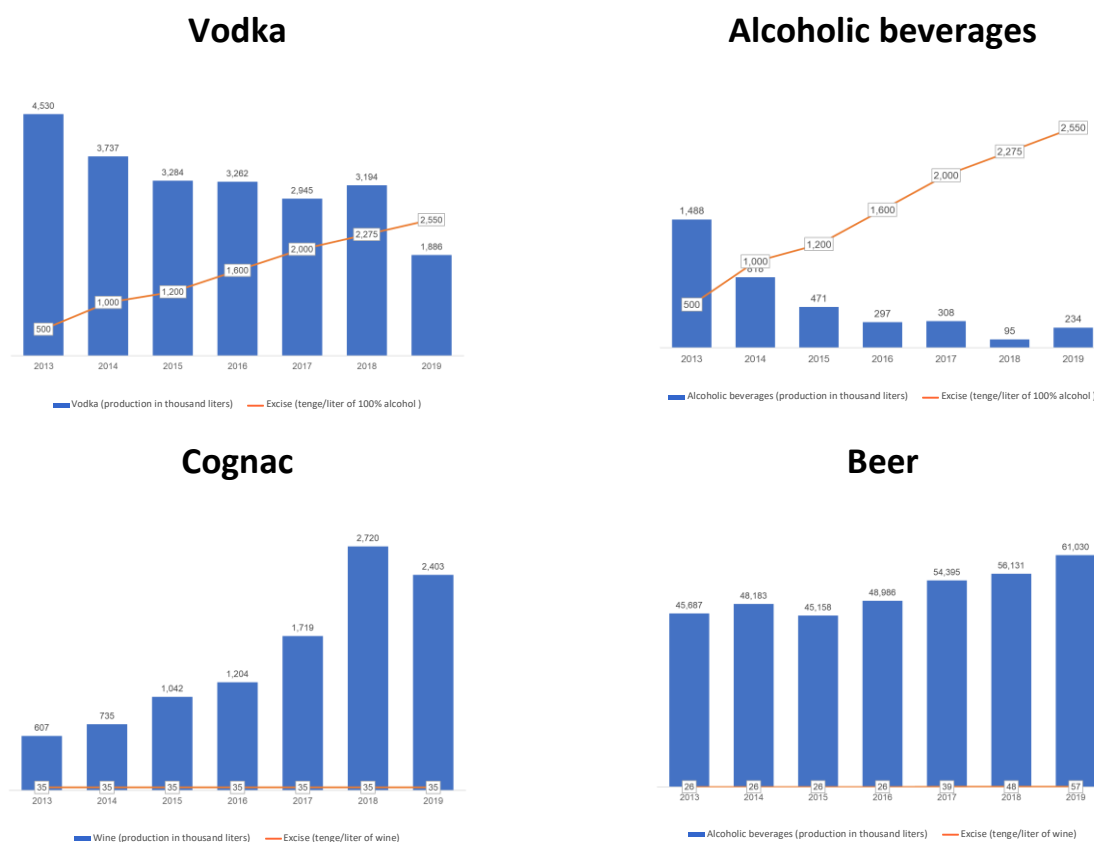
Since 2013, with the start of the implementation of the above instructions, the consumption of pure alcohol per capita decreased from 11 to 7 liters by 2018. According to the data of the Ministry of Health, the number of patients with mental or behavioral disorders associated with alcohol consumption under medical supervision decreased by half over these years, from 209,754 to 100,390 people. Over these years, there was a positive trend in the decrease of the number of chronic alcoholics. Experts also associate this with the transition of the population to light alcoholic beverages, an optimal fiscal policy, as well as with the effect of anti-alcohol legislation.

In Kazakhstan, since 2013 the excise tax on vodka, the most consumed strong alcoholic drink, has quadrupled. In 2013 it was 200 tenge per liter of vodka, in 2021 it

was already 1020 tenge. The minimum retail price in 2013 was 320 tenge per 0.5 liters of vodka, now it is 990 tenge for the same bottle.

From January 1, 2012 in order to support the wine industry, excise tax rates were eliminated for the raw material used for wine production.

In order to assess the impact of changes in excise rates on production volumes, an analysis was carried out for the period 2014-2019:

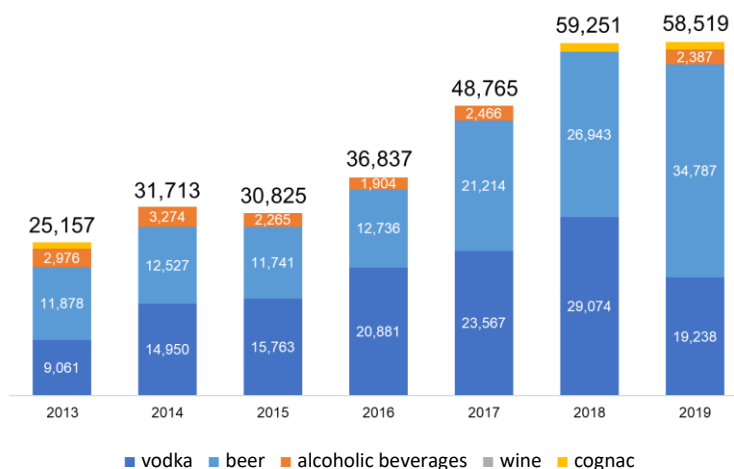


According to the graphs above, it can be concluded that a correct, gradual increase in excise rates for different types of alcoholic beverages was carried out.

With the growth of excise rates on vodka, its production decreased by more than 2 times, alcoholic beverages by seven times, and vice versa, while maintaining

low rates, the production volume increased by 6 times for wine and by 153 million liters for beer, despite a two-fold increase in rates for the years 2017-2019.

At the same time, the state budget only benefits from choosing the right strategy and approving the right excise rates:



Taking into account the above facts, the consumption of pure alcohol per capita was 4,8 liters by the end of 2020. This is a significant decrease, given that the indicators of the top countries in this rating are measured in double digits: Germany: 12.9, Spain: 12.7, Russia: 11.2 liters⁴.

At the same time, the market of Kazakhstan also consumes non-alcoholic beer and wine which are not subject to excise duty. To understand the difference between non-alcoholic wine and beer from alcoholic ones, one need to keep in mind the following.

⁴ <https://tengrinews.kz/news/uroven-potrebleniya-alkogolya-suschestvenno-snizilsya-430908/>

In general, up to a certain stage, such products are produced as the usual alcoholic products. With the only difference that before bottling ethyl alcohol molecules are extracted from the finished wine, which can be done in three ways:

Pasteurization. The drink is heated to 80–82 °C and kept at this temperature for six minutes, then cooled. The advantage of this method is its simplicity, however, with this method along with alcohol most of the taste and aromatic bouquet evaporates from the drink.

Vacuum distillation. This is also pasteurization, but a more gentle one, since the process of extracting ethyl alcohol molecules occurs at a temperature of 27 °C. In this case, the taste and aroma of the drink are much better preserved, but this technology can hardly be called delicate.

Reverse osmosis. This is the most gentle and high-tech way to remove alcohol from wine. It is based on the fact that the molecules of water and alcohol differ significantly in size, so the latter are simply filtered through a special fine-pored membrane. Due to the lack of heating, the aromatic bouquet stays almost unchanged.

Dealcoholized wine usually contains up to 0.5 ethyl alcohol. About the same amount is found in freshly squeezed orange juice, for example.

Non-alcoholic wine retains all the properties of the traditional drink except for the heady effect, at the same time it contains antioxidants, polyphenols, mineral acids, trace elements (magnesium, calcium, potassium, copper, iron) and vitamins.

In non-alcoholic wine, not only the content of alcohol is reduced, but also the sugar content, so it can be consumed by people with diabetes. In addition, the calories in this drink are approximately half as compared to the traditional one, which can be important for those who are on a diet but do not want to give up their favorite drink. Diseases of the liver, kidney, heart, gastrointestinal tract are not contraindications to use it either, while tartaric and malic acids contained in the drink contribute to the digestion of heavy foods.

Taking into account the tendency towards a conscious attitude to one's own health, consumers' interest in non-alcoholic "alcohol" is growing. According to the

Fact.MR global marketing agency, the global market of non-alcoholic wines will grow 7% each year to reach 10 billion dollars by 20275.

Sales of non-alcoholic beer are also growing in many countries. The consumption volumes of non-alcoholic beer were estimated on average at about 0.6% of the world beer consumption; of beer with a reduced alcohol content - about 2.2%.

In accordance with article 463 of the Tax Code of the Republic of Kazakhstan, beer with a volumetric alcohol content of not more than 0.5% is taxed at a zero excise rate.

Technologies for the production of non-alcoholic beer are based either on reducing the amount of alcohol in beer by completely eliminating fermentation, or on removing alcohol from the finished beer.

Special yeast is used that does not ferment maltose into alcohol, or fermentation is stopped by cooling.

Removal of alcohol can be done by thermal methods, using the low boiling point of alcohol. The most commonly used methods are vacuum distillation and vacuum evaporation.

Thus, in Kazakhstan, systematic activities are under way to develop a culture of drinking, as a result of which, low-degree alcoholic beverages are in great demand among the population, which ultimately produces a less harmful effect on the society.

2.3. Experience of Russia

The history of production and consumption of alcoholic beverages, covering the period from pre-revolutionary Russia to the present times, indicates that an increase in the consumption of alcoholic beverages and a change in the structure of their consumption towards stronger alcoholic beverages occurred due to the lack of a unified state approach to regulating the production and turnover of alcoholic

5 <https://sw.n.ru/articles/bezalkogolnoe-vino>

beverages and the shift of priorities to the sphere of economic interests, to the detriment of protecting the health of the population.

In 1914-1917, in Russia, compared to Europe, there was the lowest level of alcohol consumption: 0.83 liters of pure (anhydrous) alcohol per capita, but since the mid 1970-s, it began to increase significantly. By 1990s, per capita consumption of alcoholic beverages was 5.4 liters of pure (anhydrous) alcohol per year, and by 2008 it had increased to 10 liters, that is, 1.8 times⁶.

However, taking into account the alcohol-containing products and home-made spirits that are not permitted for consumption, the annual consumption of alcoholic beverages per capita is currently about 18 liters per year.

As mentioned above, according to WHO estimates, exceeding the level of alcohol consumption of 8 liters of pure alcohol is extremely dangerous for national health; consumption of each liter above this limit takes away 11 months of life from men and 4 months from women. According to world statistics, consumption of alcoholic beverages is the cause of death of almost 2 million people and the occurrence of 4 percent of diseases worldwide every year.

Currently, more than 23 thousand people die from accidental alcohol poisoning in the Russian Federation, while more than 75 thousand people a year die from diseases associated with alcohol abuse⁷.

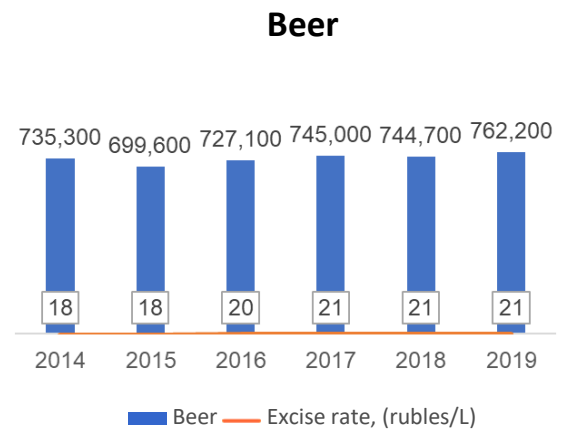
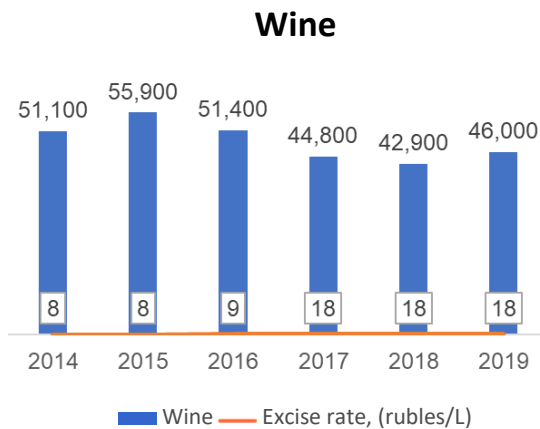
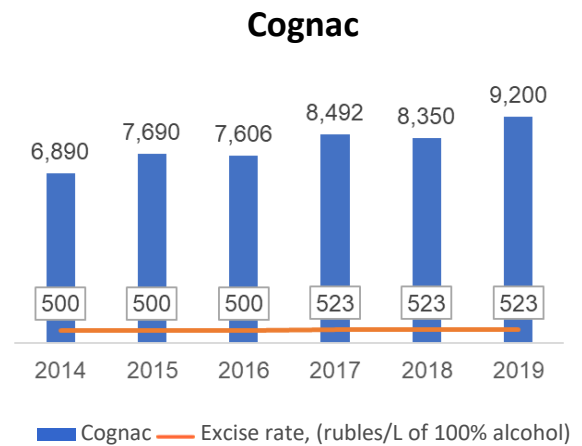
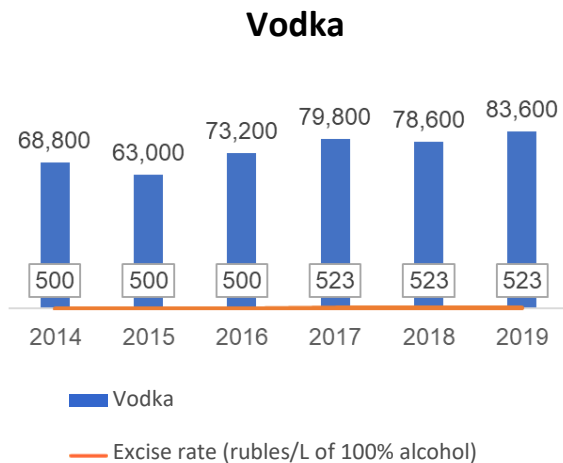
In the structure of consumption of alcoholic beverages, more than half is accounted for by vodka and other spirits.

In this respect, various measures are being implemented in the Russian Federation, including in terms of tax differentiation, in order to reduce the consumption of strong alcoholic beverages.

Let's consider the statistics on the production of alcoholic beverages and the dynamics of changes in excise rates in the above mentioned countries.

⁶ <http://www.demoscope.ru/weekly/knigi/zakon/zakon089.html>

⁷ https://fsrar.gov.ru/policy_of_sobriety/koncepcia



Comparing production volumes and the dynamics of growth in these rates, we can conclude that in the Russian Federation, with an approximately equal increase in excise rates for different alcoholic products, there is an increase in the consumption of vodka and cognac, a slight increase in beer consumption and a decrease in wine consumption.

In this case, it is possible that the traditional alcohol market in Russia has played a significant role, or the Government of the Russian Federation needs to carry out further tax changes in order to reduce the consumption of strong alcohol and increase the consumption of wine and beer instead.

From the point of view of increasing the consumption of low-alcohol beverages, in particular, wines, significant steps are also being taken in the Russian Federation.

In particular, on June 26, 2020 the Federal Law “On viticulture and winemaking” came into force, initiated by deputies who were representatives of all fractions, according to which winemaking in Russia became an independent industry. The Law established special requirements for materials and supplies, and includes provisions to support domestic producers and to protect consumers from counterfeiting.

Also, wine fairs at which products from the EAEU countries will be displayed, now can be held for two weeks. They will be allowed to trade not only in wine and champagne, but also to advertise and offer tastings of products. Meanwhile, it is stipulated that the wine sold at the fairs must be made only from grapes grown in these countries.

At the same time, the decision to impose since 2021 an excise tax on grapes used for the production of wine, sparkling wine (champagne), liqueur wine with a protected geographical indication, with a protected name of origin (special wine), of wine materials, grape must, alcoholic beverages manufactured using the full cycle technology, implemented in the tax period from January 1, 2021 (31 rubles per 1 ton); for wine materials, grape must, fruit must from January 1, 2021 (32 rubles per 1 liter), was quite contradictory.

For wine producers, this measure creates a double tax burden and complicates control, which ultimately leads to higher prices for wine products.

At the same time, beer with a normative (standardized) content of the volume fraction of ethyl alcohol of up to 0.5 per cent inclusive, is not subject to excise duty either.

2.4. Experience of Belarus

A distinctive feature of the economy of the Republic of Belarus is that in most industries there is a state monopoly, including the production and sale of alcoholic beverages. Thus, the alcohol industry is represented mainly through the “Belgospisheprom” concern.

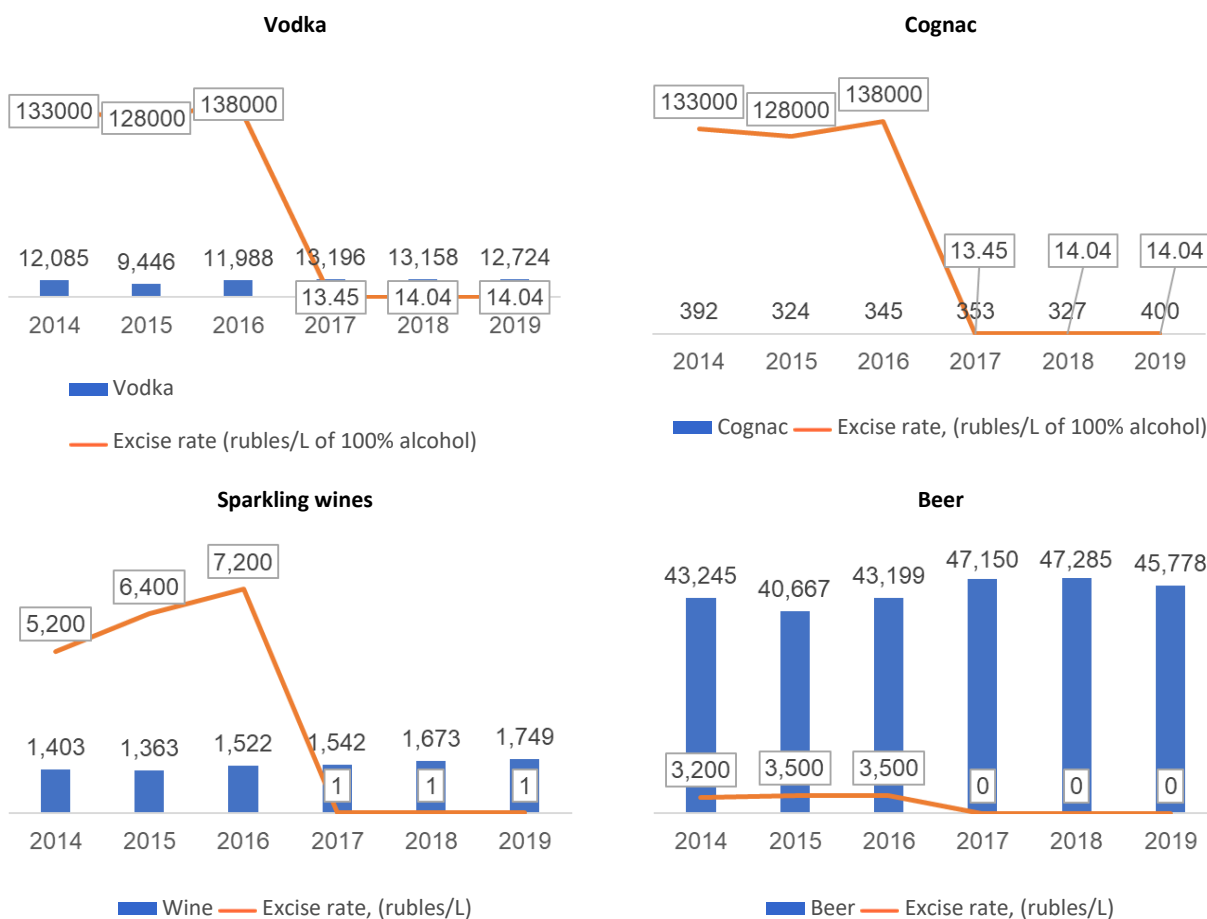
Positive tendencies for a decrease in the level of alcohol consumption by the population of the Republic of Belarus have become evident. For example, in 2010 the

level of accounted alcohol consumption in Belarus (population 15+ years of age) was 13.3 liters per capita, as compared to 10.4 liters in 2019.

At the same time, the largest contributors of alcohol excise taxes are vodka, alcoholic beverages and food grade alcohol. The level of revenues is relatively stable, under this item the state budget receives annual revenues in the range of 250-290 million dollars per year.

It should be noted that in total, excise taxes on all types of alcoholic products, imported and domestic, exceed excise taxes on tobacco products and motor fuel during 2017-2019.

* In 2016, Belarus Rouble was denominated in relation of BYR10,000 to BYN1



As the above diagram shows, it should be noted that following the denomination of the Belarus Rouble in 2016, excise tax rate on fruit and berry wines was significantly decreased in 2017 due to support to local manufacturers. Such measure led to an increase in production of such fruit and berry wines by 380 thousand decalitres for the period of 2014 to 2019.

Other types of alcoholic products in question saw insignificant changes, which provides for further revision of the excise policy in the Republic of Belarus aimed at increase of low-alcohol beverages consumption.

Beer with alcoholic content of less than 0.5 per cent is exempt from excise tax.

2.5. Experience of Armenia

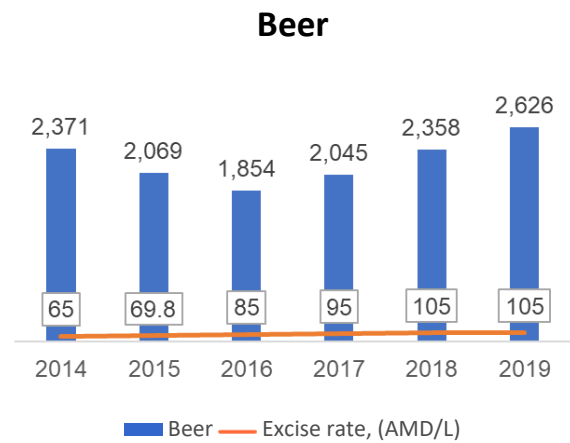
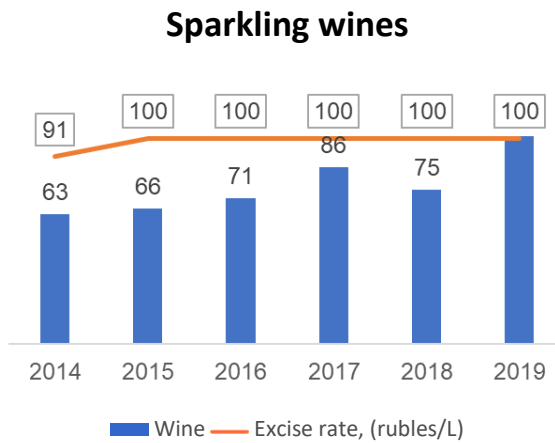
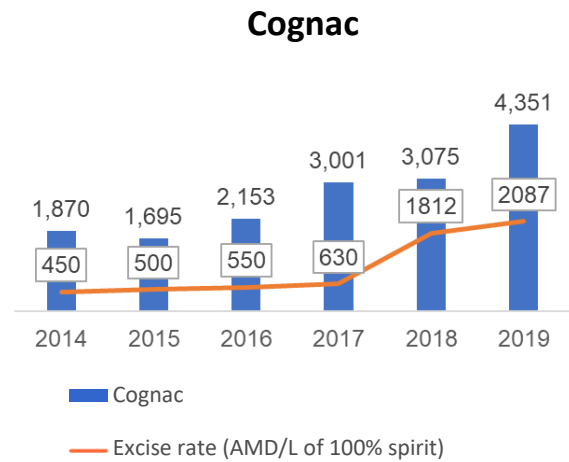
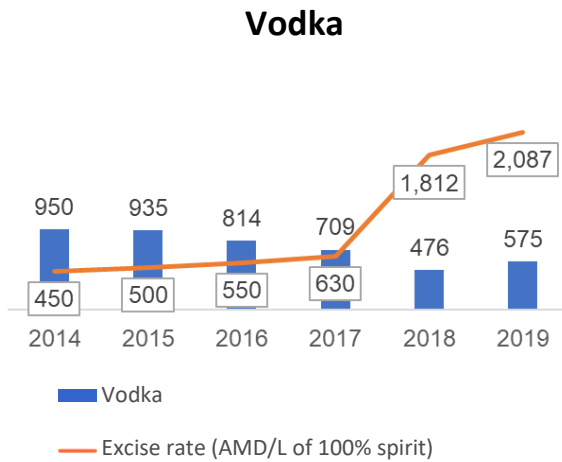
As per the WHO assessment, Armenia ranks 106 in terms of alcohol consumption with 5.5 liters per person, which is rather good.

Alcoholic production in Armenia is focused on cognac, most of which is exported mainly to Russia.

Armenia became a member of the EAEU in 2015; therefore, the total amount of export of alcoholic beverages reached USD 177 mln. Cognac takes the largest share of exported alcoholic products in Armenia with 89%.

Among other alcoholic beverages, grape wine accounts to 4%, wines made from other fruits amount to 2% of the total export of alcoholic beverages.

The total amount of export of Armenian cognac is USD 160 mln. Russian market receives 34 thousand tons of Armenian cognac. Total export of various other fruit wines in the EAEU (excluding grape wine) amounts to USD 84 mln.



Based on the abovementioned data, it should be noted that taxation policy in Armenia with regard to excise taxes is arranged in due manner.

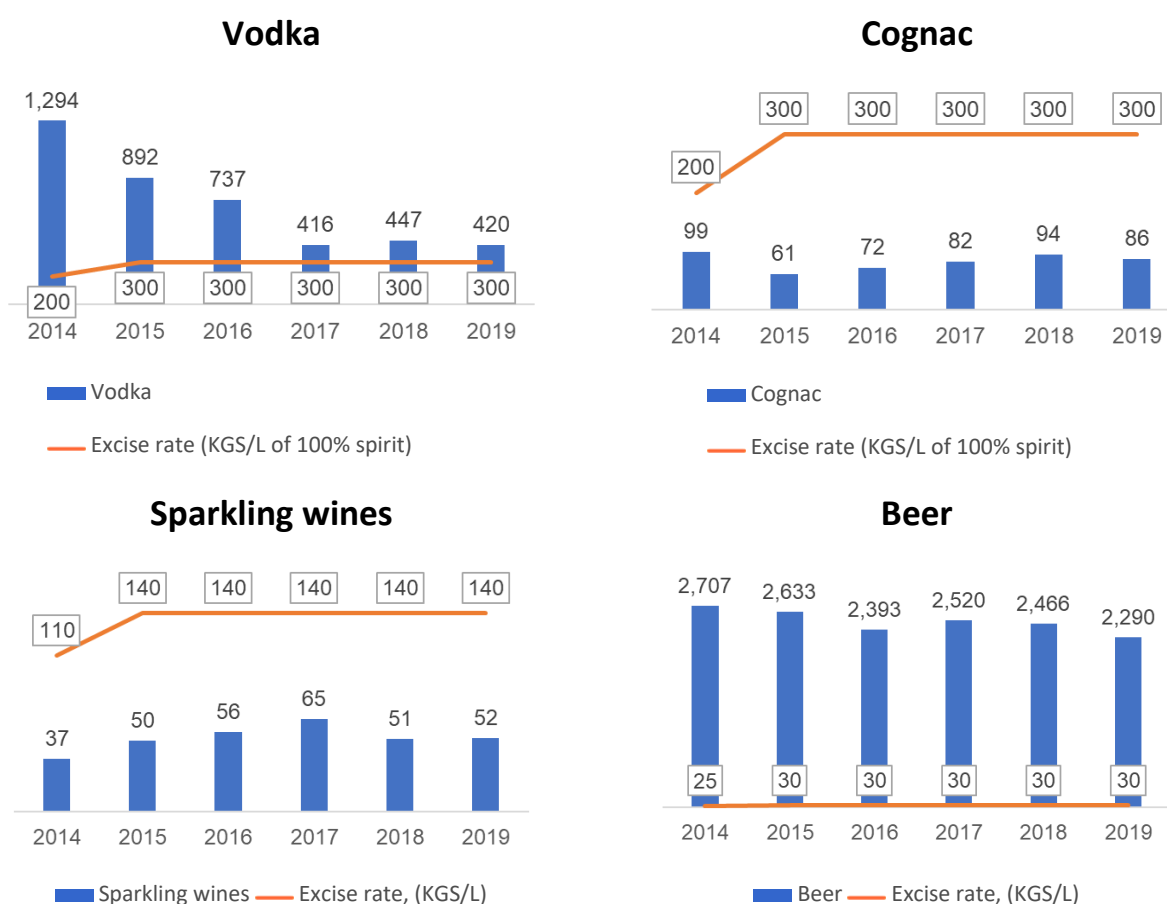
Vodka production is falling while wine and beer production is growing. Regarding growth in cognac production, it should be noted that this beverage is mostly exported and, as per WHO estimate, local population does not suffer from alcohol addiction.

2.6. Experience of the Kyrgyz Republic

Kyrgyz Republic is implementing a successful and systematic revision of alcoholic beverage taxation system.

From 2005 to 2012, the number of people who received treatment from alcoholic addiction and alcoholic psychosis increased by 38%, but in the period from 2012 to 2015, this number decreased by 26%.

The work performed in 2010 – 2016 resulted in decreased consumption of alcoholic products by 40% from 10.2 to 6.2 liters per capita, which is a rather moderate rate.



In 2014–2019, Kyrgyz Republic managed to implement a well-balanced taxation policy for alcoholic products that provided for a decreased availability of alcohol to the population and resulted in further decline in turnover of alcoholic beverages, their consumption, as well as in harm from alcohol.

Thus, as per the above table, vodka consumption went down by three times, table wines consumption grew by 3.7 times, sparkling wines consumption rose by 15 thousand decalitres, however an insignificant decline in beer consumption should be mentioned.

Kyrgyzstan has a potential to increase excise rates on all alcoholic beverages in the coming years. Such increased rates may have a positive impact on public health and state budget. At the same time, excise rates applied in other EAEU countries should be taken into account in order to mitigate risks of cross-border transfers, especially with Kazakhstan.

2.7. Conclusions.

The analysis confirms that differentiated excise rates on various types of alcoholic products motivate consumers to purchase more affordable low-alcohol beverages. If continued, such trend will have a positive effect on EAEU countries' economies, help maintain the public health; thus, reduce the burden of consequences of strong alcohol consumption.

When considering regulation of the general alcohol market in EAEU member states, it should be taken into account that the Eurasian Economic Commission has been working on approval of the *Agreement on Regulation of Alcohol Market within the Eurasian Economic Union* by all EAEU member states since 2012. The Agreement is aimed at governing the whole complex of legal relations between authorised bodies and participants of the alcohol market, with best regulatory practice taken into account. As per the draft Agreement, major principles of regulating activities on the alcohol market are prohibition of discrimination, prevented limitation of competition, transparency.

It is obvious that production and turnover of alcoholic products within each member state is a sensitive issue in terms of both economic and political point of view.

In order to remedy imbalance of excise rates on alcohol, EAEU member states develop another Agreement on Tax Policy Principles in Respect of Excise Duties on Alcohol Products in EAEU Member States.

3. Taxation of Passenger Cars.

Cars are inherent part of our life. A positive effect from transport is that it provides access to education, labour, services, goods, entertainment, and other blessings of civilisation. It also facilitates economic development and contributes to production and distribution logistics. Various types of vehicles have a specific effect on the society, in particular, on its health. Harmful effect of vehicles on health is related to pollution and noise, traffic accidents and limited ability to travel on foot or by bicycle, as well as to such less evident circumstances as social isolation and decreased quality of life in regions with heavy traffic.

Year over year, the number of cars around the world is rapidly growing. Analysts counted that by the end of 2020, the total number of vehicles was 1.4 billion. At that, 95% of all registered vehicles are passenger cars.

According to Navigant Research forecasts, passenger cars sales may grow up to 126.9 mln cars a year in the near future. At such rate, the total number of cars will reach 2 billion by 2035.⁸ Therefore, manufacturers strive to create innovative developments to as much as possible mitigate negative effects of vehicles use, in particular, currently the idea is to reduce harmful effect of vehicles on the environment and lower air pollution levels. The proposed solution was to arrange industrial production of vehicles with combustion-free motors, i.e. electric cars.

Number of electric cars on roads around the world is growing year by year. Such change is due to an improved wellbeing of the population around the planet and the need to reduce harm from combustion. Many countries adopted policies to facilitate purchases of electric cars with zero emissions.

As per the Deloitte report, every fourth purchased car will be electric by 2030.⁹

⁸ <https://www.autonews.ru/news/5c9114d69a7947491f827c6e>

⁹ <https://vc.ru/transport/199864-rynok-elektrokarov-v-cifrah-i-v-poslednih-sdelkah>

Here below, we describe advantages and disadvantages of electric cars as of today.

Advantages and Disadvantages of Electric Cars

Advantages	Disadvantages
<p>Environmentally-friendly cars.</p> <p>Products of petroleum combustion, such as exhaust gases, pollute the atmosphere. Electric cars are free from such problems which significantly improves environmental protection. A negative impact of electric cars on the environment is 0%.</p>	<p>High cost of new electric cars.</p>
<p>Lack of special taxes on electric cars in most countries.</p>	<p>Inability to travel long distances by electric cars.</p> <p>Due to poor infrastructure of charging stations for electric cars, e-cars owners have difficulties to travel to distances exceeding the average power reserve that is 150-200 km.</p>
<p>Inexpensive cost of charging of electric cars if compared to the cost of combusted fuel (expenses are six times less on average)</p>	<p>Inability (in general) to charge e-cars at home.</p>
<p>Noiseless motion which has a positive effect in cities and megalopolises, general level of noise significantly decreases as compared to traditional cars.</p>	<p>Lack of developed networks to charge batteries for electric cars.</p>

If consider electric car market in the EAEU, the total amount of imported e-cars to the EAEU member states in January-October 2019 reached 292 cars (EAEU Commodity Nomenclature of Foreign Economic Activity 8703 80 000 2) with total cost of USD 14.86 mln. The share of Armenia in this import is 0.7%, Belarus 30.8%, Kazakhstan 7.2%, and Russia 61.3%. Electric cars are mostly imported from the USA, China, Austria, and Germany.

In order to support electric car market and facilitate establishment of the required infrastructure, the EEC Council resolved on 16 March 2020 to implement a zero import duty provided for by the EAEU Common Customs Tariff on specific types

of vehicles with electric engines (position 8703 80 000 2 in the EAEU Commodity Nomenclature of Foreign Economic Activity).

A zero rate will be effective until 31 December 2021 (inclusive) and is to be applied to electric cars imported into the EAEU member states by both individuals and legal entities.

However, serial production of electric cars in the EAEU is just being set up. Almost all countries have the potential to manufacture such cars. In Belarus, the government adopted the State Program for Electric Cars Charging Network. In 2019, the number of charging stations owned by the Republican Unitary Enterprise, Belorusneft Manufacturing Group reached 125 units. The enterprise plans to increase this number to 500 units by 2021. It also plans to build super-quick charging complexes that would reduce the charging time to 10-20 minutes.

With the suggested customs tariff regulations, the number of electric cars manufactured in Belarus is planned to be increased to 30 thousand per year by 2022.

In Kazakhstan, electric cars JAC iEV7s were launched into industrial production, however, their price is rather high: KZT 14.9 mln. Driving distance of such cars is 200-300 kilometers, charging time 1 hour if charged by specialised charging unit, and 7 hours if charged from a conventional socket.

In Kyrgyzstan, the work is performed to implement the Green Economy Concept called Kyrgyzstan is a Country of Green Economy. Negotiations with international organisations are performed to establish the infrastructure of charging stations in Bishkek, as well as along major highways.

In Russia, the 30/30 Program is being implemented. The Program provides for a launch of such projects as Energy of the City, Energy of Highways, Energy of Urban Transport. It is planned to establish networks consisting of more than 440 quick-charging stations and 330 slow-chargers in 30 large cities, as well as along 30 major highways; implement the Green Economy pilot project, as well as create an information platform for owners of electric cars and charging stations.

Previously, customs duties on electric cars had already been down to zero in the EAEU, from 15 September 2016 to 31 August 2017. However, this did not bring expected results. Furthermore, this tax regime did not apply to individuals. Individuals

were to pay 48% to 54% of customs value of imported electric cars which eventually prevented individuals from buying such cars.

In essence, transportation tax is a property tax paid by legal entities and individuals for the property they own.

Funds raised from taxpayers are included in the state budget and spent for public needs, including construction and repair of roads.

Cars, including passenger cars, wear roads surfaces out, combustion products are exhausted in the atmosphere having negative effect on the environment, therewith, it is logical that car owners reimburse such harm by paying transportation tax.

The transportation tax is subject to be paid on an annual basis within specific terms and based on established rates. In Kyrgyzstan and Armenia, the transportation tax is presented as a property tax.

In Kazakhstan and Russia, in addition to transportation tax, excise on production or import of a passenger car is paid.

The table below presents the existing systems of taxation of passenger cars in the EAEU member states.

	Kazakhstan	Russia	Belarus	Kyrgyzstan	Armenia
Type of tax	Tax on vehicles	Transportation tax	Transportation tax	Property tax (Group 4)	Vehicle Property Tax
Taxable Item	Vehicles, excluding trailers, registered in the Republic of Belarus.	Cars registered in the Russian Federation as per the established order	Vehicles registered on individuals or legal entities in the State Traffic Inspection of the Republic of Belarus	For items related to Group 4: a) With ICE: engine capacity or balance value; b) With no ICE: balance value; c) With no ICE and no book value: vehicle cost determined in accordance with the procedure established	Vehicles owned by taxpayers as property

				by the Kyrgyzstan Government	
Tax Rate	Monthly estimated value for a calendar year / engine capacity in cm ³ .	RUB/Horsepower (kW)	RUB/gross vehicle weight, capacity or unit of the vehicle. If no information provided about the gross vehicle weight, tax rate shall be the minimum tax rate applied to similar types of vehicles.	KGS/cm ³ .	AMD/engine power (horsepower or kW) of the vehicle
Rates	<p>Passenger cars by engine capacity (cm³)</p> <p>Up to 1100 - 1 1100 to 1500 - 2 1500 to 2000 - 3 2000 to 2500 - 6 2500 to 3000 - 9 3000 to 4000 - 15 over 4000 - 117</p> <p>For passenger cars with engine capacity over 3000 cm³ manufactured (produced or assembled) or imported in Kazakhstan after 31.12.2013:</p> <p>3000 to 3200 - 35 3200 to 3500 - 46 3500 to 4000 - 66 4000 to 5000 - 130 over 5000 - 200</p> <p>For passenger cars with engine capacity over 1500 cm³, the amount of the tax shall increase by KZT 7 per each unit over the said</p>	<p>Passenger vehicles with engine power (per hp):</p> <p>Up to 100 HP (up to 73.55 kW) - 2.5 100 HP to 150 HP (73.55 kW to 110.33 kW) - 3.5 150 HP to 200 HP (110.33 kW to 147.1 kW) - 5 200 HP to 250 HP (147.1 kW to 183.9 kW) - 7.5 Over 250 HP (over 183.9 kW) - 15</p>	<p>RUB per annum:</p> <p>For legal entities: passenger car with a gross vehicle weight:</p> <p>Up to 1 ton - 162 1 ton to 2 tons - 209 2 tons to 3 tons - 255 Over 3 tons - 325</p> <p>For an individual: passenger car with a gross vehicle weight:</p> <p>Up to 1.5 tons (as well as for a passenger car with no information about gross vehicle weight) - 61 1.5 tons to 1.75 tons - 81 1.75 ton to 2 tons - 102 2 tons to 2.25 tons - 122 2.25 tons to 2.5 tons - 142 2.5 ton to 3 tons - 162 Over 3 tons - 223</p>	<p>Passenger cars, vans, pickups based on passenger cars:</p> <p>Up to 5 years - 0.90 5 to 10 years - 0.75 10 to 15 years - 0.60 Over 15 years - 0.45</p> <p>With no internal combustion engine - 0.5 per cent of balance value;</p>	<p>For passenger car with up to 10 seats if taxable base:</p> <p>1 to 120 HP (inclusive) - AMD 200 per each HP;</p> <p>121 to 250 HP (inclusive) — AMD 300 per each HP, as well as additional AMD 1000 per each HP when over 150 HP;</p> <p>251 HP and more — AMD 500 per each HP, as well as additional AMD 1000 per each HP when over 150 HP;</p> <p>For passenger cars and trucks (cargo and passenger cars) with 10 seats and over of the taxable base:</p> <p>1 to 200 HP (inclusive) - AMD 100 per each HP;</p>

	threshold of the engine capacity				<p>201 HP and more — AMD 200 per each HP;</p> <p>The amount of the tax for the third tax year and each subsequent tax year shall be calculated as 10% of the tax amount, but not more than 50% of the property tax amount.</p> <p>If the taxable base for vehicles is calculated for kW, the annual tax for such vehicles shall be charged with 1.36 ratio applied to the relevant capacity.</p>
Taxation of Electric Drive Vehicles	No	Yes	No	No	Yes
Excise Payment	Yes	Yes	No	No	No
Excise Rate	<p>KZT 100/cm³.</p> <p>Motor vehicles used to transport 10 persons and more, with the engine capacity over 3000 cm³, excluding minibuses, buses and trolleybuses;</p> <p>Passenger cars and other motor vehicles dedicated mainly to transport passengers, with the engine capacity over 3000 cm³ (excluding manually-operated cars and cars with manual operation adapter specially designed for persons with disabilities);</p> <p>Motor vehicles based on passenger car chassis, with a platform from a truck and</p>	<p>Passenger vehicles with engine power (per hp):</p> <p>Up to 100 HP (up to 73.55 kW) - 2.5</p> <p>100 HP to 150 HP (73.55 kW to 110.33 kW) - 3.5</p> <p>150 HP to 200 HP (110.33 kW to 147.1 kW) - 5</p> <p>200 HP to 250 HP (147.1 kW to 183.9 kW) - 7.5</p> <p>Over 250 H (over 183.9 kW) - 15</p> <p>Passenger cars with engine power up to 67,5 kW (90 hp)</p>			

	<p>driver cab divided from the cargo section with a fixed partition, with the engine capacity over 3000 cm³ (excluding manually-operated cars and cars with manual operation adapter specially designed for persons with disabilities)</p>	<p>after 1 January 2021 - RUB 0 per 0.75 kW (1 hp);</p> <p>Passenger vehicles with engine power over 67,5 kW (90 hp) and up to 112,5 kW (150 hp):</p> <p>From January 1 to December 31, 2021 - 51 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 53 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 55 rubles per 0.75 kW (1 hp);</p> <p>Passenger vehicles with engine power over 112.5 kW (150 hp) and up to 150 kW (200 hp):</p> <p>From January 1 to December 31, 2021 - 491 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 511 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 531 rubles per 0.75 kW (1 hp);</p> <p>Passenger vehicles with engine power over 150 kW (200 hp) and up to 225 kW (300 hp):</p> <p>From January 1 to December 31, 2021 - 804 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 836 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 869 rubles per 0.75 kW (1 hp);</p>			
--	---	--	--	--	--

		<p>Passenger vehicles with engine power over 225 kW (300 hp) and up to 300 kW (400 hp):</p> <p>From January 1 to December 31, 2021 - 1 370 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 1 425 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 1 482 rubles per 0.75 kW (1 hp);</p> <p>Passenger vehicles with engine power over 300 kW (400 hp) and up to 375 kW (500 hp):</p> <p>From January 1 to December 31, 2021 - 1 418 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 1 475 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 1 534 rubles per 0.75 kW (1 hp);</p> <p>Passenger vehicles with engine power over 375 kW (500 hp):</p> <p>From January 1 to December 31, 2021 - 1 464 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2022 - 1 523 rubles per 0.75 kW (1 hp);</p> <p>From January 1 to December 31, 2023 - 1 584 rubles per 0.75 kW (1 hp);</p>			
Additional Tax	No	No	No	No	Yes

Additional Tax Type					Environmental tax on the harmful substances emissions into the air from mobile emission sources
Taxable Item					Engine power in horsepower (hp)
Rate					Per hp: up to 50 hp – 5 AMD 51 to 80 hp – 10 AMD 81 to 100 hp – 15 AMD 101 to 150 hp – 20 AMD 151 to 200 hp – 25 AMD 201 to 250 hp – 30 AMD 251 to 300 hp – 35 AMD 301 hp and more – 50 AMD

Based on the data presented in the table above, it is proposed to analyze the peculiarities of taxation in these countries, breaking them down to the positive and negative, based on the size of the burden on the vehicle owners and the proportionality of compensation for the damage caused to the environment when the vehicles are in operation.

EAEU member state	Positive aspects	Negative aspects
Kazakhstan	- electric-powered vehicles are not subject to transport tax and excise tax;	- transport tax does not directly depend on the amount of damage to the roadway and the environment;

	<ul style="list-style-type: none"> - due to the high rates on ICEs with a larger displacement, motivate the public to buy vehicles with a smaller ICE displacement and, consequently, cause less damage to the environment; - annual adjustment by the value of the monthly estimated indicator (growth of revenues to the state budget); 	<ul style="list-style-type: none"> - double taxation: transport tax + excise tax (for certain categories of vehicles); - taxation only depends on the ICE displacement while modern engines with a small ICE displacement have more power, i.e. it is desirable to set taxation for horsepower or kW.
Russia	<ul style="list-style-type: none"> - taxation depends on the engine power in hp or kW (which is an advantage for the state budget since modern engines with a small ICE displacement have higher ICE power); - starting from 01.01.2021 passenger vehicles (including those electric-powered) with engine power of up to 67.5 kW (90 hp) are exempted from excise duty; 	<ul style="list-style-type: none"> - there is no exemption from transport tax for electric-powered vehicles of all categories (the consumer is not motivated to purchase those); - transport tax does not directly depend on the amount of damage to the roadway and the environment; - double taxation: transport tax + excise tax (for certain categories of vehicles); - taxation of electric-powered vehicles with transport tax and excise tax (for vehicles over 67.5 kW (90 hp)).
Belarus	<ul style="list-style-type: none"> - optimal taxation based on the passenger vehicle weight (the most remunerative taxation based on the damage caused to the roadway and the environment); - electric-powered vehicles are not subject to transport tax; - no excise tax. 	
Kyrgyzstan	<ul style="list-style-type: none"> - electric-powered vehicles are not subject to transport tax; 	<ul style="list-style-type: none"> - outdated, unfair, disadvantageous for the country's budget model of taxation based on the age of vehicles (old vehicles are more harmful to the environment).

	- no excise tax.	
Armenia	- environmental tax is imposed on vehicles;	<ul style="list-style-type: none"> - the imposition of the environmental tax is not fair since the emission of harmful substances into the environment in modern vehicles does not always depend on the ICE power; - double taxation (property tax + environmental tax); - taxation of electric-powered vehicles.

Thus, to date, the most optimal tax policy for the payment of transport tax is established in Belarus. Charging of this tax is based on the vehicle weight which implies fair compensation for the damage caused to the roadway, and given the fact that basically the higher vehicles weight requires a more powerful engine, the high tax rate compensates for the damage caused to the environment by the combustion of petroleum products.

In this regard, the EAEU member states should revise their tax policy in terms of transport (property tax) in order to find a balance between the interests of society, government and business. Particularly in light of supporting the electric-powered vehicle market it would be worth considering exempting electric-powered vehicles from transport tax in the Russian Federation and property tax in Armenia.

At the same time, having studied the experience of leading countries we can identify significant differences in the approach:

Country	Taxpayers	Taxable Item	Taxable base	Rate	Intended use
Germany	owners of all vehicles in use in the country	vehicles with piston engines	engine displacement and environmental class	vehicles with gasoline engines, every 100 cm ³ is 2 euros; vehicles with diesel engines, 9 euros for every 100 cm ³ .	Electric-powered vehicles are not taxed for five years from the date of purchase

				more than 120 grams of CO2 per kilometer, 2 euros per gram	
France	owners of all vehicles in use in the country	new vehicles with piston engines	engine power and environmental class	Engine power of about 100 hp – 200-250 euros; 300 hp. – about 1,100 euros.	vehicles emitting less than 200 grams of CO2 per kilometer are not taxed.
USA	owners of all vehicles that are operated in the particular state	vehicles with piston engines	included in the fuel price	the average rate that includes federal and local fees is at the level of 45 cents	owners of electric-powered vehicles do not pay the tax.
Japan	owners of all vehicles in use in the country	new vehicles with piston engines	Included in the price of a new car; vehicle weight and engine displacement	when buying a car, it is about 5% of the cost; the engine displacement (about USD 50 – 500).	Owners of electric-powered vehicles and hybrid models are taxed with a 20% discount.
China	owners of all vehicles in use in the country	new vehicles with piston engines	included in the cost of fuel and a new vehicle price	the cost of fuel is about 20% of the price; when buying a new vehicle made in China the owner pays 10% of its cost. For foreign-made models the rate is 40%.	Tax fees imposed on the vehicle owners are transferred to the development of road infrastructure

Thus, different countries pursue different goals in introducing transport tax in their territory. In some countries, vehicle owners pay for harmful emissions; while in other countries they pay for the possibility to drive a car per se. A distinctive feature of transport taxation in foreign practice is the inclusion of tax in the cost of fuel, while the EAEU countries levy the tax mainly depending on the engine power of a vehicle.

The option of including transport tax in the excise tax has a number of disadvantages, such as the increase in the price of fuel, which has a multiplier effect in the form of rising prices for other groups of goods, and the problem of exempting privileged categories of citizens (veterans, people with a disability, mothers with many children (mother heroines)) from paying the tax.

Summarizing, the most optimal and fair for vehicle owners would be to establish a transport tax depending on the amount of damage to the environment or based on environmental indicators. If this tax were properly differentiated, the public would be

motivated to purchase the vehicles whose operation produced the least amount of harmful emissions, including electric-powered vehicles.

4. Excise tax on foods rich in sugar.

It is known that the main essence of the excise tax is aimed at reducing the consumption of hazardous products, such as alcohol and tobacco that have a negative impact on human health.

For a long period of time, various countries have been working to combat what may be the main problem of our time, obesity.

The introduction of an excise tax on foods rich in sugar has been found to be the most effective way of fighting it. These days, overweight and obesity are recognized as a worldwide epidemic. One in four people on the planet is overweight. The number of obese people increases by 10 percent every 10 years, and Kazakhstan is no exception.

Studies performed by the Kazakh Academy of Nutrition showed that the average prevalence of overweight among the adult population of the country (15 years and older) was 29.7 percent for women and 33.9 percent for men; obesity was 25.8 percent for women and 15.3 percent for men¹⁰.

This suggests that more than half of Kazakhstan's adult population (55.5 percent of women and 49.2 percent of men) are overweight or obese.

As for children, one in seven children aged 1 to 14 (14.7 percent of Kazakhstan's child population) is overweight (9.2 percent) or obese (5.5 percent).

Obesity is a chronic disease during which weight increases due to excessive fat accumulation. It can develop at any age and poses a serious health threat.

Here are some scientific facts about the dangers of obesity:

¹⁰ <https://bmcudp.kz/ru/patients/prevention/hls-center-archive/problema-izbytochnogo-vesa-naseleniya-kazakhstana.html>

- it has been proven that excessive body weight shortens life expectancy by an average of 7 years;

- overweight and obesity are the fifth leading causes of death in the world. At least 2.8 million adults die each year of reasons associated with overweight or obesity;

- 44 percent of diabetes cases, 23 percent of coronary heart disease cases and 7 to 41 percent of various types of cancer are caused by obesity and overweight;

- the rising trend in the prevalence of obesity among children and adolescents, which is now 10 times higher than it was in the 1970s, is particularly alarming;

- there are currently nearly 35 million overweight children under the age of 5 in developing countries, and 8 million in developed countries.

Overweight and especially obesity are dangerous because of their complications: they promote the development of serious diseases such as atherosclerosis, hypertension, heart attack, stroke, diabetes, gastrointestinal pathologies, arthritis, reproductive disorders and many other diseases.

Consumption of foods rich in sugar is associated with increased caloric intake, weight gain, overweight and obesity to a greater extent than consumption of any other food.

At the moment, Kazakhstan is considering introducing an excise tax on sugar-sweetened beverages (SSB) under the pretext of combating noncommunicable diseases. However, according to the WHO recommendations for Kazakhstan, the strategic direction is to reduce consumption of salt and trans-fatty acids, as this promises to have the greatest potential effect. Studies performed in Kazakhstan from 2015 to 2018 by both the WHO and the sociological service of the Institute of World Economy and Politics under the Foundation of the First President of Kazakhstan in 2015 showed that the critical factors for Kazakhstan are insufficient water intake, a tendency to overconsumption of carbohydrates, the predominance of meat and carbohydrate products in the diet, low levels of physical activity. Instead of imposing taxes on foods that directly lead to obesity, Kazakhstan is actively promoting the introduction of excise taxes on SSB. Although WHO acknowledges that taxation of the SSB is not a cost-effective measure. According to the late 2017 report in Montevideo, Uruguay, by Dr. Douglas Bettcher, Director of WHO's Prevention of Noncommunicable

Diseases (NCDs), beverage taxation was not among the 16 most effective measures to combat NCDs. In addition, 55% of the sugar consumed by Kazakhstan's population is pure sugar, and the contribution of sugar-sweetened beverages to the caloric intake of Kazakhstan residents is insignificant, amounting to only 2.2 %. Accordingly, the introduction of excise taxes on SSB alone will not lead to improving the nation's health. A better solution would be to impose differentiated excise taxes on the most hazardous foods high in sugar and stimulate the development of foods with sugar substitutes.

Summarizing the above, it is necessary to comprehensively study the impact of excise policy in relation to the SSB within the Republic of Kazakhstan. In general, it is necessary to consider the main risk factors leading to obesity, where the role of SSB is not the main one. In this context, it is necessary to pay special attention to the food culture of the public and increase public awareness regarding their food basket choices. The ubiquity of the younger generation's fascination with fast food, refusal to eat at home, the lack of a systematic diet and unavailability of organic foods can be called the main factors that lead to obesity.

Excise policy with regard to SSB in order to reduce the hazard of these foods for human health should take into account the principle of equality and include other foods high in sugar such as confectionery, which can certainly affect the final cost of foods that contain more sugar than people need according to the daily intake. It is also necessary to take into account the SSB affordability to the general public. In this regard, it is advisable to perform a socio-economic survey in rural areas, where it is likely that SSBs are not included in the list of foods for the daily diet of a rural Kazakhstani. At the same time, an increase in the price of a single food in the supply chain may prompt an increase in the prices of other related goods. The SSB excise policy should be based on a thorough study of international experience and be introduced gradually, starting with a minimum or zero rate over several years. Alongside, the state program aimed at promoting a healthy lifestyle should include certain components focused on a balanced consumption that includes SSB.

5. Taxation of tobacco products in the EAEU countries

The EAEU countries are characterized by a relatively high level of the tobacco products consumption. At the same time, in terms of consumption, the tobacco market in Russia takes 84% of the entire market of the EAEU. The next largest consumers are Kazakhstan and Belarus, their shares are 7% and 6%, respectively. Armenia and Kyrgyzstan have the smallest share of the total market, these countries account for 1% and 2%, respectively. This distribution is quite natural, given the size of the countries, but it is due not only to demographics, but also to differences in the proportion of the population who smoke.

An important characteristic of the demand for tobacco products is the share of the population that smokes, reflecting its involvement in the consumption of tobacco products, and the degree of loyalty to it. According to the WHO data, the population of the Republic of Kyrgyzstan (22%) is the least involved in smoking among adults of the EAEU countries. Belarus, Kazakhstan and Armenia (with 27%, 29.8% and 28.3%, respectively) are on par with the European Union, where the proportion of smokers is approximately 28%. It is important to note that in Kazakhstan and Armenia, the percentage of daily smokers (20% and 19%) is significantly lower than the overall smoking rate. According to the WHO methodology, everyone who smokes at least one cigarette a week is taken into account when calculating the total percentage of the population that smokes.

Thus, recurrent smokers in Kazakhstan and Armenia make up almost one-third of the total share of people involved in smoking, or 9.8% and 9.3% respectively, of the total adult population. This means that if these countries pursue strong anti-tobacco policies, they stand a good chance of substantially reducing the overall level of public involvement in tobacco use. The most difficult situation is observed in Russia, where the share of adult smokers is 39.1% (the share of daily smokers is 33.4%). This is one of the highest rates in Europe (only Austria and Greece have a higher rate), which is one of the reasons why Russia is the third-largest market for tobacco products in the world.

According to the WHO, tobacco use is related to at least 25 diseases. Tobacco use is considered the leading cause of death in the world.

The main hazard to human health is caused by the tobacco combustion products that are contained in tobacco smoke. Tobacco smoke consists of many chemicals most of which are carcinogenic.

Given these circumstances, and recognizing the need to find potentially less hazardous alternatives to smoking, certain tobacco companies have invested heavily in the development of non-combustion products in recent years.

As a result of these developments, nicotine-containing liquid (NCL) and heated tobacco products (HTP) have appeared on markets around the world. In these products the tobacco blend or nicotine-containing liquid is heated by electronic devices only to temperatures insufficient to cause combustion and the formation of combustion products. Thus, the health risks of nicotine-containing liquids and heated tobacco products are potentially lower than those of smoking tobacco products, so such products serve as an alternative for people who do not want to stop using nicotine but are seeking to significantly reduce harm from the habit.

In general, excise taxes on tobacco products in the EAEU states are specific and depend solely on the specific quantity of cigarettes. The exceptions are Russia and Armenia, which have a combined excise tax rate that depends not only on the quantity, but also on the maximum retail price, i.e. along with direct, ad valorem excise rates also apply. The most complex tobacco tax structure operates in Belarus, which applies three excise tax rates corresponding to different price categories of cigarettes (most of the consumption in Belarus falls on the economy class of cigarettes). At the same time, the government of Belarus is trying to keep low prices and excise taxes on cheap cigarettes, which is one of the main obstacles to the harmonization of excise taxes within the EAEU.

Similar to the global practice and the experience of the European Union, in the EAEU excise duty on exports/imports is calculated on the basis of the country of destination.

Plans for the integration of independent states emerged in 2010, when the Customs Union of Belarus, Kazakhstan and Russia began to function, and in 2012 the Declaration on Eurasian Economic Integration came into force. Differences between the national systems of taxation of tobacco products of the EAEU states gave rise to the process of harmonization of excise duties.

When harmonizing excise taxation, first of all the tax rates are set, which are comparable across member states. Paragraph 3 of article 71 of the Treaty on the Eurasian Economic Union states that one of the areas of harmonization of legislation

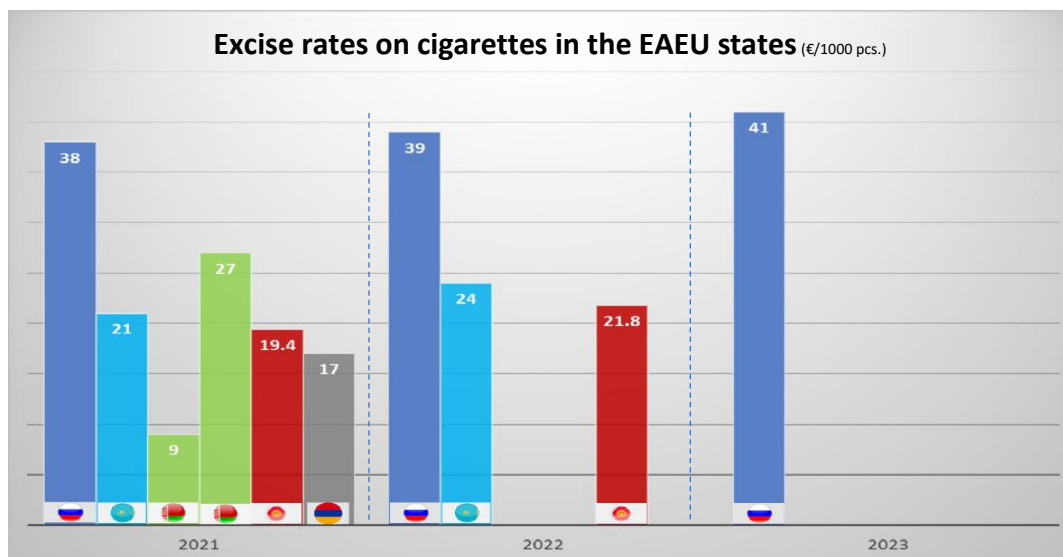
on indirect taxes is the harmonization (convergence) of excise rates for the most sensitive excisable goods.

Paragraph 5 of the same article states that the rates of indirect taxes in mutual trade on imports of goods into the territory of a member state shall not exceed the indirect tax rates imposed on similar goods when selling them in the territory of this member state.

In fact, all elements of harmonization have now been officially legalized at the supranational level through ratification by the EAEU states of the Agreement on the principles of tax policy in the field of excise taxes on tobacco products of the member states of the Eurasian Economic Union.

The given Agreement provides the uniform indicative excise rate on tobacco production by 2024 in the amount of €35/1000 pcs., and also the uniform range of deviations of actual excise rates for the specified production, acting in the states EAEU in 2024: no more than 20 % below or above the indicative rate.

At the same time, different excise rates for cigarettes are currently in effect in the EAEU states, which contributes to the mutual overflow of cigarettes in the border areas.



So, if in Belarus in 2021, the excise rate on cigarettes of the first price category (not more than 127 Belarusian rubles per pack) is €9 per pack, in Russia it is €38, which is 3.2 times higher. This fact, as well as the proximity of the borders of the two countries, contributes to the fact that the illegal Belarusian cigarettes are sold in Russia at a price of 50-70 rubles per pack, compared to legal 120-130 rubles per pack, with the share of such cigarettes from Belarus reaching 45% of all illegal imports into Russia.

In this regard, the Agreement on Harmonization of Excise Rates is designed to reduce the existing difference in excise rates and reduce illegal overflow.

At the same time, the allowable 20% deviation corridor stipulated by the Agreement will not reduce the described problem, so over time, after 2024, the gap between the rates in these states should not exceed 10%, and the low price segment of cigarettes should equalize to the high price segment in Belarus.

In general, given the provisions of the Agreement on Harmonization regarding the revision of the indicative rate every five years, it is necessary to develop a long-term plan for further convergence of rates, taking into account the geographical and economic position of the EAEU states.

5.1. Experience of Kazakhstan

As in other EAEU member states, Kazakhstan's tobacco market began to form with independence after the collapse of the Soviet Union.

Since 2000, the state began to regulate the economy in more detail, including the tobacco industry.

Thus, up until 2008, the Government of the Republic of Kazakhstan had the right to approve excise rates for excisable goods.

Decree of the Government of the Republic of Kazakhstan № 137 on January 28, 2000 determines the excise rates for tobacco products in the amount of €0.75/1000 pcs. for manufactured products and €2/1000 pcs. for imported products. The application of high import rates was explained by the protection of the domestic market from imported products.

In 2008, a new version of the Tax Code of the Republic of Kazakhstan was adopted, which included the approval of excise rates due to their sensitivity to the economy. Amendments to the Tax Code requires a preliminary discussion with the business community on the platform of the National Chamber of Entrepreneurs “Atameken”, further discussion in working groups of the Ministry of National Economy and raising the issue for discussion in the Parliament of the Republic of Kazakhstan.

In connection with Kazakhstan's accession to the World Trade Organization, since 2009 excise rates for manufactured and imported products have been unified (equalized) at 1,000 tenge/1,000 pcs.

In order to execute the Decree of the President of the Republic of Kazakhstan “On Approval of the State Program of Health Development of the Republic of Kazakhstan “Salamatty Kazakhstan” for 2011 - 2015”¹¹ excise rates on cigarettes were increased four times during this period, that is, from 1000 to 3900 tenge per 1000 pcs. At the same time, excise rates rose sharply by 94% to 3,000 tenge/1,000 pcs. in 2014, which caused the legal cigarette market to decline by 3 bln. cigarettes, that is, from 30.7 bln. cigarettes in 2013 to 27.7 bln. cigarettes by the end of 2014.

From 2015 to the current year, excise rates on tobacco products were gradually increased by an average of 20% annually, up to 11100 tenge/1000 pcs., and starting in 2014, excise rates on filtered and unfiltered cigarettes were equalized.

Excise rates

	Excise rate, per 1,000 pcs. (domestic products, filtered and unfiltered cigarettes)	Excise rate, per 1,000 pcs. (imported products, filtered and unfiltered cigarettes)	Excise rate, per kg (pipe, smoking, chewing, sucking, snuffing, hookah tobacco and other tobacco packaged in consumer packaging and intended for final consumption, except for pharmaceutical products containing nicotine)	Excise rate, per kg (heated tobacco products (heated tobacco stick, heated tobacco capsule, etc.))	Excise rate, per ml (nicotine-containing liquid in cartridges, tanks and other containers for use in electronic cigarettes)
2000	€0.75	€2	-	-	-
2001-2002	145/95 tenge	€2	-	-	-
2003-2005	180/100 tenge	€2	-	-	-

¹¹ <https://adilet.zan.kz/rus/docs/U1000001113>

October 2005 - 2006	230/130 tenge	€2	825 tenge – domestic, €5 - imported	-	-
2007	315/180 tenge	€2,5	1000 tenge – domestic, €6.5 - imported	-	-
2008	400/200 tenge	€3	1220 tenge	-	-
2009-2011	1000/600 tenge		1220 tenge	-	-
2012	1250/750 tenge		1550 tenge	-	-
2013	1550/950 tenge		1940 tenge	-	-
2014	3000 tenge		3800 tenge	-	-
2015	3900 tenge		4900 tenge	-	-
2016	5000 tenge		7345 tenge	-	-
2017	6200 tenge		7345 tenge	0 tenge	0 tenge
2018	7500 tenge		7345 tenge	0 tenge	0 tenge
2019	8700 tenge		7345 tenge	0 tenge	0 tenge
2020	9900 tenge		7345 tenge	7345 tenge	5 tenge
2021	11100 tenge		7345 tenge	7345 tenge	5 tenge
2022	12300 tenge		10560 tenge	11750 tenge	8 tenge

In fact, a balanced approach to the gradual increase of excise rates allows to minimize the growth of illegal products turnover.

At the end of 2020, the tobacco industry is in third place in terms of tax deductions after oil, associated gas and metallurgy companies. Only the three largest tobacco taxpayers paid 271.5 bln. tenge or 3.2% of all tax revenues in 2020.

Analysis of the ratio of excise rates to production and the share of illegal turnover in the tobacco market for 2016-2020 shows the following situation for cigarettes:

	2016	2017	2018	2019	2020
Excise payment (bln. tenge)	121.4	137.7	163.1	194.8	218.8
production (bln.pcs.)	20.21	17.72	18.09	17.21	16.81
import (bln.pcs.)	13.15	11.30	7.85	4.31	2.37
Excise rate (tenge/1000 pcs.)	5000	6200	7500	8700	9900
share of illegal turnover, %	0.7	1.9	1.8	2.3	1.4

Based on the above data, we can conclude that during this period a balanced tax policy regarding the establishment of excise rates on tobacco products has been

achieved, in which the share of illegal turnover remains minimal, and the consumers have the opportunity to buy a legal product in accordance with their purchasing power.

If in the process of harmonization of excise rates in accordance with the Agreement on principles of tax policy in the field of excise taxes on tobacco products of Eurasian Economic Union states the optimal excise rates on tobacco products will be achieved in the country, there is a potential to maintain further tobacco market stability, expressed in a minimum share of illegal market, ensuring maximum state budget revenue in the form of excise and other taxes, meeting the health objectives to limit tobacco smoking.

At the same time, according to Article 2 of the Agreement, one of the principles of harmonization of excise rates of the EAEU states is to take into account the differences in disposable incomes of the population in the states. Thus, the minimum salary in Kazakhstan is 42500 tenge, which is 40% lower than in the Russian Federation, where this indicator is equal to 70354 tenge.

Thus, based on these differences in the incomes of the nation, excise rates for tobacco products in Kazakhstan should be at least 40% lower than Russian rates, given the percentage of deviation from the indicative excise rate allowed in the Agreement.

At the same time, one of the most effective ways to reduce tobacco use is the use of alternative nicotine delivery methods.

The harm of smoking is more related to the carcinogenic products in cigarette smoke than to nicotine. Modern research clearly confirms that people who give up cigarettes in favor of alternative nicotine products experience the same positive health changes as those who quit smoking.

Any way to consume nicotine without smoking is considered an alternative. Some of these methods, such as the use of snuffing or chewing tobacco, have been known to mankind for centuries. Other methods, namely nicotine gums and patches, nasal and oral sprays, appeared in the second half of the 20th century and were used mainly as a therapeutic tool for quitting smoking. Today, modern technological devices of alternative nicotine delivery are actively developing: electronic cigarettes, vapes and systems of heating tobacco without burning.

Electronic cigarettes, vapes and tobacco heating systems are many times more effective than previous generation products (nicotine gum, patches and sprays) in replacing cigarettes, and significantly reduce the risks of smoking-related illnesses.

More than 130 randomized focus group studies have confirmed the effectiveness of nicotine replacement therapy and technological nicotine delivery alternatives.

The key factor in setting the excise rates for nicotine-containing liquids and heated tobacco products below the excise rates for cigarettes is the method of consumption, in which the aerosol is released by heating the tobacco mixture without burning, respectively, the user of nicotine-containing liquids and heated tobacco products causes up to 95% less harm to his health than when consuming cigarettes. This conclusion is supported by the results of various international studies.

An approach to excise taxation similar to Kazakhstan is used in many countries around the world, which have now created a separate category of excise tax for heated tobacco products, taking the weight of the tobacco mixture as the taxable base and setting the rate equal to the rate for snuffing, smoking, chewing, sucking tobacco. For example, the European Commission (EC) has officially recommended that EU member states tax such products at the same rates as other industrially processed tobacco

Thus, global experience shows the application of a differentiated approach to the excise taxation of products depending on the harm caused to human health, which fully meets the requirements of society.

Existing tax policies regarding excise rates in 32 countries are set to take into account the benefits of nicotine-containing liquids and heated tobacco products.

No.	Country	Excise rate per pack of cigarettes (€/20 pcs.)	Excise rate on heated tobacco products in the equivalent per pack of cigarettes (20 pcs.)	Deviation of excise rates on heated tobacco products from excise rates on cigarettes, %	Excise rate on nicotine-containing liquids in the equivalent per pack of cigarettes (20 pcs.)	Deviation of excise rates on nicotine-containing liquids from excise rates on cigarettes
1	Albania	1.05	0.26	76 %	0.16	85%
2	Austria	3.31	0.65	80%		
3	Belarus	0.51	0.24	53%		
4	Bulgaria	1.84	0.63	66%		
5	Bosnia and Herzegovina	2.13	0.35	83%		
6	Croatia	2.42	0.56	77%		
7	Cyprus	2.77	0.80	71%	0.24	91%
8	Czech Republic	2.82	0.55	81%		

9	Denmark	4.74	0.93	80%		
10	Estonia	3.22	0.51	84%		
11	France	7.05	4.02	43%		
12	Germany	3.53	0.88	75%		
13	Greece	2.85	0.83	71%	0.20	93%
14	Hungary	2.40	0.70	71%	0.14	94%
15	Italy	3.47	0.90	74%	0.25	93%
16	Kazakhstan	0.43	0.08	82%	0.02	95%
17	Latvia	2.35	0.85	64%	0.24	90%
18	Lithuania	2.35	0.60	74%	0.24	90%
19	Montenegro	1.67	0.14	91%	0.14	92%
20	Netherlands	4.89	0.85	83%		
21	North Macedonia	1.07	0.24	78%	0.08	93%
22	Poland	2.31	0.38	84%	0.25	89%
23	Portugal	2.75	1.18	57%	0.64	77%
24	Romania	2.32	0.46	80%	0.23	90%
25	Russia	0.85	0.43	50%	0.35	58%
26	Serbia	1.69	0.22	87%	0.10	94%
27	Slovakia	2.41	0.70	71%		
28	Slovenia	2.55	0.47	82%	0.36	86%
29	Spain	3.04	1.38	55%		
30	Sweden	3.24	1.02	68%	0.39	88%
31	Switzerland	4.27	0.89	79%		
32	UK	7.60	1.48	81%		
Average value		2.69	0.76	69%	0.23	88%

Thus, the current 88% difference in excise tax rates for cigarettes and heated tobacco products in Kazakhstan is consistent with international experience of excise taxation.

The next key factor in setting the excise rates for heated tobacco products below the excise rates for cigarettes is that one pack of cigarettes contains on average 18.8 grams of tobacco blending, one pack of heated tobacco products contains 6.1 grams of tobacco blending, which is more than three times lower, so the user of a pack of cigarettes causes more harm to his health than when consuming one pack of heated tobacco products.

It is important to note that switching to alternative methods of nicotine delivery is much less harmful to health than smoking, and in any case will reduce the budget cost of treating tobacco-related illnesses.

5.2. Experience of Russia

Currently, the tobacco market in Russia is one of the largest and ranks fourth in the world.

The shrinking of the tobacco market is the worldwide trend. On average, cigarette consumption in the world declines by 3-5% per year. In Russia, the average decline in the legal market is 7-8% per year¹². One of the main drivers of this decline in Russia is the growth of the shadow trade in tobacco products. Illegal products are replacing legal products, causing serious damage to the business of official cigarette manufacturers.

The main source (up to 45% of all illegal imports) of illegal cigarettes is the market of Belarus, where the excise rate on cigarettes is 3.2 times less than in Russia.

The share of illegal tobacco on the Russian market, at the end of the first quarter of 2021 was 10.7%, after dropping to 7% in the third quarter of 2020.

The unplanned increase in excise tax rates on cigarettes in 2021 only increases the risk of an increase in illegal traffic in Russia.

The table below shows the calculation of state budget losses of the Russian Federation for the period 2016-2020.

	2016	2017	2018	2019	2020
Excise Payment (bln. rubles)	483.30	590.80	583.20	572.84	581.15
Cigarette production (bln. pcs.)	335.37	245.36	257.02	229.09	230.66
Cigarette imports (bln. pcs.)	64.17	44.03	46.68	50.41	54.81
Excise Rate (max rate)	1680	1930	2335	2568	2671
Share of illegal turnover, %	2.5	4.5	8.4	15.6	7
Budget losses from illegal turnover (bln. rubles)	16.8	25.1	59.6	111.9	53.4

¹² <https://expertsouth.ru/news/pochemu-rost-aktsizov-na-tabak-na-ruku-tenevomu-biznesu-yuga-rossii/>

The reduction of budget losses in 2020 is primarily due to the strengthening of control over the circulation of tobacco products: 13 surreptitious cigarette manufacturers were closed and 22.9 million packs of illegal cigarettes were seized. During the first quarter of 2021 more than 19.8 million packs of such cigarettes were removed from circulation.

Further growth in the market of illegal tobacco products can stop the indexation of excise rates, not exceeding the level of inflation.

Thus, in the Russian Federation, the illegal turnover is promoted by tax policy in terms of setting excessively high excise rates on tobacco products, as well as the decline in purchasing power of smokers during the pandemic COVID-19.

In the future, as part of the process of harmonization of excise rates, it is necessary to bring together the levels of rates, primarily with the Belarusian side.

At the same time, a distinctive feature of Russia is the application of a combined excise rate for cigarettes and mouthpiece cigarettes. It consists of a solid part and an ad valorem part.

In 2021, the excise is calculated at a rate of 2,359 rubles per 1,000 pcs., plus 16% of the calculated value based on the maximum retail price, but not less than 3,205 rubles per 1,000 pcs.

Estimated value is defined as:

$$\begin{array}{l}
 \textit{Estimated value of sold} \\
 \textit{(transferred) goods}
 \end{array}
 =
 \begin{array}{l}
 \textit{Maximum retail price indicated on a} \\
 \textit{pack of cigarettes or mouthpiece} \\
 \textit{cigarettes}
 \end{array}
 \times
 \begin{array}{l}
 \textit{Number of cigarettes or mouthpiece} \\
 \textit{cigarettes sold or transferred during} \\
 \textit{the tax period (in packs)}
 \end{array}$$

Maximum retail price is a threshold price at which a pack of cigarettes or mouthpiece cigarettes may be sold to an end consumer. The maximum price shall be depicted on a pack by the manufacturer.

Maximum retail price shall be established by the manufacturer for each individual brand (name) of cigarettes and mouthpiece cigarettes. Thus, using the abovementioned formula, one shall define the estimated value of each brand (name) of cigarettes and mouthpiece cigarettes being sold. Then, if the excise tax for such

brand (name) is similar, the values shall be summed up to calculate the final estimated value.

Thus, *ad valorem* rate significantly complicates production, accrual, and payment of excise taxes, as well as administration for supervisory authorities.

Furthermore, of all post-Soviet countries, electronic nicotine delivery systems and tobacco heating mechanisms are levied with excise tax at RUB 60 per piece.

Initially, the excise tax was implemented in 2017 for one-off electronic cigarettes, vapes, and heated tobacco in electronic devices.

It is obvious that such excise tax implementation has some drawbacks and issues.

Taking into account that such devices may only be used with consumables, which are subject to excise tax as well, there is a double taxation situation that is against fair taxation principles.

Furthermore, such excise tax being implemented only complicates legal businesses, makes devices more expensive, and facilitates growth of consumption levels of smoking (combustible) tobacco products, thus, having detrimental effect on public health.

Moreover, following the excise tax and fair taxation logic, the government shall implement excise taxes on equipment used for retail sale of tap beer subject to excise tax, as well as all vehicles that run on excise gasoline and diesel fuel, and finally, on matches and lighters used to light smoking tobacco.

Excise tax on devices may result in illegal turnover of such devices, they may be imported in a disassembled way and be exempted from excise tax.

Furthermore, amounts received from excise taxes may not be able to cover administration expenses of state bodies; due to transfer to illegal business, reduction of customs duties and charges, VAT amounts may exceed the excise taxes paid.

5.3. Experience of Belarus

Tobacco market and regulation in the Republic of Belarus have some peculiarities that may not be called positive.

If Russia applies combined excise rate that includes special and *ad valorem* rates, Belarus government applies solely special rate divided into three categories.

There is a third price group, mostly a premium segment; the second group with mid-price segment; and the first group with the most affordable brands (usually local brands). Excise rates for the last price group are 3.2 times lower than in Russia.

Furthermore, Belarus applies a quota system for cigarette production which limits free competition as such. Moreover, production quota for an internal market significantly exceeds its actual demand.

In Belarus, excise rates for tobacco remained unchanged until 2011, but since 2011, a sharp growth of excise rates has been taking place for 4.5 times in three years. However, one shall take into account specifics of the Belarus tobacco market: tobacco production volumes significantly exceeded consumption volumes in these three years.

Belarus market in essence is too small to load tobacco production factories to 100% of their capacity. As experts say, the tobacco production in Belarus almost doubles the size of demand for tobacco products on domestic market.

Statistical data on the situation on the tobacco market have not been published in Belarus since 2016. Which means there is no official information on sales on domestic market, import and export of cigarettes.

As per KPMG assessments, total cigarettes consumption level in Belarus in 2018 was 16 billion cigarettes. At that, total export volume of cigarettes amounted to 13 billion cigarettes, of which 8.6 billion were sent to Russia, and 4.3 billion were shipped to the EU.

In Belarus, 72% of cigarettes are manufactured under local Belarus brands, about 3% are imported, and the rest are related to contractual or licensed production at Belarus factories. Which means that the largest share of cigarettes are subject to low excise tax rates.

Given the disproportionate structure of the excise, under which a tax burden on an low-price segment is 2-3 times lower than on other product segments, overproduction of cheap cigarette brands becomes reasonable, but it contradicts the world best practice. Thus, there is a deep disproportion on the structure of the market, price decompression that is unusual for the EU and EAEU member states. It is obvious that such approach is contrary to goals of the public health as well.

Furthermore, low-price segment filter-tipped cigarettes were combined in a separate special group in 2015. This made it impossible to continue production of import-substituting cigarettes for international brands from the first price group. Due to implementation of a disproportionately low excise rate for the first price group and restriction of access to the segment for other market players, the government actually developed an artificial monopoly for production of cheap cigarettes.

Such a significant difference in excise rates established for the first category as compared to the second and third categories, does not prevent decrease in amounts the state budget receives from excise payments for tobacco products. It is due to that growing taxes and other charges levied on the first price category do not cover decreasing amounts collected from the second and third groups. In 2016, consumers migrated to a low-price segment due to the abovementioned reasons. Such migration resulted in falling sales volumes of cigarettes from the medium and high price segments by nearly 1.3 billion cigarettes. Production and sales volumes of cigarettes that ensure the most significant tax revenue fell. At that, international brands with production quota of only 28% provide for 51% of excise payments.

With this, current approaches to excise taxation in Belarus shall be reviewed.

The best option would be to consider a simplified taxation on tobacco products by implementing a unified special rate. The world experience shows that this system is the most appealing to compact markets, as it provides for minimized cost of tax administration, ensures complete excise performance of all segments, and prevents illegal turnover of goods.

Currently, excise rates for medium- and high-price groups are harmonised with rates applicable in the Russian Federation and amount to 71% of Russian rates. However, excise rate for low-price segment is by 76% below the Russian equivalent. The country needs to gradually bring excise rates for low-price segment closer to rates for medium- and high-price groups. If the government fails to start this process now, it may face the need for a much quicker harmonisation which may result in price shock for consumers, sharp decrease in production volumes, and subsequently to job losses for domestic manufacturers.

To bring the rates close, the government may gradually increase excise rates in advance for the low-price group starting from 2022, followed by simplification of excise system until a unified special rate is implemented.

Furthermore, it seems advisable to consider implementing a three-year excise planning. This would facilitate a predictable and stable tax environment.

5.4. Experience of the Kyrgyz Republic

The situation in the tobacco market in Kyrgyzstan may not be characterised as positive due to economy and geographical location of the country.

There are no cigarette manufacturers in the country, the market is supplied through imported tobacco products.

The only cigarette factory in Kyrgyzstan, Reemstma-Kyrgyzstan, was closed in 2014. It had been one of a few successful investment projects in the Republic for a long time.

Furthermore, Kyrgyzstan has well-developed production and consumption of naswar — consumption levels among adult males in the country is 10.1%.

Nasvay is a mixture mostly consistent of cut tobacco as a source of nicotine and hydrated lime (hydrated or slaked lime) added to improve delivery of nicotine into the blood. There may be additional ingredients, such as plant ash, vegetable oils (cottonseed oil, for instance), as well as dried fruits and flavours (cardamom and menthol), to improve taste.

Smoke-free tobacco consumption levels among adults are the highest in Uzbekistan and Kyrgyzstan: 23.2% and 10.1%, respectively.

As per Nielsen estimates, the share of illegal turnover on cigarettes in Kyrgyzstan grew from 1% in 2018 to 7.6% by the end of 2020.

Low income and employment, borders with Kazakhstan in the North, Uzbekistan in the West, Tajikistan in the South-West, China in the East and South-East, as well as lack of customs borders with Kazakhstan facilitate turnover of counterfeit goods.

In 2021, the minimum average wage in EAEU states amounted to USD139.25. In Kazakhstan, for instance, the minimum wage is USD101, in Armenia it is USD 130,

in Belarus and Russia these are USD154 and USD172, respectively. If compared to Russian rates, the minimum wage in Kyrgyzstan is less by 7.8 times.

Kyrgyz economy is by 80% dependent on import, and the Republic is in essence a transit hub used to further distribute counterfeit goods to the EAEU member states. Such counterfeit goods amount to 20% of the total import volumes.

Estimates say that over six billion smoking units are transferred through such transit hub per year, which is twice the annual consumption in Kyrgyzstan.

Annual supply of cigarettes to the market mostly comes from: UAE (2 billion cigarettes), Belarus (1.5 billion cigarettes), Serbia (700 million cigarettes), Bulgaria (500 million cigarettes), Iran and Afghanistan (400 million cigarettes), and Tajikistan (200 million cigarettes).

These cigarettes are usually legally imported into Kyrgyzstan, than they are subject to re-export with no actual supplies, mostly to fake Chinese companies. In reality, these cigarettes are supplied to Russian and Kazakhstan markets.

Serbian cigarettes are claimed as duty free in Kyrgyzstan, they are placed for customs temporary storage within customs terminals. After that the goods are transferred to Russia and Kazakhstan through various channels.

Analysis of the data on cigarettes smuggling shows a weak work of supervisory authorities. In 2016-2018, they intercepted 16.1 million smuggled cigarettes.

Nonetheless, in terms of economic value, excise rates in Kyrgyzstan are on a safe level with Kazakh rates, there is only EUR1.6 difference. The rate in Kyrgyzstan is EUR19.4 per 1000 cigarettes.

Furthermore, in order to facilitate tobacco control, Kyrgyzstan managed to arrange a correct excise policy regarding heated tobacco products and nicotine containing liquids, by making excise rates for such products lower by 89% and 90%, respectively, if compared to cigarettes excise rates.

Thus, the major issue for the Kyrgyz tobacco market is a high share of illegal turnover of cigarettes which are a key source of excise payments for tobacco products. Provided that the Kyrgyz government undertook to harmonise excise rates, cigarettes excise rates shall be at least EUR28 per 1000 pcs by 2024, which would only facilitate growth of illegal turnover of cigarettes.

Therefore, government bodies are required to strengthen control over tobacco products turnover in order to collect all taxes and supply them to the budget, as well as ensure payment of customs duties to EAEU member states budgets.

5.5. Experience of Armenia

Armenia have been seeing a dynamic growth in cigarette production in recent years. This sphere is rather important for the industry and export. The share of tobacco production is 13.7% of total processing industry in the country.

Armenia actively exports domestic tobacco products. Export levels of such products reached 10,1% of total export in 2020 and amounted to US 254 million.

At that, cigarette export volumes shrank significantly in early 2021 (in January-February 2020 the volume was just USD 50 million, and less than USD 27 million in the first two months of 2021).

Cigarette production in Armenia has grown for the past 3 years, and exceeds consumption levels by more than 1.5 times. Armenian tobacco products are exported to Turkmenia, Syria, Georgia, Iraq, Afghanistan etc.

At the same time, Armenia ranks third among EAEU member states by supplies of illegal products: 10% of all cigarettes are illegally re-sold outside the country. 85% of the flow of illegal cigarettes from Armenia are supplied to Russia, other 15% are delivered to the EU countries.

It should be noted, that tobacco smuggling from Armenia to Russia may be confirmed with official statistics. As per Armenian publishers, the research of 1000 large taxpayers in Armenia performed by the State Revenue Committee showed that amounts of taxes paid by companies involved in tobacco production, import, and sales have doubled for the past two-three years.

At that, seven largest tobacco manufacturers paid in total AMD121.1 billion of taxes and levies in 2019. Such a sharp growth may only be explained by an increasing export amounts, but official data do not prove it.

In 2018, Armenian tobacco manufacturers paid excise taxes in the amount of AMD61.2 billion against AMD71.7 billion in 2019. In other words, the increase was just AMD 10.5 billion or 17%. If the amount of such increase is excluded from the total amount of taxes paid, as excise tax is applied solely to tobacco products sold within Armenia, we shall see that amount of cigarettes actually sold within Armenia in 2019 was by 10% bigger than in 2018.

At that, tobacco companies significantly reduced their payments: in 1Q2020 they paid AMD20.7 billion, but in 1Q2021 only AMD7.3 billion.

Tobacco excise taxes in Armenia are established in percentage of maximum retail price for tobacco products, free of VAT and excise taxes, or for 1000 pcs, which means a combined excise rates is applied (fixed and *ad valorem*).

Excise rate established in Armenia for 2021 is AMD11,070 per 1000 pcs (EUR18), for 2023, the amount will be AMD14,640 (EUR27).

Furthermore, Armenia levies heated tobacco with excise tax. Based on the amount of pcs, the size of the tax would be AMD3100 in 2021, which is lower than excise rate for cigarettes by 72%.

However, such approach is contradictory to the international best practices and best practices applied by EAEU member states, where tobacco mixture weight is used as a taxable base for heated tobacco excise.

To sum up, Armenia and Kyrgyz governments need to pay attention to illegal turnover of Armenian cigarettes in EAEU states.

5.6. Conclusions

Fiscal policies related to tobacco products shall be based on available researches and adequate to the harm done to public health, taking into account world best practices.

As EAEU member states, these countries shall develop unified approaches to taxation and harmonise (bring closer) excise rates on tobacco products with social and economic situation in individual countries taken into account.

6. Summary

In the analysis we highlighted current approaches EAEU member states take to reduce harm for public health and the environment. Reasonable application of differentiated taxation to various groups of products will have positive effect in terms of keeping public health and ensuring clean environment, along with the need to meet planned budget spend required to facilitate balanced development of the society.

As for alcohol and tobacco products, one shall notice that the population of the planet will continue consuming either alcoholic beverages or tobacco products; many companies are involved in production and manufacturing of these products, and day by day they contribute to more sophisticated and better alcoholic drinks, alcohol-free beverages, cigarettes, and alternatives.

Therewith, fiscal policy for alcoholic beverages shall be developed based on consumer needs, taking into account interests of all stakeholders while focusing on safekeeping the public health.

The analysis of transportation tax in the EAEU member states and other countries showed that ultimately there is a positive trend for support of electric cars development. Gradual replacement of nowadays cars with e-cars will bring significant benefits to the society and the environment.

Younger generation is exposed to the negative impact from sugar-sweetened beverages most of all; therefore, we need to find ways to reduce consumption of such beverages. The most effective and efficient way would be a change in taxation.

Costs related to administration of special excise taxes are low as it is easier to calculate such taxes if compared to price-based calculation. Excise tax accrual mechanisms may vary from country to country. At that, as special excise taxes are not effected by price changes, they usually ensure a more stable inflow of money to the state budget (the World Health Organization, 2013)

In order to improve terms and conditions for businesses and make it easier to administer taxes, it would be reasonable to establish excise rates on products subject to excise for a long term. Such measure provides state fiscal bodies and international

investors with an ability to make forecasts for budgets, thus increasing confidence in government system and investment climate in the country.



References:

1. Nielsen — Tobacco Products Shadow Market Research Using Empty Cigarette Packs, Report for December 2020;
2. International taxation expert, former Head of Lawyers Team at Legal Department, International Monetary Fund, Mr Victor Thuronyi — Suggested Changes to the Tax Code of the Kyrgyz Republic, April 2018;
3. Research by the Anti-Counterfeiting International Association and the National Agency for Financial Studies on *Assessment of Losses by Russian Economy due to Illicit Cigarette Sales*, March 2021
4. Code of the Republic of Kazakhstan, dated 25 December 2017, No. 120-VI, On Taxes and other Obligatory Payments to the Budget

5. Tax Code of the Republic of Belarus, dated 29 December 2009, No. 71-Z;
6. Tax Code of the Republic of Armenia, dated 4 October 2006;
7. Tax Code of the Kyrgyz Republic, dated 2 October 2008;
8. Tax Code of the Russian Federation, dated 31 July 1998, No. 146-FZ.