

Politics   Federal   Federal budget

— Opinion

## How a \$10 billion tobacco tax became a smuggler's jackpot

Our tobacco policies haven't made it more expensive to smoke. They've actually made it cheaper to smoke and led to a state-sponsored boom in organised crime.

**Chris Richardson**  
*Economist*



Mar 26, 2025 – 3.22pm



Listen to this article  
5 min

Australia has been on a mission to make it much more expensive to smoke [https://www.afr.com/politics/federal/tobacco-taxes-collapse-to-14-year-low-as-black-market-ciggies-boom-20250320-p5ll1b]. We've hugely increased the tax on cigarettes, starting with a big bang under Kevin Rudd, followed by further round under this government.

The plan was simple: we were going to improve the nation's health and its fiscal finances at the same time. Two birds, one stone.



The tax per cigarette has continued to climb fast, but the tax take from that is continuing to crater at an amazing speed. **Getty**

But we didn't get more tax revenue – we got less. A lot less.

And our policies haven't made it more expensive to smoke. They've actually made it cheaper to smoke.

And, in case you're wondering whether it could get any worse, our policies have led to a state-sponsored boom in organised crime [<https://www.afr.com/wealth/tax/australia-s-10b-tobacco-mistake-that-s-helping-criminals-thrive-20250203-p5194e>].

## **Tax take hit the wall**

Time to step back for a moment. At \$1.40 per cigarette, tobacco excise is more than five times what it was a decade and a half ago, back before policy sent the tax on a moonshot.

Our taxes on death darts are now comfortably higher than those in many nations (such as New Zealand), and they're hugely higher than those in most nations (such as the United States and Japan).

---

**The resultant gap between where we're taxing and how we're enforcing is catnip for criminals, terrible for the tax take, and it's hurting our health.**

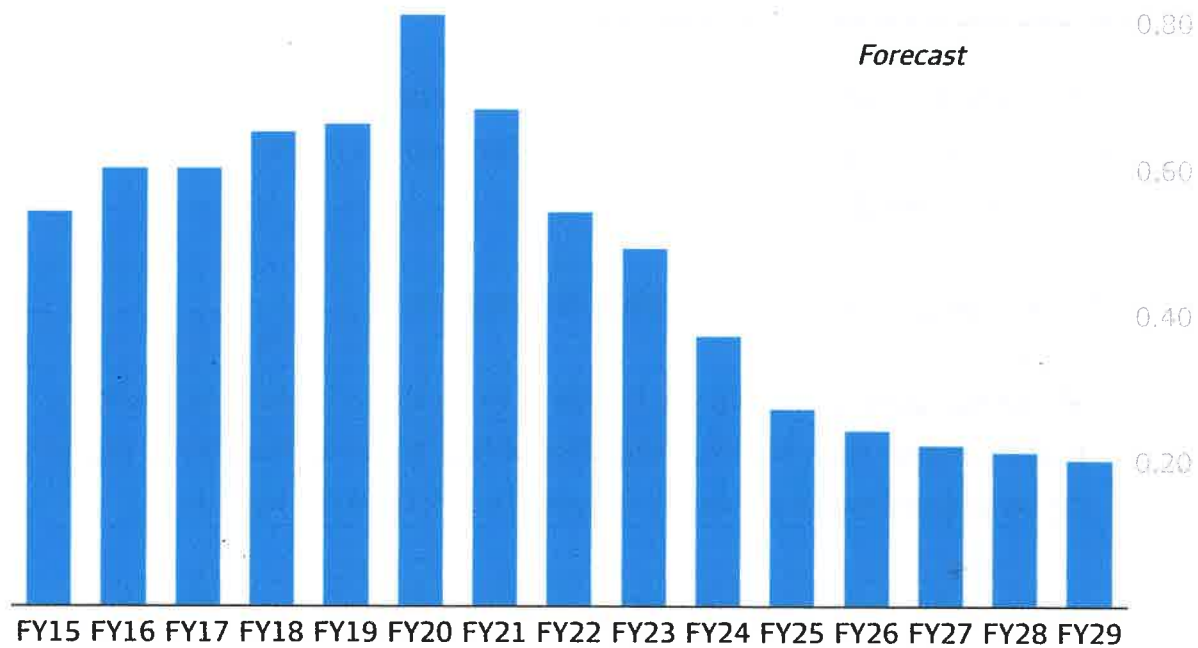
That big shift towards higher taxes worked well for a decade, and the tax take climbed rapidly.

Despite a big drop in smoking rates in the meantime, the tobacco tax take in 2019-20 had risen to become a bigger share of the economy than it had been two decades ago.

But then we hit the wall. It turns out that the Laffer Curve – the idea that the tax rate can go so high that the tax take starts to fall – is as rare as hen's teeth in real life.

Yet Australia still managed to inspire tax economists everywhere by hitting peak Laffer.

### Federal tobacco tax take as percentage of national income (%)



Source: Federal budget papers, ABS

As the chart shows, our tobacco tax is now well and truly a Laffing stock.

The tax take is already down two-thirds from where it was in 2019-20, and that fall is forecast to worsen to a drop of three-quarters over the next few years.

The tax per cigarette has continued to climb fast, but the tax take from that is continuing to crater at an amazing speed.

What are the dollar losses? To take 2026-27 as an example, the latest forecast is that we'll raise \$6.8 billion in tobacco taxes. But the official estimate for that year

was \$14 billion as recently as December 2023.

That says the expected tax take has halved in a handful of months.

Or, to put that differently, the official forecasters saw another five billion cigarettes go black over the past year alone.

Is losing another five billion cigarettes a year a big thing?

Canada, a nation whose population is half as large again as ours, estimates that it sees six billion illegal cigarettes sold every year.

Yet here in Australia we added another five billion to an already notable pile of black market cigarettes, and we managed that in just a year.

## Self-inflicted wounds

Canada, by the way, taxes cigarettes at just one-sixth the level that we have here in Australia. That says we give both punters and criminals six times the incentive here in Australia than is available in Canada.

So it is hard to imagine a more epic policy fail than this:

- ◆ We've managed to worsen the health of Australians by making smoking much cheaper than before. (And, like for like, some of these black market cigarettes and vapes are worse for your health than the legal stuff.)
- ◆ On my estimates, the black market is costing Treasury more than \$10 billion a year (meaning the budget's tax cut could have been \$25 a week instead of \$10).
- ◆ And that black market has been rocket fuel for organised crime – a market as lucrative as heroin, but at much less legal risk for those involved.
- ◆ That says our tobacco taxing surge has hurt law-abiding small businesses and citizens, while keeping our firefighters busy fighting the literal flames that have flowed from our poor policymaking.

These are all self-inflicted wounds. This policy plays to a soundtrack that goes dumb, dumb, de dumb.

How do we dig ourselves out of this hole? We need to raise enforcement funding – tobacco taxes have gone up by a factor of five, but our enforcement hasn't kept pace. The resultant gap between where we're taxing and how we're enforcing is catnip for criminals, terrible for the tax take, and it's hurting our health.

The good news is that this budget just added another \$157 million to funding compliance and enforcement in Australia.

The bad news is it may well be too late. Canada has tried hard to crack down on the illegal tobacco trade. And some provinces (Quebec is a good example) have had some limited success at that.

But the Canadian enforcement experience suggests that smokers, once they've gone black market, never go back.

## Have your say

- ◆ We are always interested to hear your views on current topics.
- ◆ Guidelines for how to write an opinion article are here [<https://www.afr.com/companies/media-and-marketing/how-to-write-an-opinion-article-for-the-afr-20231025-p5eey4>].
- ◆ Guidelines for how to write a letter to the editor are here [<https://www.afr.com/contact-us/letters-to-the-editor>]. Please send your letter to [edletters@afr.com.au](mailto:edletters@afr.com.au)

## RELATED



**Exclusive** Federal budget [</topic/federal-budget-5x3>]

### We wasted a \$400b windfall, and now we'll all have to pay

<https://www.afr.com/policy/economy/we-wasted-a-400b-windfall-and-now-we-ll-all-have-to-pay-20250314-p5ljyv>



**Opinion** The AFR View [</the-afr-view>]

### Pre-election budget keeps us on a dangerous fiscal trajectory

<https://www.afr.com/politics/federal/pre-election-budget-keeps-us-on-a-dangerous-fiscal-trajectory-20250319-p5lkqu>

**Chris Richardson** is an independent economist.