

Retailers' loss of revenue due to the proposed nicotine limit on nicotine pouches in Denmark¹

Introduction

The Danish government, together with several other Danish parties has agreed on a comprehensive prevention plan aimed at reducing the consumption of tobacco, nicotine products, and alcohol among children and young people. As part of this plan, the third and final legislative proposal targeting these issues has now been submitted for public consultation. One of the central initiatives is a ban on the import, purchase, and possession of nicotine pouches containing more than 9 mg of nicotine² — a limit that about impacts 90 percent of the current market.³ To shed light on the economic effects of a nicotine limit, this paper presents an analysis of retailers' static loss of revenue if the proposed nicotine limit is implemented.

We break down the retail price of nicotine pouches into components such as VAT and excise duties and derive the retail price after tax and VAT. This allows us to assess both the expected total revenue and revenue net of tax and VAT.

We find that retailers' total revenue is projected to reach DKK 1.2 billion in 2025 and is expected to rise to DKK 1.7 billion by 2030. The sales of nicotine pouches containing more than 9 mg correspond to just over 90 percent of the total revenue. The proposed nicotine limit on nicotine pouches thus implies a static loss of revenue by DKK 1.1 billion in 2025 and DKK 1.6 billion by 2030. The sale of nicotine pouches with more than 9 mg of nicotine gives approximately 40 percent in revenue net of VAT and excise duties. The proposed nicotine limit thus results in a loss of net revenue of DKK 0.4 billion in 2025 and DKK 0.6 billion in 2030.

Excise duties and VAT in Denmark

To assess the revenue and revenue net of tax and VAT of Danish retailers for each sold can of nicotine pouches, it is essential to understand the indirect taxes in Denmark.⁴ Indirect taxes are taxes that consumers pay when purchasing or selling goods or services and sellers are responsible for paying to the state. Examples include the value-added tax (VAT), which is applied to almost all goods and services in Denmark, and the excise duties, which are imposed on the import, production, and sale of specific goods.

As of June 1, 2024, the excise duties amount to DKK 0.1 per mg of nicotine in a nicotine product.⁵ Additionally, Denmark has a single standard VAT rate of 25 percent on the price charged.⁶

¹ This paper is commissioned by the Tholos Foundation.

² <https://www.ism.dk/nyheder/2024/juni/stop-for-nikotinposer-med-soede-smage-og-hoejt-nikotinindhold>

³ <https://dagligvarehandlen.dk/forbrugere/nye-regler-nikotinposer-kan-oegge-graensehandel>

⁴ <https://skat.dk/en-us/individuals/taxation-in-denmark/types-of-tax>

⁵ <https://skm.dk/tal-og-metode/satser/satser-og-beloebssgraenser-i-lovgivningen/forbrugsafgiftsloven>

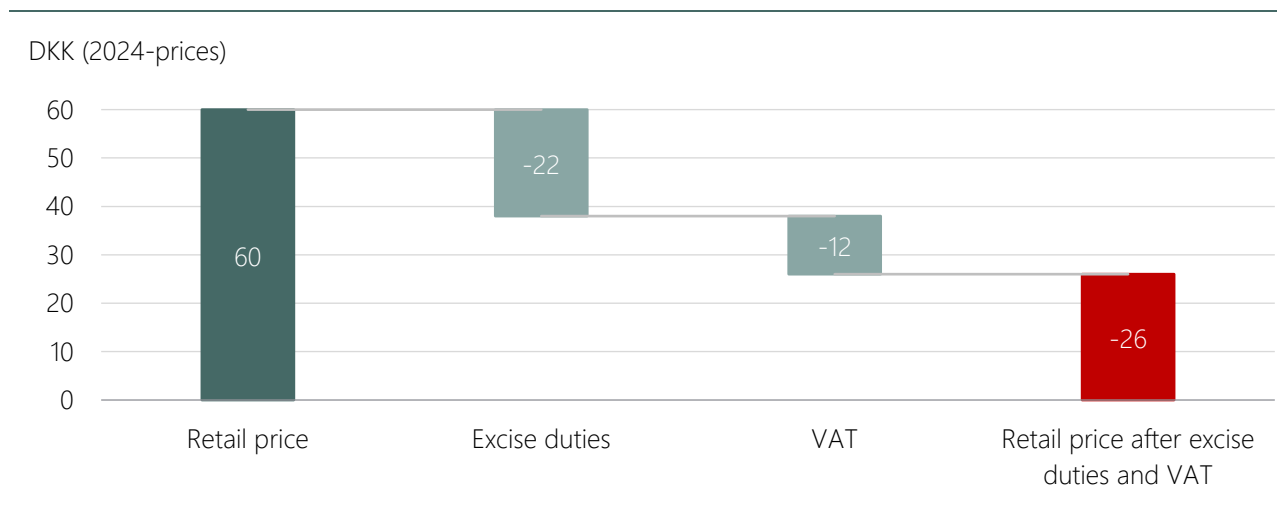
⁶ <https://skat.dk/erhverv/moms/i-gang-med-moms>

Decomposition of the price of nicotine pouches

The average retail price for a can of nicotine pouches is DKK 60 for a can containing 20 nicotine pouches, each with 11 mg of nicotine, see figure below.⁷

The excise duties of a 11 mg, 20-pouch can of nicotine pouches is DKK 22 in Denmark. The VAT of a typical 20-pouch can is DKK 12. This leaves the net retail price at DKK 26 after excise duties and VAT.

Decomposition of the price of a can of nicotine pouches (containing 11 mg), DKK



Source: Own calculations.

To determine retailer's revenue in the coming years, the expected domestic sales of nicotine cans up until 2030 are calculated. According to the Danish Ministry of Taxation, the domestic sales of nicotine pouches in Denmark were about 24 million cans in 2023. The calculations are further based on the Danish Ministry of Taxation's assumption that domestic sales of nicotine pouches are expected to increase by 8 percent per year as well as their expectations for the effect of the increased excise duties on nicotine products in 2024 which is expected to have reduced the domestic sale.

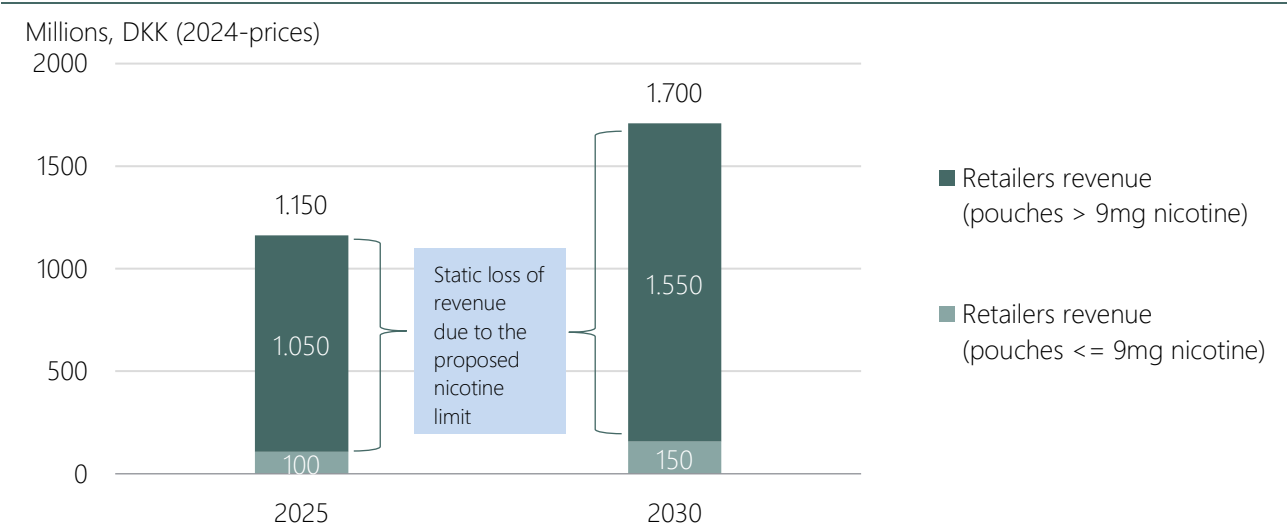
It is estimated that domestic sales of nicotine pouches will be around 20 million cans in 2025, rising to around 29 million cans in 2030. It is expected that 90 percent of the cans contain more than 9 mg of nicotine per pouch. We base the calculations on an average retail price of 60 DKK for cans containing more than 9 mg nicotine per pouch and an average retail price of 55 DKK for cans containing 9 mg nicotine per pouch or less.

As a result, retailers' total gross revenue is projected to reach almost DKK 1,2 billion in 2025 and rise to about DKK 1,7 billion by 2030. The proposed nicotine limit on nicotine pouches containing more than 9 mg implies a static loss of gross revenue of 1.05 billion in 2025 and 1.55 billion in 2030. This corresponds to just over 90 percent of total revenue.

There is an average revenue net of VAT and excise duties of 40 percent on nicotine pouches containing more than 9 mg of nicotine. The proposed nicotine limit thus results in a static loss of revenue net of tax of DKK 0.4 billion in 2025 and DKK 0.6 billion in 2030.

⁷ The retail price of nicotine pouches in Denmark typically ranges from DKK 42 to 70 per can, with each pouch generally containing between 6 and 16 mg of nicotine.

Retailers expected total gross revenue from sale of nicotine pouches in Denmark



Source: Own calculations based on Danish Ministry of Taxation.