



Regulation and taxation of vaping products	
Party:	The Coalition
<p>Summary of proposal:</p> <p>The proposal would legalise e-cigarettes in a regulated environment similar to that for tobacco cigarettes.</p> <p>E-liquid would be subject to an excise rate of \$1.00 per millilitre (mL).</p> <p>The proposal would be ongoing and start on 1 July 2025.</p>	
<p>Additional specifications (based on further advice provided):</p> <p>The excise would be indexed twice annually in line with the consumer price index (CPI). E-cigarette products would be subject to GST.</p>	

Costing overview

The proposal would be expected to increase the fiscal balance by around \$3.9 billion and the underlying cash balance by around \$3.8 billion over the 2025-26 Budget forward estimates period (see Table 1). The financial impacts primarily reflect an increase in revenue due to the introduction of an e-liquid excise, partially offset by an increase in departmental expenses for the Department of Home Affairs and the Department of Health and Aged Care.

The fiscal and underlying cash balances in this proposal differ because of the difference in timing between when tax revenue is recognised and when tax receipts are collected.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Based on an assumption that the average retail price of e-liquid before excise would be around \$1.49 per mL in 2025-26, the per mL excise rate would be the equivalent of a value-based excise rate of around 67%.

Table 1: Regulation and taxation of vaping products – Financial implications (\$m)^{(a)(b)}

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	691.7	907.4	1,058.6	1,218.6	3,876.3
Underlying cash balance	631.7	887.4	1,038.6	1,208.6	3,766.3

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

- Indicates nil.

Departmental costs for the Department of Home Affairs are estimated to be around \$9.3 million over the 2025-26 Budget forward estimates period. This funding would be used to implement the necessary systems to administer and report on the new tax and for ongoing collection of the tax.

Departmental costs for the Department of Health and Aged Care are estimated to be around \$4.4 million over the 2025-26 Budget forward estimates period. This funding would be used to implement plain packaging laws similar to those in place for tobacco cigarettes. Any other costs related to the regulation of e-cigarettes would be met from within existing resources.

The degree to which the estimates in this costing are uncertain is much higher than normal. In particular, the costing is sensitive to assumptions the Parliamentary Budget Office (PBO) has made regarding:

- The current and future sales volumes of vaping products.
- The behavioural impacts of the policy on e-cigarette use.
 - The degree to which the introduction of the specified rate of excise would impact sales of e-liquid is particularly uncertain.
 - The theoretical retail price of e-liquid in Australia is unclear given that non-pharmaceutical sales are illegal. The PBO has assumed a baseline retail price before excise of around \$1.49 per mL based on prices observed in similar jurisdictions.
 - The substantial relative increase in retail prices of e-liquid due to the policy means that the assumed price elasticity of demand measure used in this costing is highly uncertain. The price elasticity of demand employed by the PBO for the purposes of this costing, while based on academic research, is based on observations of marginal changes in price and not an increase of around 67% as proposed in this costing. Therefore, it is possible that the actual impact to demand would be different than that estimated here, particularly due to the possibility of e-cigarette users shifting to higher strength but lower volume e-liquid products, or home-brewed e-liquid.
- The behavioural impacts of the policy on tobacco cigarette use.
 - The impact of e-cigarette legalisation on the consumption of tobacco cigarettes is particularly uncertain. Research¹ suggests e-cigarette use can both increase tobacco smoking rates, such as by acting as a ‘gateway’, and decrease them through a substitution effect.
 - Given the varying conclusions of current research into the impacts of e-cigarette use on tobacco consumption, this costing does not model any change in tobacco excise revenue as a result of the policy. Tobacco excise revenue is projected to be around \$7.05 billion in 2025-26.
 - The e-cigarette landscape is rapidly evolving and new research is continually emerging. In December 2023, the Cancer Council reported on new research from the Australian Secondary Students’ Alcohol and Drug Survey, noting that “studies that track young people over time find that those who vape are around 3 times as likely to take-up smoking later.”² Meanwhile, a

¹ Soneji S, Barrington-Trimis JL, Wills TA, et al. (2017), [Association between initial use of e-cigarettes and subsequent cigarette smoking among adolescents and young adults: a systematic review and meta-analysis](#), *JAMA Pediatrics*, accessed 20 May 2025.

² Cancer Council (2023), [New ASSAD data show vaping increasing rapidly and concerning rise in smoking susceptibility among 12-17 year olds](#), accessed 20 May 2025.

February 2024 report highlighted a decline in tobacco smoking rates in New Zealand potentially linked to e-cigarette legalisation in that jurisdiction.³

The PBO does not generally consider second-round effects when costing proposals, such as changes to demand on the health system resulting from higher or lower consumption of e-cigarettes or tobacco cigarettes.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Consumers are sensitive to the price of e-liquid. A constant price elasticity of demand of -1.9 (indicating that for a 1% increase in the price of e-liquid, sales would decrease by around 1.9%, with larger increases having a diminishing effect on consumption) was assumed for e-liquid based on estimates from overseas academic studies.
- Excise duty and GST would be passed on to the consumer.
- Annual growth in users of e-cigarettes would be higher under the policy scenario than in the baseline due to their increased availability.
- The average e-cigarette user uses 1,460 mL of e-liquid per year.⁴
- The average retail price of e-liquid before excise would be around \$1.49 per mL in 2025-26 and would grow in line with CPI.

Any departmental costs, apart from those specified in the Costing Overview, of establishing and maintaining the new regulatory environment for e-cigarettes, would not exceed the costs already budgeted for the current environment, including through the 2023-24 MYEFO measure *Enhanced Regulatory Model for Vaping Products*,⁵ and therefore would be met from within existing resources.

Methodology

The proportion of the Australian population aged over 18 who use e-cigarettes was projected over the medium-term period by taking the current rate of e-cigarette consumers from the latest ABS data (4.0% of the population in 2022) and growing this rate in-line with the assumed uptake of vaping in the current policy environment. This rate was then adjusted for a short-term boost in uptake from the beginning of the policy, in line with an increase observed in the USA following a similar policy change there in 2015⁶.

To determine the quantity of e-liquid which would be sold each year, the assumed baseline per-user consumption was adjusted down based on the relative increase in price implied by the excise rate using a price elasticity of demand of -1.9.

³ Mendelsohn CP, Wodak A, Hall W, Borland R, Youdan B, Beaglehole R. (2024), [New Zealand vs. Australia: The Impact of Vaping Policies on Smoking Outcomes](#), accessed 20 May 2025.

⁴ The [Australian Tobacco Harm Reduction Association](#) estimates that the average e-cigarette user uses 4mL of e-liquid per day (1,460 mL per year). This estimate is consistent with research published in [JAMA Internal Medicine](#) which estimates e-liquid use as 1 to 2 mL per day for light users and 5 to 6 mL per day for heavy users.

⁵ *Enhanced Regulatory Model for Vaping Product measure*: The Government will provide \$82.0 million over 4 years from 2023–24 to support vaping product regulation, awareness raising and enforcement activities. [Mid-Year Economic and Fiscal Outlook 2023–24](#) page 259.

⁶ United States CDC (2023), [Tobacco Product Use Among Adults—United States](#), accessed 20 May 2025.

The increase in GST revenue was calculated by estimating the value of e-liquid purchases which would have been illegal, or would not have occurred, under the baseline scenario.

Departmental costs for the Department of Home Affairs reflect expenses to implement systems to administer and report on the new excise and for its ongoing collection. Departmental costs for the Department of Health and Aged Care reflect expenses to implement plain packaging regulations for e-cigarettes similar to those in place for tobacco cigarettes and were estimated based on that policy. These costs were projected over the medium-term period in line with the relevant wage cost index.

Financial implications were rounded consistent with the PBO's rounding rules.⁷

Data sources

Australian Bureau of Statistics (2022), [Smoking and vaping, 2022](#), accessed 20 May 2025.

Australian Tobacco Harm Reduction Association (2019), [ATHRA: Vaping cost](#), accessed 20 May 2025.

Cancer Council (2023), [New ASSAD data show vaping increasing rapidly and concerning rise in smoking susceptibility among 12-17 year olds](#), accessed 20 May 2025.

Cancer Council Victoria (2023), [Current vaping and current smoking in the Australian population aged 14+ years: February 2018 – March 2023](#), accessed 20 May 2025.

Commonwealth of Australia (2023) *Mid-Year Economic and Fiscal Outlook 2023-24*, Commonwealth of Australia

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025*, Commonwealth of Australia.

Diaz MC, Silver NA, Bertrand A, et al (2023) [Bigger, stronger and cheaper: growth in e-cigarette market driven by disposable devices with more e-liquid, higher nicotine concentration and declining prices](#) *Tobacco Control*.

Levy DT, Warner KE, Cummings KM, et al (2019), [Examining the relationship of vaping to smoking initiation among US youth and young adults: a reality check](#), accessed 20 May 2025.

Mendelsohn CP, Wodak A, Hall W, Borland R, Youdan B, Beaglehole R. (2024), [New Zealand vs. Australia: The Impact of Vaping Policies on Smoking Outcomes](#), accessed 20 May 2025.

Nian Q, Welding K, Dai Z. (2023) [An overview of national-level excise taxes on e-cigarettes across the world](#), *Institute for Global Tobacco Control*.

Soneji S, Barrington-Trimis JL, Wills TA, et al. (2017), [Association between initial use of e-cigarettes and subsequent cigarette smoking among adolescents and young adults: a systematic review and meta-analysis](#), *JAMA Pediatrics*, accessed 20 May 2025.

The Department of Health and Aged Care provided data on the legal use of e-cigarettes.

United States Centre for Disease Control and Prevention (2023), [Tobacco Product Use Among Adults—United States](#), accessed 20 May 2025.

Vaping360 (2024) [Vaping Taxes in the United States and Around the World](#), accessed 20 May 2025.

⁷ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Attachment A – Regulation and taxation of vaping products – Financial implications

Table A1: Regulation and taxation of vaping products – Fiscal balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Revenue													
Administered tax													
<i>GST</i>	174.0	225.0	262.0	302.0	346.0	392.0	443.0	496.0	554.0	615.0	680.0	963.0	4,489.0
<i>E-Cigarette excise</i>	700.0	910.0	1,060.0	1,220.0	1,390.0	1,580.0	1,790.0	2,000.0	2,240.0	2,480.0	2,750.0	3,890.0	18,120.0
Total – revenue	874.0	1,135.0	1,322.0	1,522.0	1,736.0	1,972.0	2,233.0	2,496.0	2,794.0	3,095.0	3,430.0	4,853.0	22,609.0
Expenses													
Administered													
<i>GST payments to states and territories</i>	-174.0	-225.0	-262.0	-302.0	-346.0	-392.0	-443.0	-496.0	-554.0	-615.0	-680.0	-963.0	-4,489.0
Total – administered	-174.0	-225.0	-262.0	-302.0	-346.0	-392.0	-443.0	-496.0	-554.0	-615.0	-680.0	-963.0	-4,489.0
Departmental													
<i>Department of Home Affairs</i>	-3.9	-2.6	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-9.3	-19.5
<i>Department of Health and Aged Care</i>	-4.4	-	-	-	-	-	-	-	-	-	-	-4.4	-4.4
Total – departmental	-8.3	-2.6	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-13.7	-23.9
Total – expenses	-182.3	-227.6	-263.4	-303.4	-347.4	-393.4	-444.4	-497.5	-555.5	-616.5	-681.5	-976.7	-4,512.9
Total (excluding PDI)	691.7	907.4	1,058.6	1,218.6	1,388.6	1,578.6	1,788.6	1,998.5	2,238.5	2,478.5	2,748.5	3,876.3	18,096.1

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms

- Indicates nil.

Table A2: Regulation and taxation of vaping products – Underlying cash balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Receipts													
<i>Administered tax</i>													
<i>GST</i>	159.0	220.0	259.0	299.0	342.0	388.0	438.0	492.0	549.0	610.0	675.0	937.0	4,431.0
<i>E-Cigarette excise</i>	640.0	890.0	1,040.0	1,210.0	1,380.0	1,570.0	1,770.0	1,990.0	2,220.0	2,460.0	2,720.0	3,780.0	17,890.0
Total – receipts	799.0	1,110.0	1,299.0	1,509.0	1,722.0	1,958.0	2,208.0	2,482.0	2,769.0	3,070.0	3,395.0	4,717.0	22,321.0
Payments													
<i>Administered</i>													
<i>GST payments to states and territories</i>	-159.0	-220.0	-259.0	-299.0	-342.0	-388.0	-438.0	-492.0	-549.0	-610.0	-675.0	-937.0	-4,431.0
Total – administered	-159.0	-220.0	-259.0	-299.0	-342.0	-388.0	-438.0	-492.0	-549.0	-610.0	-675.0	-937.0	-4,431.0
<i>Departmental</i>													
<i>Department of Home Affairs</i>	-3.9	-2.6	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-9.3	-19.5
<i>Department of Health and Aged Care</i>	-4.4	-	-	-	-	-	-	-	-	-	-	-4.4	-4.4
Total – departmental	-8.3	-2.6	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-13.7	-23.9
Total – payments	-167.3	-222.6	-260.4	-300.4	-343.4	-389.4	-439.4	-493.5	-550.5	-611.5	-676.5	-950.7	-4,454.9
Total (excluding PDI)	631.7	887.4	1,038.6	1,208.6	1,378.6	1,568.6	1,768.6	1,988.5	2,218.5	2,458.5	2,718.5	3,766.3	17,866.1

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A3: Regulation and taxation of vaping products – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
<i>Fiscal balance</i>	14.0	48.0	93.0	147.0	211.0	286.0	374.0	475.0	591.0	725.0	877.0	302.0	3,841.0
<i>Underlying cash balance</i>	11.0	40.0	82.0	134.0	195.0	267.0	352.0	450.0	562.0	691.0	839.0	267.0	3,623.0

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary⁸.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

⁸ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)