Universidad Politécnica de Cartagena — MEMBER OF EUT+ EUROPEAN UNIVERSITY OF TECHNOLOGY

Impact of the Revision of the European Union Tobacco Tax Directive

The adjustment of minimum excises by differences in the cost of living

Policy Brief

12/11/2025

Adjusting Minimum Tobacco Taxes to Reflect Differences in Living Costs

At present, EU law sets the minimum tobacco tax rates as fixed amounts in euros. For instance, the minimum excise on cigarettes is €90 per 1,000 units. This means that their real value erodes over time as prices rise. It also means that the same minimum level can have very different effects across the EU: what represents a significant tax in a lower-income Member State may be far less meaningful in a higher-income one.

To address this imbalance, the European Commission's Tobacco Tax Directive (TTD) proposal aims to link part of the minimum tax to differences in living standards across Member States. The measure would rely on the Eurostat Comparative Price Level (CPL) index — an indicator reflecting how the cost of living varies across member states. The CPL helps adjust for what citizens in each country can afford. A country where everyday goods are cheaper usually also has lower incomes, while a country where prices are higher generally enjoys higher living standards.

These geographical differences are important. For example, Luxembourg's CPL is 132.8, reflecting one of the highest standards of living in the EU. In Bulgaria, with a significantly lower income per capita, the CPL is 59.7. In practical terms, a euro spent in Bulgaria buys more than twice as much as in Luxembourg. The new adjustment mechanism ensures that countries apply minimum tobacco taxes that carry a comparable burden for their residents.

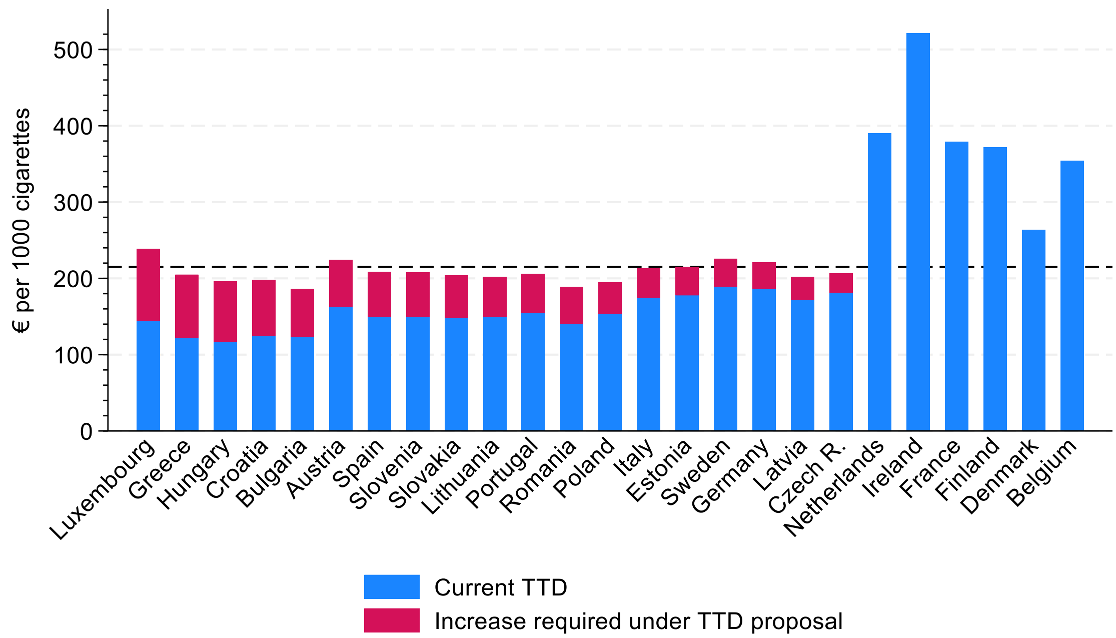
Under the new approach:

- Two-thirds of the minimum excise rate would remain a fixed euro amount, the same for every Member State.
- One-third would vary according to the CPL, raising the minimum in countries with higher living standards and reducing it where they are lower.
- The minimum would be updated every three years to account for both inflation (through the Harmonised Index of Consumer Prices, HICP) and changes in the CPL.

What the CPL Adjustment Means in Practice

We illustrate the practical implications of the CPL adjustment in the case of cigarettes, for which the TTD proposal establishes a EU-wide nominal minimum excise of €215 per 1,000 cigarettes. Figure 1 shows the implications for the corresponding minimum excise in each Member State.

Figure 1. Current minimum excise tax on cigarettes and required excise tax increase under the TTD proposal



The blue segments represent minimum excise rates currently in force, while the red segments show the increases required under the TTD proposal on its intended enactment in 2028. The dashed line marks the EU-wide nominal floor of €215 per 1,000 cigarettes.

The figure makes one point very clear: most of the countries that would need to adjust their minimum excise will not need to reach €215. Because one third of the new minimum is adjusted for the Comparative Price Level, the target for most of these Member States remains below the nominal EU floor, typically between €185 and €210. This group includes Bulgaria, Croatia, Greece, Hungary, Poland, Romania, Portugal, and several others.

A smaller set of countries, Germany, Austria, and Sweden would end up slightly above €215.

At the far left of the figure stands Luxembourg: its high comparative price level pushes its adjusted minimum to around €239. Because its current tax level is low, especially in comparison with neighboring countries such as France or Belgium, Luxembourg would need to apply the largest increase among all Member States.

At the other end of the chart, the blue bars without red segments — Belgium, Denmark, Finland, France, Ireland, and the Netherlands — represent countries already above the new requirement.

Conclusion

Several high-tax Member States remain unaffected, as their current minimum excises already exceed the levels implied by the new formula.

Most of the countries that are affected move to new minima below €215, because the Comparative Price Level (CPL) adjustment lowers the benchmark for economies where living costs are lower. This ensures that the increase contributes to narrowing the gap with higher-tax jurisdictions while keeping the increases proportionate to each country's economic conditions. The mechanism has thus been designed with the aim of making the adjustment fairer for lower-income Member States.

A smaller group of countries ends up just above the €215 reference line, including Germany, Austria, and Sweden. In these cases, the CPL correction works in the opposite direction but the difference remains modest.

Luxembourg stands apart. Despite having one of the highest CPLs in the EU, its current minimum excise level is much lower than those of its immediate neighbors — notably France and Belgium. The new directive corrects this imbalance by pushing Luxembourg's required minimum to about €239. This outcome illustrates how the mechanism helps to prevent persistently low-tax countries from undercutting neighboring countries.

Taken together, these outcomes suggest that the CPL mechanism is a useful policy innovation. By linking only one third of the minimum excise to differences in living costs, the proposal ensures that the adjustment remains moderate: it raises excise levels where they are low in relation to living standards. If, in the future, policymakers wished to give more or less weight to cost-of-living differences, the one-third share could be adjusted — allowing the system to be fine-tuned without altering its overall design. In this way, the mechanism promotes convergence while maintaining flexibility and fairness across the Union.

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Acknowledgments

Universidad Politécnica de Cartagena is funded by the Economics for Health project at Johns Hopkins University (JHU) to conduct economic research on tobacco taxation. JHU is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor can they be considered to represent, the views of JHU or Bloomberg Philanthropies. Comments and suggestions from Jeff Drope are gratefully acknowledged.