

Tobacco Excise Tax Questions and Answers

How much will the price of a packet of cigarettes increase immediately?

Industry rather than the Government sets the retail price. Tobacco excise duties and GST currently account for around 70% of the retail price of most cigarettes and loose tobacco. Tobacco companies will decide when and how much consumer prices will rise. They will be liable for the increased excise and duties with immediate effect. Assuming they pass on the increases and maintain their margins, a typical pack of 25 costing \$13.30 will rise immediately to around \$14.40.

How much will the price of cigarettes increase over the next three years?

Tobacco companies will decide when and what prices will rise. Assuming they pass on the increases and maintain their margins, a typical pack of 25 costing \$13.30 now will rise to \$17.00 in 2012.

How much will the price of a packet of roll-your-owns increase immediately?

Tobacco companies will decide when and how many prices will rise. They will be liable for the increased excise and duties with immediate effect. Assuming they pass on the increases and maintain their margins, a typical 30g pouch costing \$21.30 will rise to \$25.50

How much will the price of a packet of roll-your-owns increase over the next three years?

Tobacco companies will decide when and how much prices will rise. Assuming they pass on the increases and maintain their margins, a typical 30g pouch costing \$21.30 now will rise to \$29.80 in 2012.

Why is the price increase of roll-your-owns so much more?

Excise duties on manufactured cigarettes are levied per 1000 cigarettes. Other tobacco is levied per kilogram of tobacco content. Over time the average weight of a manufactured cigarette has declined from about 0.8g to 0.7g. This means smokers who choose to smoke roll your own cigarettes face a lower excise rate for the same amount of tobacco smoked. The Government has decided to equalise the excise duties on a weight-by-weight basis, so that all smokers face the same financial incentive to quit.

Who is most affected by the price increase?

All smokers who buy tobacco will face the price rises. The more someone smokes, the more they pay and the bigger the incentive to quit. Duty-free entitlements for passengers entering New Zealand are unaffected.

What evidence is there to show that price increases will stop 40,000 people from smoking and prevent 300 deaths by 2021?

These estimates are Ministry of Health projections based on independent research studies in New Zealand that have established the impact of price rises on smoking prevalence and tobacco consumption.

Won't these increases simply hurt low income families where both parents smoke, can't give up or cut down and there is now less money for the basic necessities?

This is a concern. But a far bigger concern is the harm done to family members of low income smokers for example through the premature death of a smoking parent, lower income due to the smoker's ill health, the health impacts on the children of their exposure to smoke and the increased likelihood that they will become smokers, etc.

The purpose of the price rises is to prompt people to stop smoking. If they quit, an average smoker will be saving well over \$2000 a year. Even if they can't quit, cutting down by 1 cigarette a day initially rising to 3 fewer cigarettes a day would be enough to offset the price rises.

There is widespread support from health and welfare organisations for excise increases on tobacco. For example the Royal New Zealand College of General Practitioners (RNZCGP) has been actively calling for an increase in tobacco tax in a recent letter to the Prime Minister and in a submission to the Māori Affairs Select Committee Inquiry into the Tobacco Industry in Aotearoa and the Consequences of Tobacco Use for Maori.

RNZCGP President Harry Pert said: "There is evidence that those who spend a higher proportion of their income on tobacco are most likely to reduce their tobacco use after a price increase. While there are concerns that a tax increase will hit low income earners, and in particular Maori and Pacific smokers hardest, after consulting with our members and reviewing the evidence we believe that short-term hardships are far outweighed by long-term health gains from expected reduced smoking."

The RNZCGP (the College) is the professional body and post graduate training institution that sets the standards for NZ GPs. It has over 4000 members.

How much additional revenue will the Government collect?

The Treasury estimates that when the price changes are fully in place (in three years time) it will generate up to an additional \$205m in revenue. The total amount of revenue raised by tobacco excise and GST after the changes (\$1.3b) will still leave at least half a billion shortfall compared to the health related costs of smoking. These are difficult to calculate precisely, but are currently estimated by the Ministry of Health to be at least \$1.9b out of the total Health Budget of around \$12b.

What will happen to the additional tobacco revenue taken each year by Government?

It will be treated like other Government revenue and will allow the Government to maintain public services and keep Government debt in check. While not specifically tagged for these purposes, the increased revenue helps offset the much higher excess health expenditure that smoking causes, including the cost of extensive government programmes to support smokers to quit and subsidies on nicotine replacement gums, lozenges and patches

Even smokers say they'll accept a price increase if the additional tax is spent on help to quit or health services. Why isn't the money tagged for these purposes?

Tagging income from one area to expenditure in another overcomplicates Government finances and adds little benefit. In the same way, most households simply pool their income to meet expenses to minimise the paperwork and effort involved.

Smokers say its hard to quit and Government needs to spend more money on services to help smokers quit. Will the Government act?

The Government has been ramping up support for smokers to quit in advance of these excise increases. Funding for these programmes is currently considered adequate, but these programmes are monitored and funding levels can be addressed in future Budgets if required.

Better help for smokers to quit is one of the Government's six top priorities for the health sector.

Through the Government's health targets, all health professionals are being encouraged to **ask** their patients if they smoke, then provide **brief** advice to smokers to stop smoking, and offer them **cessation support** to help them quit.

By 1 July this year, the target is for 80% of hospital patients who are smokers to be given this **ABC** treatment to help them quit. Next year that target rises to 90%, and targets also come in for primary health care at GPs and health clinics.

Other tobacco control measures are also in consideration. The Government is currently consulting on a proposal to restrict tobacco retail displays. Seeing tobacco on display can undermine the resolve of a smoker who has recently quit, and increases the likelihood that young people will start smoking.

How much is spent on services to help smokers quit?

The potential health benefits and reduced health costs associated with quitting have led the Government to invest heavily in services to assist people to quit smoking, and to make quitting one of its six Health Targets.

The total direct Government expenditure on tobacco control and smoking cessation amounts to \$57 million for 2009/10.

The bulk of this investment is focussed on helping smokers to quit. It funds the nationwide Quitline and also other targeted specialist quit smoking services with a focus on Māori, Pacific and pregnancy services. There is also significant funding to support DHB's with their tobacco control plans and boosting their smoking cessation services with training, systems and clinical best practice support in line with the Government's health target for smoking (see above).

The funding also includes \$8.5 million for the provision of nicotine replacement patches, lozenges and gum, and smoking cessation medicines. Since September 2009 these have been available on prescription as well as through the Quitcard voucher scheme, reducing the cost of a two month supply from \$10 to \$3.

This investment is significantly enhanced by the everyday smoking cessation advice and support provided by thousands of doctors, and hundreds of clinics and hospitals. These costs are absorbed into District Health Board (DHB) baselines, which are also Government funded.

If the government wants more people to quit smoking and believes price is the way to do it, why not bring in the price increase all at once?

The Government was concerned about the financial impact of the changes on low income households where smokers struggled to immediately cut down or quit, and decided to phase the increases in to give people more time to adjust. While current support for people who attempt to quit increases their likelihood of success, most people who quit smoking still need to make several attempts before they succeed. Because psychological triggers to quit are important, frequent price rises are likely to be more effective than less frequent but larger rises that might otherwise have the same financial impact on a smoker.

What will be the effect of the tobacco excise increases on Consumer Price Index inflation, and the indexation of NZ Superannuation, benefits, and family tax credits etc?

Treasury estimates that the tobacco price increases will add a cumulative 0.8% to the CPI over the next three years.

The main concern with this is that if it flows through to the annual CPI-based adjustments to New Zealand Superannuation, Veterans Pensions, Working for Families Family Tax Credits, and main benefits it would cost taxpayers approximately \$430 million over the next four years.

The Government has therefore decided that for the next three years, the effect of tobacco price changes will be excluded from the CPI-based annual adjustment of NZ Superannuation, Veterans Pensions, Working for Families Family Tax Credits, and main benefits.

It makes no sense to increase Superannuation, benefits and family tax credits paid to smokers to compensate for Government actions to increase tobacco prices and discourage smoking. It also makes no sense to compensate non-smokers receiving

these entitlements for tobacco price increases that don't affect their cost of living. The cost of increasing NZ Superannuation, benefit and tax credit rates would be permanent and compounding into the future, while the additional tobacco excise revenue will decline as tobacco consumption falls.

This change will require minor amendments to existing legislation governing NZ Superannuation, Veterans Pensions and WFF Family Tax Credits. Amendments will also be needed to the Future Focus Bill currently being considered by Select Committee, as this Bill provides for automatic CPI-based indexation of other benefits. This change will be temporary, for three years. It is a one-off measure, reflecting the scale of these step changes in tobacco excise, and the high cost of not making this change.

The Government continues to believe that a simple, transparent and consistent approach to annual indexation of NZ Superannuation and Benefits is desirable. Following these changes, the Government will continue to adjust entitlements annually to reflect changes in the cost of living as measured by the CPI.