

Tax Working Group Public Submissions Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

30 April 2018

Tax Working Group Secretariat
PO Box 3724
Wellington 6140

Dear Tax Working Group

Submission to the Tax Working Group

Thank you for the opportunity to make a submission to the Tax Working Group. The Health Promotion Agency's (HPA) submission is attached.

If you require any further information about this submission, please contact me on [1] or
at [1]

Yours sincerely

[1]

Cath Edmondson
General Manager, Policy, Research and Advice

Encl: HPA's submission to the Tax Working Group.

SUBMISSION TO THE TAX WORKING GROUP ON ALCOHOL-RELATED TAXES

INTRODUCTION

1. Thank you for the opportunity to provide a submission to inform the Tax Working Group's review of New Zealand's tax system.
2. The Health Promotion Agency (HPA) is a Crown entity that reports to the Minister of Health. It has statutory functions to lead and support activities to:
 - promote health and wellbeing and encourage healthy lifestyles;
 - prevent disease, illness and injury;
 - enable environments which support health, wellbeing and healthy lifestyles; and
 - reduce personal, social and economic harm.
3. HPA also has alcohol-specific functions to give advice and make recommendations on the sale, supply, consumption, misuse of alcohol, and undertake, or work with others to undertake, research on alcohol issues. HPA's alcohol work is funded from the levy on alcohol produced or imported for sale in New Zealand. This levy was previously paid to HPA's predecessor organisation, the Alcohol Advisory Council of New Zealand.
4. This submission focusses primarily on alcohol-related tax issues, in line with HPA's independent Crown Entity status to provide advice related to its alcohol-specific functions.

Summary of HPA recommendations

Excise tax on alcohol

- HPA supports the continuation of an excise tax on alcoholic beverages.
- HPA supports an increase in the level of excise tax on alcoholic beverages to achieve a minimum price per standard drink of \$1 or more.
- HPA supports a review of the classes of liquor used to calculate excise tax, and of the excise tax rates for those classes, aimed at encouraging increased production and consumption of low-alcohol beverages.

Summary of HPA recommendations continued

The alcohol levy

- HPA supports the continuation of the levy on alcoholic beverages, which is used by HPA to reduce alcohol-related harm.
- HPA supports a review of the bands within the classes of liquor that are used to calculate the alcohol levy.

TAXES ON ALCOHOLIC BEVERAGES

5. Taxation of alcohol beverages is used internationally by governments to reduce rates of harm from alcohol. In New Zealand, taxes (excise tax and the alcohol levy) are used as a means to control price and affordability of alcoholic beverages, with an aim of modifying alcohol drinking behaviour and to fund activities to prevent and reduce alcohol-related harm.

RATIONALE REGARDING EXCISE TAX ON ALCOHOL

6. The use of taxation to increase the price of alcoholic beverages is one of the most evidence-based and internationally well-accepted strategies to reduce alcohol-related harm. The rationale is that increasing the price reduces consumer demand for alcohol. While the relationship between price and drinking is complex, research conducted in many parts of the world has demonstrated that increased alcohol taxes and prices are related to reductions in alcohol use and related problems¹.
7. While excise tax on alcoholic beverages continues to be an effective harm-reduction strategy, changes to the alcohol market in recent years have eroded its effectiveness. The full cost of increases in excise tax through Consumer Price Index adjustments is not always passed on to consumers, the cost instead being partially absorbed by producers.
8. An increase in the level of excise tax to achieve a minimum price per standard drink of alcohol to \$1 or more would reduce the affordability of the cheapest alcohol, which contributes to disproportionate levels of harm in young people aged 18 to 24 and other heavy drinkers.

Research on alcohol pricing

9. The Ministry of Justice (in conjunction with The Treasury and contractors) undertook an investigation of the effectiveness of a minimum price regime in reducing harmful alcohol consumption and in 2014 published the research report *The Effectiveness of Alcohol*

¹ Babor, T., Caetano, R., Casswell, S., Edwards, G., Giesbrecht, N., Graham, K., Rossow, I. (2010) *Alcohol: No Ordinary Commodity research and public policy, second edition*. New York: Oxford University Press:

*Pricing Policies, Reducing harmful alcohol consumption and alcohol-related harm*². Pricing options considered were no change, minimum price per standard drink of \$1.00, \$1.10 or \$1.20, and excise tax increases of 82%, 107% or 133%. The effect of the price increase options on the annual volume of alcohol purchased and per occasion alcohol purchased by drinker type were considered.

10. The research concluded that all pricing options are effective in generating positive savings for society. Excise increases up to 133% (which affects the price of all alcohol) result in a much larger benefits compared with a minimum price (which only affects the price of the cheapest alcohol). Excise increases also provide more funding for government efforts to reduce alcohol harm, where minimum pricing can benefit the alcohol industry. Both are important tools in any package of measures aimed at reducing alcohol-related harm.
11. Increasing the price of alcoholic beverages is likely to have an impact on reducing short and long-term harms experienced by heavy drinkers of all ages. Higher prices help to reduce the incidence of heavy drinking sessions and subsequent intoxication and its effects and impact on the drinker and on others.

Young people

12. Raising the price of cheap alcohol is an important tool for reducing young peoples' alcohol consumption. Young people aged 18 to 24 are the heaviest drinking age group by far, characterised by drinking more heavily per occasion in social settings than other groups³.
13. Young people are more 'price elastic' (that is, an increase in price is more likely to result in reduced consumption of alcohol) than other population groups. Availability of cheap alcoholic beverages, in particular higher strength options, are known to facilitate heavy drinking sessions, including pre-loading. Young people also experience the highest rates of acute alcohol-related harms, such as injuries and death from traffic injuries⁴.

Alcohol affordability over time

14. Alcohol beverages have become more affordable in New Zealand over the last few decades, due to incomes increasing more than the price of the beverages. In its issues paper *Alcohol in our Lives: An issues paper on the reform of New Zealand's liquor laws*⁵, the Law Commission stated that overall alcohol has become more affordable since 1989. Of all beverage types, wine has seen the greatest increase in affordability.

² Ministry of Justice. (2014) *The Effectiveness of Alcohol Pricing Policies Reducing harmful alcohol consumption and alcohol-related harm*. Wellington: Ministry of Justice - <https://www.justice.govt.nz/assets/Documents/Publications/effectiveness-of-alcohol-pricing-policies.pdf>

³ Ministry of Health. (2017). *Annual update of key results 2016/17: New Zealand Health Survey*. Retrieved from <https://www.health.govt.nz/publication/annual-update-key-results-2016-17-new-zealand-health-survey>

⁴ Ministry of Transport. (2016) *Alcohol and drugs crash facts 2017*. Retrieved from <https://www.transport.govt.nz/research/crashfacts/alcohol-and-drugs/>.

⁵ Law Commission. (2009). *Alcohol in our Lives: An issues paper on the reform of New Zealand's liquor laws*. Wellington: Law Commission.

15. The Law Commission's findings are reflected in HPA's recently released report *Trends in affordability of alcohol in New Zealand*⁶. Key findings from HPA's report are that:

- The real price (inflation-adjusted price) of wine was found to decrease from the late 1980s until 2017. Although the real price of beer and spirits and liqueurs increased from the 1980s, incomes have been increasing at a faster rate, making alcohol overall more affordable.
- Since 2012, the affordability of wine (which is the price of wine relative to income) increased by more than 20%, based on average hourly earnings and average alcohol prices.
- In 2017, it took as little as 2.1 minutes of work for a person on a median income (an 'average' worker) to earn enough money to buy one standard drink (containing 10g of pure alcohol) of averagely priced cask wine purchased from a supermarket or liquor store. It took only 1.6 minutes to buy a discounted standard drink of cask wine (based on the cheapest advertised prices).
- It takes less time to earn enough to buy an averagely priced standard drink of beer, whisky or cask wine from *off*-licensed premises (supermarket or liquor store) now than in 1999.

Excise tax on low-alcohol beverages

16. Excise tax can also be used to encourage production, and therefore consumption, of low-alcohol beverages. The rationale is that reduced or eliminated excise tax for low-alcohol beverages stimulates supply, and the lower cost encourages demand. This would lead to increased consumption of these beverages in place of higher alcohol beverages. In the long-term, it would be beneficial by helping to facilitate more low-alcohol choices, and could lead to changes in people's drinking habits and ultimately reduced alcohol-related harm.

RATIONALE REGARDING THE ALCOHOL LEVY

17. HPA receives the levy on alcohol produced or imported for sale in New Zealand and uses it to fund activities to prevent and reduce alcohol-related harm. This levy is adjusted annually and rates and amounts collected vary depending on six class of liquor (bands of alcohol content). Each class of alcohol includes different beverages (eg, beer, wine, spirits, cider, and liqueurs).

18. The availability and consumption of different types of alcohol beverages and the range of alcohol by volume within a beverage type changes over time. Regular review of the bands used for excise tax and the alcohol levy would help to keep up with market changes and also encourage low-alcohol beverage production and consumption.

⁶ Health Promotion Agency. (2018). *Trends in affordability in New Zealand*. Wellington: Health Promotion Agency.