

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

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## **Submission to the Tax working group**

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**30 April 2018**

## **1. Introduction: The Brewers Association of New Zealand**

- 1.1 The Brewers Association represents major brewers with the core purpose to celebrate beer, its contribution to the economy and to social wellbeing through responsible consumption.
- 1.2 Our members (Lion Pty Ltd and DB Breweries Ltd) produce approximately 82% of the beer brewed in New Zealand. The brewing industry is a major contributor to the ongoing success of the New Zealand economy – the grain to glass value chain was worth \$2.3 billion in the year ending March 2017. The brewing industry contributes over \$645 million to GDP. There are at least 214 commercial brewing operations throughout New Zealand employing over 1,950 people<sup>1</sup>.
- 1.3 The Brewers Association supports the moderate consumption of beer by informed adults. Many people enjoy drinking beer which can be part of a healthy lifestyle when consumed in moderation. The Brewers Association believes where there are instances of misuse or underage consumption, targeted interventions and education are best placed to successfully reduce harm for specific at-risk groups.
- 1.4 Our core principles are:
  - a) Drinking beer can add to an adult's enjoyment of life, and as a lower alcohol and natural product, can be part of a healthy lifestyle when enjoyed in moderation.
  - b) Beer plays a positive role in our society and the economy due to its important role in the agricultural, brewing, tourism and hospitality sectors, as well as our culture and heritage.
  - c) We support targeted efforts by industry, government and the community to reduce alcohol misuse.
- 1.5 The Brewers Association is committed to the promotion of responsible consumption of alcohol. The Brewers Association, together with New Zealand Winegrowers and Spirits New Zealand, formed in 2012 'The Tomorrow Project'. Cheers! is a social change initiative under the Tomorrow Project to support New Zealanders to understand the drivers and effects of their drinking behaviour, and to make smarter choices to keep themselves, and the people around them, safe and sociable when they are drinking ([www.cheers.org.nz](http://www.cheers.org.nz)).
- 1.6 This submission has been prepared on behalf of the Brewers Association of New Zealand by Dylan Firth Executive Director of the Brewers Association. He can be contacted on [1] and [1]

# Submission

## 2. Alcohol consumption in New Zealand in context.

- 2.1 The majority of New Zealanders drink responsibly. It is important to acknowledge alcohol is a product many New Zealanders enjoy sociably and in ways that do not contribute to harm.
- 2.2 Per capita alcohol consumption, measured by alcohol available for consumption has fallen from 9.6 litres of pure alcohol per capita (15 years and older) in 2010 to 8.6 litres at the end of 2017<sup>ii</sup>
- 2.3 Harmful consumption (total population) for 15 – 24 year olds has fallen from 34.7% in 2006/7 to 26.1% in 2015/16.<sup>iii</sup>
- 2.4 Harmful consumption (total population) for 45 – 65 year olds has increased for the same time period.<sup>ii</sup>
- 2.5 Consumption of 6+ drinks at least once (monthly) has fallen significantly for all measured age groups since 2006/07 as has 6+ drinks at least once (weekly) for most demographics (45+ have increased but not with statistical significance).<sup>ii</sup>
- 2.6 Recent figures on alcohol consumption indicate there is no growing trend in alcohol misuse that suggests a crisis. According to the Ministry of Health 2016/17 New Zealand Health Survey 79.3% of New Zealanders had an alcoholic drink in the last 12 months. The Ministry of Health Survey also showed 80.5% of those that did drink, did so light to moderately<sup>iv</sup>.
- 2.7 This supports the point that most New Zealanders drink moderately most of the time. Caution must therefore be taken when painting alcohol misuse as a population-wide issue, and to only propose population-wide interventions. The harmful use of alcohol is a complex personal and societal issue that requires targeted coordinated measures and education from many stakeholders to effect behavioural change.

## 3. Alcohol and the role of excise in New Zealand

- 3.1 Alcohol excise and duty in New Zealand contributed \$985m year ending 30 June 2017 (up from \$947m in 2016)<sup>v</sup>. Currently \$11m of this goes the Health Promotion Agency and the rest is distributed to the consolidated Government fund.
- 3.2 In a Treasury working paper Barker identifies the role of Pigouvian Taxes (in this case alcohol excise) as necessary due to the externalities alcohol creates<sup>vi</sup>. The industry accepts this and has worked with Government agencies over the years to develop a robust and fair system that is efficient to maximise the revenues received by Government.
- 3.3 The Tax Working Groups' Future of Tax background paper poses the question: Should there be a greater role in the tax system for taxes that intentionally modify behaviour?
- 3.4 We submit strongly that this should not be the case, as price mechanisms to influence consumption patterns are limited in their results and they also disproportionately impact those who do not create harms. This is opposed to the views of others.

- 3.5 Much is made of fairness when assessing the Tax framework in New Zealand with the working group background paper stating “The tax system should be fair. This involves both horizontal equity (fair treatment of those in similar circumstances) and vertical equity (fair treatment of those with differing abilities to pay tax).” This is an important issue because excises often create an unfair tax on those in similar circumstances but different consumption habits.
- 3.6 Alcohol excise is necessarily linear in consumption, while harms are exceptionally nonlinear. Low-level through moderate consumption brings strong benefits for consumers via social positives through to health benefits from light drinking over abstaining.
- 3.7 Wagenaar's metastudy had price responsiveness among heavy drinkers as about 60% of the price responsiveness of light drinkers<sup>vii</sup>. A United States study by Nelson found changes in beer taxes did not reduce youth and young adult drinking prevalence and bingeing<sup>viii</sup>, both of these studies reflect the relative inelasticity of demand in relation to alcohol.
- 3.8 We submit that excise increase may affect heavier drinkers who may otherwise downshift in quality in response to excise changes; it would also affect lower income moderate drinkers. Benefits in reducing harmful drinking among harmful drinkers need be weighed against the costs imposed on moderate lower income drinkers – and especially where moderate drinkers are far more responsive to price hikes than heavier drinkers.
- 3.9 As highlighted in the working paper ‘Tax incidence is about who ultimately bears the costs of a tax’. A good example is excise tax. While firms that produce alcohol and tobacco are statutorily and administratively liable for excise tax, it is normally assumed that the incidence (that is, who actually bears the cost of the tax) is felt by consumers of these products’.
- 3.10 This is why increases of excise would disproportionately affect the consumer through the Tax incidence. The demand for alcohol is relatively inelastic as expressed earlier, which means that despite changes in price, the demand for alcohol will remain relatively constant.
- 3.11 If the point of excise is to internalise external costs at the margin, there is no excise rate that will work. Any linear excise will always overtax moderate and light drinkers while under-taxing the heaviest drinkers relative to external costs.
- 3.12 This would also be true if seeking to re-coup costs to cover all externalities. If harms were linear, it would be simple. But they're not. All-source mortality risk from drinking follows a J-curve<sup>ix</sup>; where light drinking improves health outcomes, the optimal tax may be negative for very light drinking, then rise sharply with consumption beyond about four standard drinks per day.
- 3.13 We consider it is more effective to address this behaviour at its source, via targeted education, rather than through taxation. This would be a more effective way to achieve the intended purpose.
- 3.14 With the current broad-based system with current levels of excise, there is fair and broad revenue collection which does not increase tax burdens on those who drink in moderation.
- 3.15 We do not believe that revenue raising provides a sustainable rationale for narrowly based indirect taxes in the modern-day environment where GST offers an alternative form of consumption taxation. Unlike the excises, GST has the attractive property that its very broad base and single rate makes the revenue it raises independent of how people choose to spend their money.

3.16 Many New Zealanders of modest means will pay as much or more indirect tax via alcohol and tobacco excise and gaming duties as they pay in GST levied on all of their spending. In the context of the efficiency of excise taxes, we consider that differences of this size in indirect tax burdens are very difficult to justify

#### **4. Conclusion**

- 4.1 The relationship between consumption and price is complex, using excise as a means to influence behaviours is a blunt and often ineffective tool.
- 4.2 The Brewers Association believes focus on broad based tax structure with some excise alleviates the tax burden on those who moderately consume alcohol.
- 4.3 Finally, that behavioural change is best enacted through targeted interventions to those who create the greatest negative externalities.

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**Dylan Firth**  
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**Brewers Association of New Zealand**

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i NZIER Report – Brewing in New Zealand

ii Official data, Department of Statistics see Table 4 in data series - [www.stats.govt.nz/information-releases/alcohol-available-for-consumption-year-ended-december-2017](http://www.stats.govt.nz/information-releases/alcohol-available-for-consumption-year-ended-december-2017)

iii Annual Update of Key Results 2015/16: New Zealand Health Survey – see <https://minhealthnz.shinyapps.io/nz-health-survey-2015-16-annual-update/>

iv Annual Update of Key Results 2016/17: New Zealand Health Survey – see <https://www.health.govt.nz/publication/annual-update-key-results-2016-17-new-zealand-health-survey>

v Financial statements for the Government of New Zealand year end June 2017 – See <https://treasury.govt.nz/sites/default/files/2018-02/fsgnz-year-jun17.pdf>

vi Baker, Consumption externalities and the role of Government- <https://treasury.govt.nz/publications/wp/consumption-externalities-and-role-government-case-alcohol-wp-02-25-html>

vii A C Wagenaar, M J Salois and K A Komro “Effects of beverage alcohol price and tax levels on drinking: A meta-analysis of 1003 estimates from 112 studies” (2009a)

viii J P Nelson “How similar are youth and adult alcohol behaviours? Panel results from excise taxes and outlet density” (2008)

ix Bo Xi, Sreenivas P. Veeranki, Min Zhao, Chuanwei Ma, Yinkun Yan and Jie Mi Relationship of Alcohol Consumption to All-Cause, Cardiovascular, and Cancer-Related Mortality in U.S. Adults **(2017)**