

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.



29 October 2018

Hon Sir Michael Cullen
Chair of the Tax Working Group
PO Box 3724
Wellington 6140
New Zealand

Dear Hon Sir Michael

Response to Interim Report of the Tax Working Group

In principle Spirits New Zealand supports the Tax Working Group's (TWG) interim position recommending a review of the current structure of the excise system as applied to beverage alcohol.¹ We believe that the current system is complex and does not properly reflect externalities by beverage alcohol type.

A system based on the volume of alcohol in beer, wine and spirits would be preferred as long as the assessment of this structure properly takes into account the true impact of each category. If this was the case then we believe we would see a flattening of excise levels without a reduction of tax take.

Although we understand the TWG's position to separate a review of the structure of the excise system from the level of excise applied we would contend that the two are inexorably linked and that they would need to be considered in parallel. We are aware, therefore, of a set of views put forward by, in particular, Alcohol Healthwatch purporting to make a case for a marked increase in the tax levied through alcohol excise.

We do not intend to make a point by point rebuttal of their submission at this time but refer the TWG to our original submission that points out that evidence suggests the relationship between consumption and price is complex.

Because of the linear nature of excise the impact of tax increases will have different impacts on different cohorts within a drinking population with light to moderate consumers reducing consumption significantly more than heavy drinkers. This position is supported by a most recent paper by Pryce, Hollingsworth and Walker (2018)² published after the first round of submissions had closed.

In the conclusion to this paper the authors' state:

The results suggest that price-based policies may not be effective at reducing consumption amongst heavy drinkers without penalising lighter drinkers.

¹ Tax Working Group Interim report pp 75 - 78

² Pryce, R., Hollingsworth, B., & Walker, I. (2018). Alcohol quantity and quality price elasticities: Quantile regression estimates. *European Journal of Health Economics*. doi:10.1007/s10198-018-1009-8.

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And in addition:

If the price of alcohol increases by 10%, the lightest quartile of drinkers reduce their consumption by 7.1% compared to 3.5% for the heaviest quartile of drinkers.

And lastly on this matter we note that the above comment has a cost/benefit implication based on the devised public health benefit of a reduction in heavy drinking as opposed to the impact on lighter drinkers and so on. We would point out that some groups often reference the public health cost of heavy drinking based on a recently (re) published review of externalities by BERL.

We note this review has received some level of criticism from other economists³⁴

We acknowledge the TWG's work to date in this area and, if government proceeds with a review, will expand in some detail on the brief comments made here.

Yours sincerely

[1]

Robert Brewer
Chief Executive
Spirits New Zealand Inc

[1]

³ <https://nzinitiative.org.nz/reports-and-media/opinion/the-alcohol-cost-zombie-has-returned/>

⁴ <https://lancewiggs.com/2009/07/03/fix-the-berl-report-on-alcohol-and-drugs/>