

SmokeLess New Zealand

Updated 15 February 2006

Tobacco taxation – trends, principles, review, and the case for reform

Trends

On 1 December 2005, the tobacco excise rate was increased by 3.44%, to adjust for inflation in the year to September.

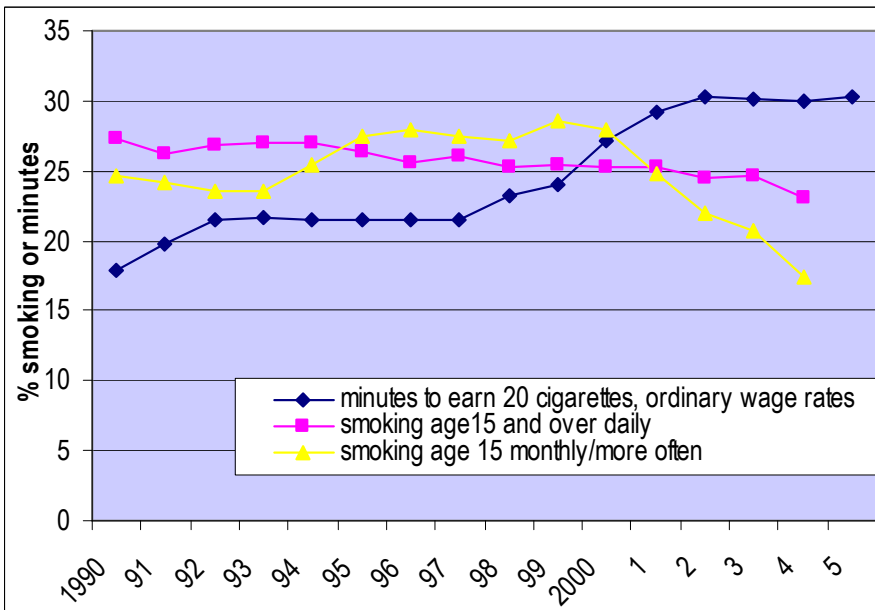
The tax on cigarettes rises from \$0.27009 to \$0.2794 per cigarette, and the tax on loose tobacco rises from \$0.33762 to \$0.34925 per gram of tobacco. This keeps the tax rate level in real terms. However...

The costliness of cigarettes (costliness in relation to income) has not increased since 2002. See Figure 1. The time required to earn 20 cigarettes has remained at around 30 minutes for four years. Unless the real tax rate on cigarettes is increased, smoking will become more affordable and wage rates rise above the level of inflation. The annual adjustment of tax for inflation every December 1 does not adjust for rising wages.

Cigarette price rise above the level of inflation overdue

Tax should be risk based. Price rise should not apply to cigars, pipe tobacco and snuff

Figure 1. Costliness of cigarettes associated with the trend in adolescent smoking more than with adult smoking 1990-2004



The increase in costliness of cigarettes can be traced to major tax increases in the mid-year Budgets: 1991, 1998 and 2000.

Costliness did not dent the annual adult smoking prevalence, (due to addiction causing relapse?) but when cigarette costliness increased (1998-02) adolescent smoking decreased.

The quit campaigns since 1999 have not been associated with noticeable decreases in adult smoking but have been accompanied by a major decline in adolescent smoking. The recent decline in adult smoking was in 2004 after the bill was passed to ban smoking in bars.

- Keep the price of cigarettes high to keep adolescents from smoking.
- Health advertising on dangers of smoking aimed at adults decreases adolescent smoking.
- Supply more adequate dosing of nicotine to smokers, & decrease nicotine content of cigarettes.
- Smoking fell 1% point in 2004, after the bill to ban smoking in bars and factories passed, (but not in 2005 after it came into effect.)

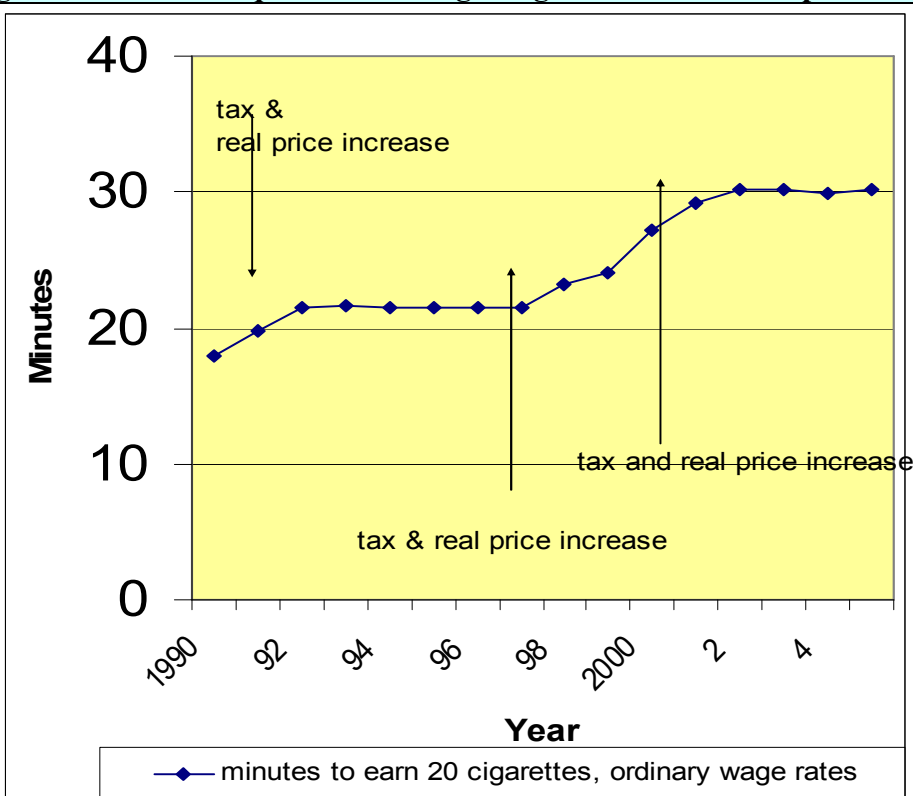
Principles

PROPOSED PUBLIC HEALTH POLICY PRINCIPLES FOR THE TAXING OF TOBACCO

Smokeless NZ maintains that in the light of new information on how very addictive tobacco products can be to many smokers, and on how cigarettes and other smoking tobaccos are far more dangerous than smokeless tobacco, it is time for government to review the basis of tobacco taxation – **to not just make smoking pricey, but costlier**, and also review why those addicted to nicotine and tobacco should be denied the choice of less dangerous (smokeless) products. We propose a nicotine-based tax alongside a basic tobacco tax, and that the tax be levied in proportion to the risk of using that class of tobacco product.

Principle 1. Increased costliness, not just a higher price

Figure 2. Minutes required at average wage rates to earn the price of 20 cigarettes 1990 -2005



In 1981 only 10 minutes was needed to earn 20 cigarettes.

In 2002 to 2004, the average worker was taking 30 minutes to earn the price of packet of cigarettes.

Costliness has not increased since 2002.

Comment In the 1986-92 recession, Government needed revenue, and so repeatedly increased tobacco tax, with considerable health gains. Now, as wages rise, tobacco tax needs to increase again to make smoking less affordable.

Principle 2 The smoker who pays the tax should get some benefit such as increased choice of reduced harm products.

Addicted smokers pay over \$1000 a year in tobacco tax, cannot buy a truly less addictive or even a truly low emission product. (All cigarettes currently sold contain ample nicotine to maintain addiction). Taxation could be used to favour products low on nicotine and low on toxicity. This principle leads on to the next two principles:

Principle 3 Use tax to assist smokers to quit - tax to favour reduced-nicotine-content cigarettes

Smokers addicted to nicotine have reduced ability to avoid paying tobacco tax, which is a transfer tax that falls heavily on Maori, of whom half are smokers. The labeling should be accurate, and based on nicotine content, and if this was the basis of taxation (rather than current packet labels), smokers would at least have properly labeled choices.

- Cigarettes are laden with much more nicotine than most smokers need.
- Many smokers feel they are in the grip of a very fierce addiction.
- A 30% reduction in nicotine content would not bother most smokers, and would assist others to quit.
www.smokeless.org.nz/lowernic.htm

Principle 4 Levy the tax in proportion to the risk from using the product

The current basis of tobacco taxation is based on the fallacy that the risk of consuming a kilogram of tobacco products is the same, whether of cigarettes or cigars. Cigars and pipe smokers (who have not smoked cigarettes) have risks (over and above that of never smokers) of about one third that of cigarette smokers. Smokeless tobacco is only one twentieth as dangerous as cigarettes smoking. (For a bar graph showing the relative risks of various tobacco products see oral_snuff.htm)

- Thus tobacco products thus vary at least 20-fold in their risk of causing early death.
- As the ultimate cost to the taxpayer and society depends on the risk, it makes sense to recover tax according to the risk generated by the use of that class of tobacco product.
- Cigarettes would attract the highest rate, and smokeless tobaccos (snus) a much lower rate.
- Cigarettes would attract 20 times as much tax as smokeless tobaccos (oral snuff).

Review

WHO REPORT ON TOBACCO TAXATION IN NEW ZEALAND

The World Health Organization recently published a report on Tobacco taxation and smuggling control: New Zealand: [TobaccotaxWHO.pdf](#) (10 pages, 344 Kb, printable version, authored by Murray Laugesen.)

“Taxation has been a common method of revenue collection for over 100 years in New Zealand and has been the major policy instrument to reduce tobacco use since the comprehensive tobacco control programme began in 1985. Tobacco tax rates have been raised once or twice a year since that time. In 2000 cigarettes were the second most

costly in relation to income among 22 OECD countries, after the UK. The 1986-92 recession saw the government increase tobacco tax for revenue reasons.

Consumption of tobacco products fell more rapidly in New Zealand than in other OECD countries from 1985 to 1998, due to reliance on taxation to increase revenue, but prevalence did not fall as rapidly in relation to some countries – prior to 1999 there was little support to help smokers to quit (no Quit advertising, no toll-free Quitline).....”

Reform

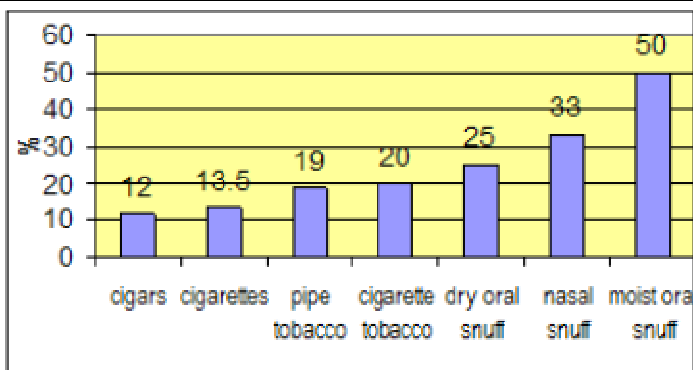
Tobacco tax was last reformed substantially by Finance Minister David Caygill in the late 1980s, when tobacco tax was applied on the basis that tobacco was a toxic substance, and all tobacco was equally toxic. Today we know that tobacco is not equally toxic – when tobacco is lit and smoked, it is much more toxic than when chewed or sucked. www.smokeless.org.nz www.smokeless.org.nz/cigarettesmokingrisks.htm

Current tobacco taxation (excise): <http://www.customs.govt.nz/manufacturers/Excise+Duty.htm>

Moist tobacco content is the current basis of taxation. Since 1979 the new Toxic Substances Act had classed tobacco as a toxic substance. The Sullivan review in 1988 accordingly based tobacco excise on the tobacco content (by weight) of the product, regardless of whether the product was a cigarette or a cigar. A cigarette is currently assumed to contain 0.8 grams of tobacco for taxation purposes. The average weight of tobacco of most brands of manufactured cigarette is known. However hand-rolled cigarettes may weigh less or more than this - usually less. Thus the average weight of the *average* New Zealand overall may be changing up or down but no-one knows exactly.

Moisture adjustment Logically, tax should be based on the active ingredient. As it is, the water content is also taxed. There is no adjustment for moisture. Moisture in the tobacco varies – in manufactured cigarettes moisture is 13.5%, in RYO and pipe tobacco 19%, in cigars, 12%, in dry snuff 25%, in moist snuff 50%.

Moisture content of tobacco products



Obviously the water in tobacco does no harm, and so the tax rate should be based on dry tobacco content. The moisture content of tobacco products can vary four fold.

As the harmful effect is from the tobacco not the moisture, the tobacco tax should be based on dry tobacco weight.

The current regime favours cigarette manufacturers and smokers, and disadvantages snuff users.

Moisture content: <http://www.ndp.govt.nz/tobacco/tobaccoreturns/2004/analysis/analysis-2004-tablesa-e.pdf> Of snuffs: www.swedishsnus.com

Inflation adjustment Under the Customs Act, since March 1990 tobacco excise has been automatically adjusted according to the consumer price index. The excise is altered (usually increased) each December 1st to adjust for inflation, so that the tax rate remains constant in real terms. Manufacturers usually increase their dollar take and the recommended retail price at the same time.

Income adjustment There is no such automatic adjustment of tobacco tax, as there is for inflation.

Risk adjustment. Not current the case, but strongly recommended. See www.smokeless.org.nz/taxandrisk.htm