

# Tackling smoking: it's time for a re-think

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Should an addicted 'pack-a-day' smoker have to pay an extra \$7,000 in tax each year?

Is it ethical for the government to collect nearly \$2 billion in extra tax from addicted smokers while spending only 3% of the money on actively helping them to quit?

With a new government about to review the tax system, it is time for a fresh look at how to reduce smoking in New Zealand.

For a very long time, the tax on tobacco has been the government's primary weapon against smoking. It is claimed to be the most effective method, however Māori, Pasifika and low income groups have been slower to give up than other New Zealanders. As a result:

- 35% of Māori smoke<sup>1</sup>
- 24% of Pasifika smoke
- only 14% of the 'European/Other' group are smokers.

And, in terms of socioeconomic groups:

- 27% of those in the most deprived group are smokers<sup>2</sup>
- only 8% of the most well-off group smoke.

Māori, Pasifika, and low income groups are paying a disproportionate share of this tax and it is going up relentlessly.

When Treasury recommended that the government continue to increase the rate of tobacco tax each year, it acknowledged that:

*"...the burden of increases would weigh heaviest on low-income groups who continue to smoke"* and

*"...increases of this magnitude would not, on their own, achieve the Smokefree 2025 goal..."*.

## How does it work?

From 1 January 2018 the tobacco tax is 83 cents per cigarette, with GST levied on top of that.

A smoker who smokes 20 cigarettes per day is paying \$133 in tobacco tax each week\*.

To put this in perspective, a pack a day smoker earning \$45,000 a year would pay:

- 15% of their income, or close to \$7,000 per year in income tax and a **further**

Cost of a Pack of 20 – Example only	
Product*	\$6.00
Tobacco Tax*	\$19.00
Total Price	<b>\$25.00</b>

\*Including GST

<sup>1</sup> 'Current smokers' are those who have smoked more than 100 cigarettes in their lifetime and are smoking at least once a month.

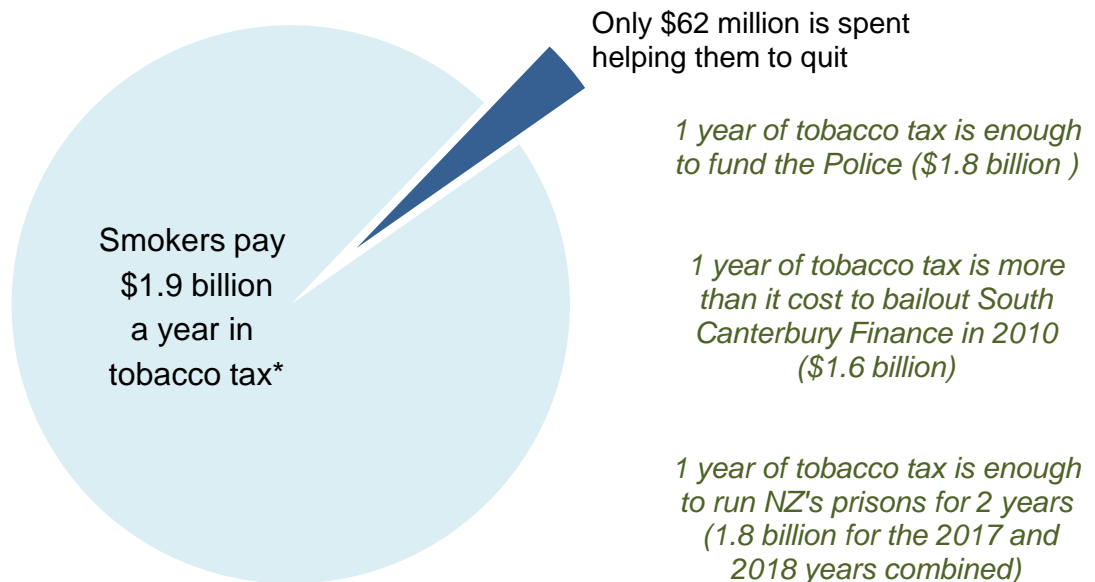
<sup>2</sup> The 20% of the population with the worst socioeconomic status.

- 15% (nearly \$7,000) of their income in tobacco tax each year.

### How much tax is being collected?

The government collects \$1.7 billion per year in tobacco tax itself, and \$1.9 billion when the GST on the tobacco tax is included. According to Treasury, this amount is forecast to grow to \$2.2 billion by 2021.

Only \$62m, or 3% of this money, is spent encouraging or actively helping smokers to quit.



### What about the health costs?

A common belief is that the tobacco tax is there to cover the public health costs associated with smoking, including passive smoking.

First off, the idea that smokers should be expected to meet these costs is highly questionable. We don't expect people who are overweight or have bad diets to pay extra towards their health costs. Our public health system simply doesn't work that way, and nor should it.

However even if we accept the idea that smokers should pay for health costs, it started to become clear 10 years ago that we were already past that point. A 2007 study commissioned by tobacco control groups concluded:

*"It appears likely that smokers contribute considerably more in taxes than the net 'economic costs' to the rest of the community caused by their smoking."*

Five years later in 2012, Treasury also acknowledged that the tax revenue was probably higher than the direct health system costs of smoking. Treasury's advice noted that smokers also receive less superannuation and aged care, reducing costs in these areas.

Taking these savings into account means that smokers have been paying their own way, and more, for years.

Since Treasury gave that advice in 2012, the excise rate has gone up from 44 cents per cigarette to 83 cents per cigarette, with GST imposed on top of that.

The ongoing increases cannot be justified on the basis of public health costs. The only legitimate purpose of increases in tobacco tax is to reduce smoking.

### **Does tobacco tax reduce smoking?**

Tobacco tax has played a part in reducing the proportion of adults (aged 15+) who smoke from 20.1% to 15.7% over the last 10 years. But it hasn't done it alone. Limiting where people can smoke, Quitline, media campaigns, advice from health professionals, bans on advertising, and nicotine replacement have also played their part.

The reduction in smoking has been slow and has come at a very high cost to those who haven't been able to give up. This cost is given little attention in policy advice to ministers.

The \$1.9 billion of revenue is not counted as a cost because it is worn by the 600,000 New Zealanders who still smoke.

The tax is being paid by those for whom the policy is failing. Māori, Pasifika and those on low incomes are over-represented in this group.

Of course reducing smoking is a very important health goal but addicted smokers are surviving on significantly less money per week after paying the tobacco tax. A pack-a-day smoker has \$133 per week less to spend on heating, good food and clothes for children.

The previous government's policy was to increase the excise by 10% plus the CPI on 1 January 2018, again on 1 January 2019, and again on 1 January 2020.

### **What would a new approach look like?**

Smokers need more active help to quit and there are now many ways to do this: more active support from health professionals, programmes like Quitline, nicotine replacement, e-cigarettes and so on.

The new government has the opportunity to introduce a fairer approach –

- double the amount spent on actively supporting smokers to quit, especially Māori, Pasifika and low-income groups
- freeze the excise rate at the current level.

Success will mean that the government will lose the \$2 billion in revenue that it has been getting from addicted smokers.

It's time to start thinking about collecting this revenue in other ways, from people who are in a better position to contribute.

\* Includes GST.

*Kathy Spencer is a (non-smoking) former Deputy Director-General in the Ministry of Health (responsible for Sector Policy) and a former Manager of Personal and Indirect Tax in the Treasury. She has also worked as a Senior Advisor to a Minister of Health and a Minister of Revenue.*