

Regulatory Impact Statement

Increase in Tobacco Excise and Equivalent Duties

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by The Treasury.

It analyses options to raise revenue for Budget 2012 and reduce smoking rates through further increases in taxation of tobacco, levied as excise (on domestically produced tobacco) and excise equivalent duties (on imported tobacco).

This analysis has been prepared with policy advice following a direction from the Minister of Finance to assess tobacco excise increases that could be progressed in Budget 2012. It does not assess and compare tobacco excise increases with other revenue, savings and expenditure options Ministers have considered in preparing the 2012 Budget. The focus is on the potential impacts of tobacco excise changes, and the role of excise in the wider context of tobacco control policy.

Analysis to inform a decision on tobacco excise increases for Budget 2012 has included:

- the impact of recent excise increases on Crown revenue and on consumption patterns;
- likely revenues from options to increase tobacco excise;
- initial information on likely distributional impacts.

The analysis has not included a range of other issues due to time and resource constraints. Key gaps in the information here include:

- overall economic and fiscal impacts of smoking (eg: health and other welfare effects on smokers, their families and others; impacts on labour productivity; the fiscal costs of publicly funded health and disability services linked to smoking; or fiscal offsets such as reduced superannuation and aged care expenditures due to the lower life expectancy of smokers).
- impact on the economic welfare of smokers and their families;
- impact on the tobacco industry: including importers, manufacturers, distributors and retailers.

Increasing tobacco excise requires Parliament to amend to the Excise and Equivalent Duties Table, pursuant to the Customs and Excise Act. Amendments are also recommended to extend existing time-limited provisions in various Acts to exclude tobacco price increases from CPI-based indices used to adjust NZ Superannuation, main benefits and various other transfer payments.

Increases to tobacco excise will impose minor additional costs on businesses in the tobacco supply chain to review and adjust prices and ensure compliance with the new excise rates. Little if any change should be required to existing systems and processes for compliance. Retailers may face additional costs to address security risks as the price of cigarettes is increased. Excise increases will encourage consumers to favour lower-priced brands, disadvantaging distributors focussed disproportionately on higher-margin "premier" brands.

Tobacco excise increases may reduce incentives to invest and innovate in tobacco importation, manufacture and distribution. However, unlike most products and services, the Government has adopted explicit goals to reduce tobacco consumption to improve the health of New Zealanders. Reducing investment in the distribution and sale of tobacco within New Zealand will naturally result from progress towards this goal.

Ruth Isaac, Manager, Health & Housing, The Treasury

20 April 2012

Objectives

This analysis assesses options to increase tobacco excise¹ to help achieve the objectives of:

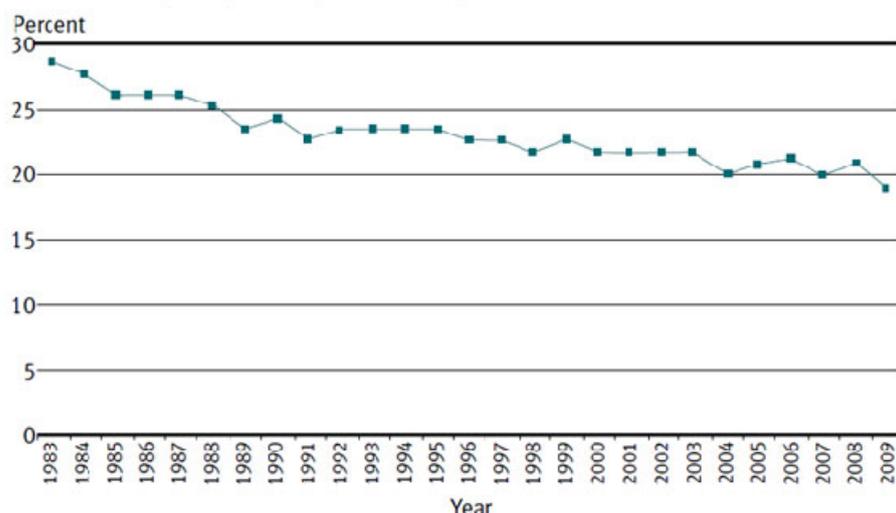
- responsibly managing Government's finances to achieve its fiscal strategy goals; and
- achieving the Government's goal of making effectively New Zealand smoke-free by 2025; while
- minimising negative economic and social impacts from a tobacco excise increase.

Status quo and problem definition

In February 2011, in response to recommendations of the Maori Affairs Select Committee *Inquiry Into The Tobacco Industry And Consequences Of Tobacco Use For Maori*, the Government adopted the aspirational goal of making New Zealand essentially a smoke-free nation by 2025, and to set specific mid-term targets as a means to ensure meaningful progress towards that goal [SOC Min (11) 1/4].

Smoking-related mortality is the single greatest cause of preventable premature death in New Zealand. Each year around 4500 to 5000 people die from smoking-related causes (including second-hand-smoke exposure). Smoking is the main cause of lung cancer and chronic obstructive pulmonary disease and is a major contributor to CVD (including stroke). The most recent (2009) estimate for current adult smoking prevalence is 19 percent, which represents a continuation of a downward trend evident since 1983.²

Current smoking in population aged 15 years and over (unadjusted prevalence)



Sources: AC-Nielsen 1983–2005, New Zealand Health Survey 2006/07 and Tobacco Use Surveys 2006, 2008 and 2009

Note: Previously published data has been revised to give a consistent definition of smoker and population age range.

Smoking prevalence and consumption is higher among Maori, young people and people with lower socio-economic status. Those communities bear a disproportionate burden of smoking-related illness and death. The social costs of smoking have been estimated at 62,800 life years lost to tobacco-related premature deaths, and 19,000 quality adjusted life-years lost to tobacco-related illness.³

Recent declines in measures of tobacco supply suggest smoking prevalence and average consumption by smokers have declined further following three step-increases in the real rate of tobacco excise implemented in April 2010, January 2011 and January 2012.

1 The term “excise” throughout this paper refers to both excise and excise equivalent duties.

2 This text and following chart are from the Director-General of Health’s Annual Report on the State of Public Health. Ministry of Health, 2011

3 This text is from the Ministry of Health’s April 2010 Regulatory impact statement (RIS) for the Excise and Excise-equivalent Duties Table (Tobacco Products) Amendment Bill

However, given current levels and trends in smoking prevalence and consumption, further policy steps will be needed to achieve the Government's 2025 smoke-free goal. Greatest progress appears to be being made in reducing uptake rates by new, younger smokers, but persistence of smoking by existing smokers will mean that overall prevalence rates do not decline towards the 2025 smoke free goal without further policy measures.

Current policy interventions

The Government currently uses four primary approaches to reduce tobacco-related harm:

1. Smoke-free Environments Act legislation:
 - prohibits smoking in workplaces and other public areas
 - prohibits promotion and advertising of tobacco products and tobacco sponsorship
 - controls the sale and labelling of tobacco products, for example mandatory pictorial health warnings, banning retail displays and banning sales of tobacco to minors
2. Cessation services and treatments, such as subsidised nicotine replacement and Quitline.
 - “*Better Help for Smokers to Quit*” is one of six Government health targets⁴. It makes it a priority throughout the health system to ensure patients are routinely asked about their smoking status, and given brief advice on quitting and available smoking cessation support.
3. Health education services, including media campaigns;
4. Taxation, including CPI adjustments and periodic increases to raise the price of tobacco.

Tobacco Excise – Current Rates and Impact of Recent Increases

Budgeted tobacco excise in 2011/12 was \$1.3 billion, approximately 1.5% of total Crown revenue (excluding gains)⁵. Excise is approximately 50%-60% of the total GST-inclusive retail price of tobacco products. The current rate is \$422.10 per 1000 cigarettes (or loose tobacco equivalent)⁶.

In April 2010, Parliament enacted the Excise and Excise-equivalent Duties Table (Tobacco Products) Amendment Act, which provided for 3 step-increases in tobacco excise:

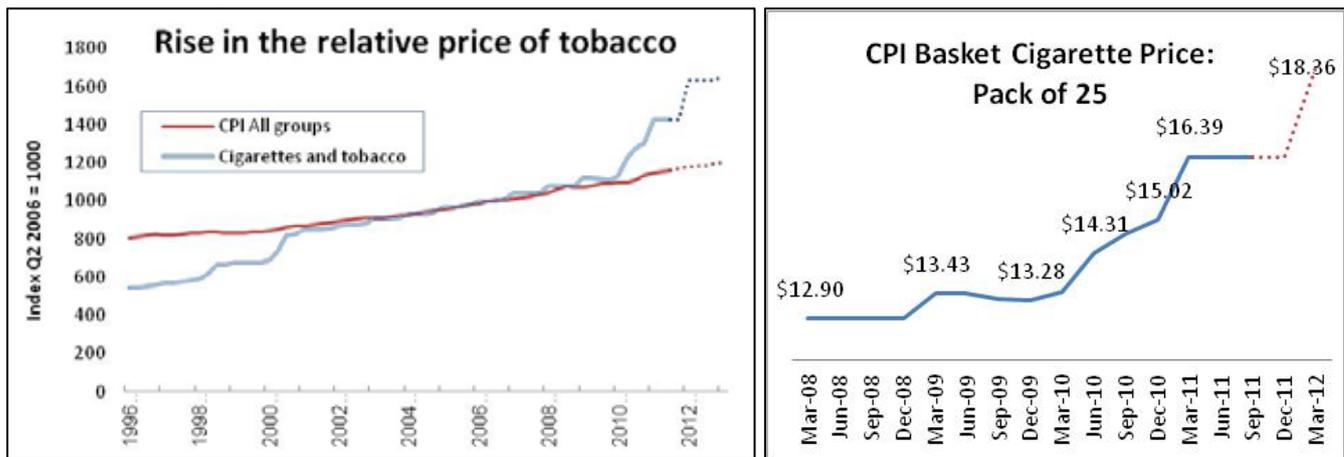
- a 10% increase in excise on manufactured cigarettes, and a 25.4% increase in excise on loose tobacco (to equalise rates by weight with the new rate for manufactured cigarettes)
- a 10% increase in addition to the annual CPI-based increase on 1 January 2011
- a 10% increase in addition to the annual CPI-based increase on 1 January 2012

⁴ Health Targets are a set of national performance measures specifically designed to improve the performance of health services.

⁵ Budget 2010 Economic and Fiscal Update, notes to the forecast financial statements.

⁶ Excise and Excise-equivalent Duties Table in the Working Tarriff Document of New Zealand <http://www.customs.govt.nz/news/resources/tariff>

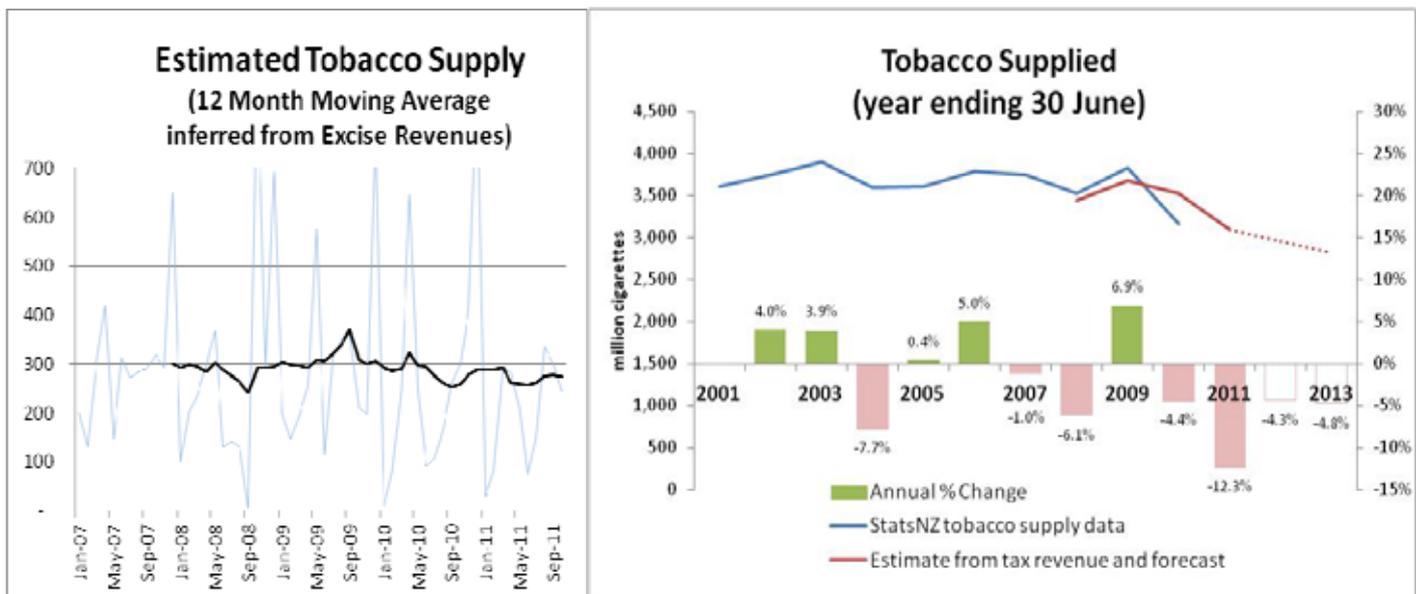
The charts below illustrate that these excise increases significantly raised the price of tobacco relative to other consumer goods for the first time since the late 1990s. Over the intervening decade, tobacco prices rose with general inflation as excise was indexed to the CPI.



* Dotted lines reflect forecast estimates.

Overall tobacco consumption appears to have fallen following the recent excise increases. However, consumption estimates rely mainly on overall tobacco supply measures, which are highly volatile. It may take another year to get a stable picture of the demand impact of recent excise increases.

5. Tobacco volumes are forecast to fall 20% between the years ending June 2009 and June 2012 (PREFU 2011 forecast) following a 38% increase in price.
6. This is a larger apparent fall in demand than might be expected in the short-term. Most studies of tobacco consumption price sensitivity in developed countries estimate that each 1% increase in price will reduce consumption by between 0.25% and 0.5%⁷.
7. Long-run consumption responses to real price increases are likely to be larger. Price increases immediately reduce consumption and induce quit attempts by current smokers, while over time uptake by new smokers is reduced.



⁷ Tobacco taxes as a tobacco control strategy, Chaloupka, Yurekli and Fong, Tobacco Control Vol 21,2, 172 (2011)

Rationale for Tobacco Excise

Tobacco consumption and smoking prevalence both respond to tobacco price changes. The price mechanism is generally accepted to be the most effective population-level policy lever available to government to combat smoking. Price responsiveness is generally greater among young people, and low income groups.⁸

There are three broad reasons for taxing tobacco: raising revenue, addressing negative financial “externalities” from smoking, and discouraging tobacco use for social policy reasons⁹.

Revenue

- Tobacco taxes are very efficient at raising revenue, as compared to other goods and services, consumers are not highly price sensitive due in part to the strongly addictive nature of nicotine.
- However, New Zealand generally employs a broad-base low rate approach to tax – this is a fairer and generally more efficient way to raise revenue than specific commodity taxes. The taxation of tobacco is an exception to this approach, as it applies a higher rate of tax to a narrow base. Narrow-based taxes should be designed primarily to correct particular market failures or other policy goals, not for general revenue-raising.

Correcting negative Financial Externalities

- Tobacco consumption imposes significant costs on government (mainly the cost of publicly funded health care for tobacco-related illness), on smokers’ families (including harm to children), and the wider community (including harm from passive smoking). Excise can make smokers “internalise” these costs in the price they pay for tobacco. This argument is called “negative externalities.”
- On the narrow *fiscal* grounds of covering the costs smokers impose on government, further increases in tobacco excise may not be justified. At over \$1.3 billion per year, tobacco excise revenues may already exceed the *direct* health system costs of smoking¹⁰. When the broader fiscal impacts of smoking are considered (eg shorter life expectancy reducing smokers’ superannuation and aged care costs), smokers are probably already “paying their way” in narrowly fiscal terms.
- Smoking may also reduce labour productivity and impose costs on employers, but in the time available we have not been able to study the research evidence to assess whether such productivity losses are material, and whether they are effectively “internalised” through effective wage rates in the functioning of the labour market.

Social Policy Objectives

- The social policy arguments for reducing and progressively working to eliminate smoking in New Zealand have been canvassed extensively and summarised in the report of the Maori Affairs Select Committee, and the Government’s response in 2011. Social policy arguments for tobacco excise rest on judgements about the extent to which the government should seek to discourage an addictive, destructive and harmful habit (especially amongst young people and relatively disadvantaged communities) to improve the health and wellbeing of all New Zealanders and to address inequalities in health and economic outcomes. It is on the basis of this Government has adopted the goal of a Smoke-Free New Zealand by 2025.
- Ultimately, interventions to reduce smoking increase life expectancy and quality, which are difficult to satisfactorily quantify in economic terms, but are considerable contributions to national welfare.
- Excise increases should be considered as part of a broader package of measures to ensure our tobacco control strategy is coherent, with mutually-reinforcing elements. Excise increases are most effective at deterring uptake by new smokers. As the “stock” of current smokers will still be the majority of smokers in 2025, even aggressive increases in tobacco excise tax rates are unlikely to be sufficient on their own to achieve the smokefree goal in this timeframe.

⁸ Consultation on the Future of Tobacco Control, United Kingdom Department of Health, May 2008

⁹ World Bank Economics of Tobacco Control Toolkit, Tool 4: Taxes

¹⁰ A recent Ministry of Health study estimated health costs of smoking at up to \$1.9 billion per year (15% of the Vote Health). While this estimate used more detailed data analysis than previously available to estimate health costs, it is well above previous estimates (a 2007 estimate put the cost of smoking to the health system at \$300-\$350 million per year) and its methodology for comparing lifetime health care costs has been contested.

Options to increase Tobacco Excise

Three options for tobacco excise increases are presented below, and assessed in terms of their likely impact on: government revenue; tobacco consumption and smoking prevalence; on consumers; and on tobacco suppliers:

1. 10%+CPI increases for four years, implemented on 1 January
2. An immediate 10% increase in May 2012, and further 10%+CPI 1 January increases for four years
3. An immediate 30% increase in May 2012, and further 10%+CPI 1 January increases for four years.

Other options include implementing a single step increase in tobacco excise, or the status quo. The relative effect of both these options on the government's revenue and smoking cessation targets can also be inferred through the analysis below.

Revenue estimates

The Treasury's revenue estimates for three options to increase tobacco excise are set out below. All options are for revenue increases *in addition to* revenue increase from annual CPI indexation on 1 January which is included in baseline forecasts for the status quo.

Revenue Gained (\$ millions)	2011/12	2012/13	2013/14	2014/15	2015/16	4-year Total	Compounding % excise increase above CPI to 2015/16
10% each 1 Jan for 4 years	-	22	94	166	246	528	46%
10% Budget night then 10% each 1 Jan for 4 years	5	82	149	219	299	755	61%
30% Budget night then 10% each 1 Jan next 4 years	16	159	216	280	357	1,018	90%

Key revenue assumptions:

- No stockpiling to avoid Budget night increases. For other increases, 70% of product is produced/imported in first half of fiscal year avoiding the 1 Jan increase.
- Price elasticity of demand constant at -0.5. A 10% increase in price leads to 5% decrease in consumption. With larger increases the uncertainty around this estimate is greater. Demand is likely to respond less in the short run (affects current smokers only) than long run (as take-up rate by new smokers also falls).
- Extra GST not included (increased spending on cigarettes is substituted from other consumption subject to GST).
- "Pass through" of excise increases to retail prices is assumed to fall from 140% to 100% over the forecast period. This means the first increase is passed through and marked up (so price rises nearly the same *percentage* as excise rises), but later increases are passed through with less mark-up (so price rises the same \$ amount as excise rises).

Lower pass through rate means a given excise increase yields more revenue but reduces smoking less, as it has lower impact on retail price. Reasons to expect this include increasing consumer price resistance and migration to budget brands (we saw this with the previous increases)

Impacts on consumption and health

The following price and demand responses are expected from a sequence of 10% increases in real excise rates. Impacts for a 30% increase are basically triple this. The cigarettes and tobacco group makes up 2.13% of the Consumer Price Index.

	Increase in tobacco excise	Increase in tobacco retail price	Decrease in consumption	Change in CPI (% points)
2013Q1	10%	7.95%	3.9%	0.23
2014Q1	10%	7.61%	3.8%	0.24
2015Q1	10%	7.28%	3.6%	0.25
2016Q1	10%	6.93%	3.5%	0.25

In its April 2010 regulatory impact analysis informing the legislation to implement the previous round of tobacco excise increases, the Ministry of Health noted the following estimates for future consumption and health impacts of 10% and 33% increases in tobacco excise. These estimates assume a similar demand response (-5% consumption for a 10% price increase) to those used in the costings in this paper.

	Reduction in current smoking prevalence (%)*		Reduction in tobacco consumption (%)		Reduction in tobacco-related deaths per annum	
	2021	2031	2021	2031	2021	2031
Increase tax on all tobacco products 10 %	2	4	3.5	6	90-100	150-175
Increase tax all tobacco products by 33.3%	6.5	13	11.5	20	300-375	500-575

* A 1 percent drop in prevalence equates to approximately 30,000 fewer smokers.

Treasury has not undertaken a similar analysis for the current proposals. However, the Ministry of Health's 2010 estimates are a reasonable basis from which to make the following *tentative* estimates for the options considered (based on a simple extrapolation with some discounting for time lags).

A tentative estimate of tobacco excise increase options on smoking prevalence, tobacco consumption and annual deaths

Excise Increase Options	Reduction in current smoking prevalence (%)*		Reduction in tobacco consumption (%)		Reduction in tobacco-related deaths per annum	
	2021	2031	2021	2031	2021	2031
10% each 1 Jan for 4 years	7	14	13	20	300-350	500-650
10% Budget night then 10% each 1 Jan for 4 years	9	16	16	24	350-425	600-750
30% Budget night then 10% each 1 Jan next 4 years	12	20	20	35	600-700	1000-1200

* A 1 percent drop in prevalence equates to approximately 30,000 fewer smokers.

The impact of reduced tobacco-related illness and deaths on public health system costs has not been estimated for this analysis.

Balancing revenue objectives and the value signalling future increases to prompt quit attempts

Budget night increases deliver greater revenue for government for a given increase in excise, not only because of earlier implementation, but because increases implemented without notice reduce tobacco distributors' opportunities to avoid the excise increase by stockpiling in advance. However price increases signalled well in advance may be more effective in achieving government's health goals as they are more likely to encourage quit attempts by smokers, and to be implemented alongside well prepared quit-support services.

While it can be expected that higher levels of increase will elicit more quit attempts as an immediate response, it is unclear whether a single large increase in excise would be more or less effective in reducing smoking prevalence than a sequence of repeated excise increases amounting to the same level. In 2010, Cabinet favoured a sequence of three 10% steps rather than a one-off 30% increase, as it considered this would offer a repeated set of messages to smokers. The Treasury does not have any evidence available to support one approach over the other as being more likely to be effective in prompting sustained reductions in smoking.

Impacts of tobacco excise increases on consumers

A tobacco excise increase will result in some loss of consumer surplus resulting from the reduced demand at the higher price level. However, the powerfully addictive nature of nicotine means that the extent of smokers' "free choice" to smoke is debatable and many smokers report regret at having started the habit. This offers another possible rationale for taxing tobacco – correcting a failure of consumer rationality. This line of analysis has not been assessed or relied upon in developing these options for increased tobacco excise.

Taxes on tobacco are regressive, as smoking rates are highest in lower socio-economic groups. Recent Treasury analysis of fiscal incidence of government revenue and expenditure indicates that households in each income quintile pay similar shares of total tobacco excise, whereas for other indirect taxes (GST, fuel and alcohol excise) households in the lowest income quintiles pay a significantly smaller proportion than higher income households.

Some tobacco control researchers argue that while excise taxes are regressive, increases in excise may not be regressive¹¹. Low-income smokers are more likely to quit or cut back in response to a tax increase, but whether this is sufficient to make an increase in a regressive tax effectively a progressive tax change is an untested empirical question in the New Zealand context. In the time available we have not been able to thoroughly research the evidence on this. However, for any given increase, the majority of current smokers in any income group will not quit, and they will struggle to reduce consumption by the amount they would need to in order to spend no more on tobacco. Policy makers must therefore take into consideration the negative financial impact that excise increases are likely to have on the majority of low-income households with smokers – especially in the shorter term when quit attempts and other behavioural responses are difficult. Public health evaluations of the impact of tobacco excise must also take into consideration the impact of excise increases on the household budgets of smokers.

Illustration of the impact of excise increases on price and smokers' personal budgets:

- The average smoker smokes approximately 12 cigarettes a day. Assuming a current price of \$16 per packet of 20, this is a total cost of \$3,500 per year.
- Under option one, after four annual 10% increases in tobacco excise (compounding to 46%) and assuming prices increase by 110% of the tax increase, the same packet of cigarettes will cost about \$21.20 – or \$1.06 per cigarette.
- Continuing to smoke 12 cigarettes per day will cost approximately \$1,130 more per year.
- To spend no more on tobacco than at present, an average smoker would need to reduce consumption approximately 24% over 4 years (to 9.1 per day).

¹¹ Tobacco taxes as a tobacco control strategy, Chaloupka, Yurekli and Fong, Tobacco Control Vol 21,2, 172 (2011)

Impact on Retailers, Distributors, Importers and Manufacturers

The proposals involve minor costs to retailers and manufacturers related to the need to change price notices in retail outlets. Existing systems and infrastructure for excise compliance mean there is little if any other compliance cost.

Tobacco retailers and distributors may face increased security risks and costs to protect themselves, their property and staff, due to an increase in the attractiveness of tobacco to criminals. Following the last excise rises, Cabinet was provided with a report on the implications for illicit tobacco trade (further detail below). New Zealand does not currently have the conditions for large problem of this type, and the New Zealand Customs Service and the Police regularly monitor the situation and can respond if a problem emerges. In the time available, the Treasury has not been able to consult with the New Zealand Police or assess further evidence on these risks and any costs to tobacco retailers – including evidence of any changes in criminal offending patterns following recent increases in tobacco excise.

All participants in the tobacco supply chain will experience a loss of revenue if the proposals have the intended effect of reducing tobacco consumption. Specialist retailers, manufacturers and distributors will face the greatest commercial impact as tobacco-specific investments will be less able to be adapted to the sale of other consumer products.

Consumers have substituted toward lower-cost brands following the recent increases in tobacco excise, and this trend will continue, resulting in a loss of market share and income to owners and distributors of focussing disproportionately on “premium” high-margin brands.

Inbound duty free purchases of tobacco (approx 5% of consumption) will likely increase, enabling duty-free retailers (and/or airports as their landlords) to capture significant economic rents. Duty-free retail prices are not fully discounted by the value of domestic taxes on tobacco, and duty-free margins are likely to increase over time.

The only domestic producer of tobacco products is Imperial Tobacco, which has about 17 percent of the local market.

Other Risks

Increasing tobacco excise is likely to increase incentives for trade in illicit tobacco in three areas:

- Smaller-scale abuse of:
 - duty-free concessions for tobacco imported for personal use by international travellers;
 - the duty-free allowance for gifts sent by post – currently \$110, including tobacco; and
 - undeclared tobacco products sent by post
- Larger-scale illegal importation of tobacco products (including “counterfeit” branded tobacco products)
- Sale of illicit domestically-grown tobacco.

New Zealand’s geographic isolation, border control systems and climate mean the risks of large-scale smuggling and illicit domestic manufacture are comparatively low. These risks were assessed by The New Zealand Customs Service in 2010 following the previous round of excise increases, and Customs continues to monitor illicit tobacco in cooperation with the Police.

Abuse of personal duty free tobacco concessions and postal gift allowances is likely to rise with further excise increases. These will generally be small scale offences such as travellers attempting to bring in one or two packages of cigarettes in excess of their duty free allowance, and/or repeated posting of tobacco as “gifts” that are then on-sold. There may also be an increase in organised abuses of duty-free concessions, such as arranging for groups of travellers to pass tobacco purchased for personal use to others for black market sale.¹²

¹² “Out of the Shadows” Report on New Zealand’s illicit tobacco market, by Ernst and Young, commissioned by British American Tobacco, March 2010

Consultation

The Ministry of Health and NZ Customs Service were consulted in preparing this regulatory impact analysis. No further consultation was undertaken due to time constraints and budget sensitivity.

Summary of Options

Option (in addition to annual CPI-based increases)	Revenue \$m total over 4 years	Progress to 2025 Smoke-free Goal (estimate by 2021)	Financial impact on households On average smoker (12 per day)	Impact on Tobacco suppliers
1. 10% each 1 Jan for 4 years	528	Prevalence ↓7% Consumption ↓13 Deaths ↓300-350pa	By 2016 • 32% real price increase • \$1130 per year at 12 per day, or reduce smoking 24% to spend no more	Lowest
2. 10% on Budget night then 10% each 1 Jan for 4 years	755	Prevalence ↓9% Consumption ↓16 Deaths ↓350-425pa	By 2016 • 43% real price increase • \$1490 per year at 12 per day, or reduce smoking 29% to spend no more	
3. 30% on Budget night then 10% each 1 Jan 4 years	1,018	Prevalence ↓12% Consumption ↓20 Deaths ↓600-700pa Large “shock” increase may prompt a major jump in quit attempts.	By 2016 • 63% real price increase • \$2200 per year at 12 per day, or reduce smoking 38% to spend no more	Highest

Recommended Approach

The Treasury favours a sequence of regular modest, and well-signalled increases in tobacco excise. This is likely to contribute most to a long-term and sustainable strategy to reduce smoking rates.

Option one is therefore preferred – a sequence of four 10% increases in addition to the annual CPI-based adjustment, implemented on 1 January 2013-2016.

The Government could consider legislating for fewer than four annual step increases in tobacco excise at this time, to enable further evaluation to inform future decisions. However, achieving the Government’s 2025 smoke-free target is likely to require significant increases in excise as part of a strategy to achieve this, and signalling these increases well in advance reduces uncertainty for tobacco suppliers.

Regular, pre-signalled excise increases are more likely to be coordinated with well designed education and support programmes for smokers, and give low-income smokers more time and opportunity to adjust financially.

In taxing a group of consumers that are addicted and disproportionately drawn from Maori and lower-socio economic communities, the Government should ensure that programmes to educate and support smokers to make successful quit attempts are adequately resourced, well implemented, and effectively designed and targeted to reach high-risk groups.

The Ministry of Health favours the highest possible increase in tobacco excise in order to give the strongest incentive for smokers to quit, and also agrees that a regular sequence of increases in tobacco excise provides an ongoing drive for smoking cessation, especially if the annual rises can be supported with reinforcing public awareness campaigns and cessation support service advertising.

Option three, a of 30% on Budget night and then 10% plus CPI in outyears, would provide the greatest incentive for smokers to quit.

Implementation

The preferred option will be given effect by:

- Legislation amending the Excise and Excise-equivalent Duties Table pursuant to the Customs and Excise Act 1996; and
- Legislation amending the CPI-based indexation provisions for transfer payments in the various Acts noted above.

Compliance costs will be minimised by maintaining the current structure and classifications for tobacco excise and ensuring effective communication with tobacco manufacturers and importers.

In considering legislative amendments the Government could also investigate the merits of allowing for excise rates to be adjusted by regulation in future (in addition to the present regulatory mechanism for CPI-based adjustments).

Monitoring, evaluation and review

The Ministry of Health has an ongoing evaluation process to measure the impact of tobacco excise and other smoking cessation policies.

The Ministry has commissioned a preliminary evaluation of:

- the recent excise increases' impact on tobacco consumption and smoking prevalence;
- the effectiveness of New Zealand's excise increases compared to those elsewhere (e.g. comparing different tax designs and levels of increase); and
- what other environmental factors have affected consumption and smoking rates.

This will need to be adapted to include evaluation of the proposed excise increases. The proposals are expected to have an immediate impact on smoking prevalence and tobacco consumption. The impacts on health status and any reduction in costs to the health system will take longer to track and will be the subject of ongoing research by the Ministry and academic institutes.

The effectiveness of the policy proposal in achieving government's fiscal objectives will be measured by comparison of achieved and expected revenue.