

The Treasury

Budget 2012 Information Release

Release Document

June 2012

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
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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.

David Curry

From: John MacCormick
Sent: Wednesday, 18 April 2012 9:40 a.m.
To: 'Carolyn Palmer (MIN)'; Andrea Black
Cc: Cameron Burrows
Subject: RE: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)
Attachments: SUMMARY OF REVENUE ESTIMATES FOR TOBACCO EXCISE INCREASES

Yes those numbers are correct

A summary of the final costings on different options considered is attached

John MacCormick | Senior Analyst | **The Treasury**

[3]

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From: Carolyn Palmer (MIN) [mailto:carolyn.palmer@parliament.govt.nz]
Sent: Wednesday, 18 April 2012 9:30 a.m.
To: Andrea Black
Cc: John MacCormick
Subject: RE: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

Thanks. So just to confirm the final numbers are:

2011/12	0
2012/13	22
2013/14	94
2014/15	166
2015/16	246

Regards
Carolyn

From: Andrea Black [mailto:Andrea.Black@treasury.govt.nz]
Sent: Wednesday, April 18, 2012 9:05 AM
To: Carolyn Palmer (MIN)
Cc: John MacCormick
Subject: FW: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

Hi Carolyn

John MacCormick who is the real brains in this work has given me the answer below. He is happy to discuss if you have any other questions.

Cheers

Andrea Black | Principal Advisor | **The Treasury**

[3]

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From: John MacCormick
Sent: Wednesday, 18 April 2012 8:18 a.m.
To: Andrea Black
Subject: RE: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

Hi Andrea

Since the earlier aide memoire in February we revised the costings as we tested other options. The main difference is the assumption about “pass through” rates – how the tax increase affects retail prices. We’re now assuming that over the 4 years, the pass through rate falls from 140% (ie distributors apply a mark up to the tax increase, so price increases by 140% of the \$ increase in excise) to 100% (ie distributors pass on only the tax increase). That reduces the price increase, resulting in a smaller fall in demand, and hence slightly higher revenues from any given tax increase.

Happy to call or email Carolyn with details if it would help.

John MacCormick | Senior Analyst | **The Treasury**
[3]

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From: Andrea Black
Sent: Tuesday, 17 April 2012 5:33 p.m.
To: John MacCormick
Subject: RE: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

Hi John

Had a email/call from Carolyn from MOF’s office who noted that the revenue numbers in this aide memoire are similar to the draft budget numbers but not the same. I couldn’t give her a sensible (or otherwise) answer – do you know the answer?

Cheers

Andrea Black | Principal Advisor | **The Treasury**
[3]

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From: [3]
Sent: Monday, 20 February 2012 5:04 p.m.
To: Andrea Black
Subject: FW: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

See below for the Aide Memoire on Excise and other tobacco control options.

[3] | Analyst | **The Treasury**
[3]

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From: [3]

Sent: Friday, 17 February 2012 12:21 p.m.

To: 'Carolyn Palmer (MIN)'

Cc: @Aide Memoires; 'Maraina Hak (MIN)'; Peter Martin; Wayne Stevens; John MacCormick

Subject: Aide Memoire: Excise and Other Tobacco Control Options (tax comments)

Hi

Please see the attached Aide Memoire on Excise and other tobacco control options. Maraina, I have copied you in for your Minister's potential interest given it involves both revenue and health.

[Aide Memoire: Excise and Other Tobacco Control Options \(tax comments\) \(Treasury:2264571\)](#) [Add to worklist](#)

Thanks

[3]

I | Analyst | **The Treasury**

[3]

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SUMMARY OF REVENUE ESTIMATES FOR TOBACCO EXCISE INCREASES

10 APRIL 2012

All options are in addition to annual CPI indexation on 1 January as assumed in baselines

Revenue Gained (\$ millions)	2011/12	2012/13	2013/14	2014/15	2015/16	4-year Total	Compounding % excise increase above CPI to 2015/16
1. 10% each 1 Jan for 4 years	-	22	94	166	246	528	46%
2. 10% Budget night then 10% each 1 Jan for 4 years	5	82	149	219	299	755	61%
3. 30% Budget night then 10% each 1 Jan next 4 years	16	159	216	280	357	1,018	90%

Assumptions:

- No stockpiling to avoid Budget night increases (This assumes the increase is kept confidential until legislation passed under urgency. Last time excise was increased, a large shipment was brought across the customs border immediately before the legislation was passed.)
- For other increases, 70% of product is produced/imported in first half of fiscal year avoiding the 1 Jan increase.
- Price elasticity of demand is assumed 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 will 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 increase to retail price is assumed to fall from 140% to 100% over the forecast period.
 - The first increase is passed through and marked up (so price rises the same % as excise rises).
 - Later increases are passed through with less mark-up, then no 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)

Notes

Revenue estimate for Option 1 has increased by \$76m over four years, compared to original 26 March estimate used in previous fiscal issues advice (was \$452m over 4 years). This is because we are now assuming a declining “pass through” rate, which means smaller price increases, and smaller demand responses for the same level of tax increase.

Options 2 and 3 were costed for Ministry of Health on 29/03/2012 for advice to Assoc Minister of Health. They use the same pass through assumption as the revised costing for Option 1.