What is tobacco tax for—revenue or health?

The New Zealand Parliament is currently considering new tobacco taxation legislation, as signalled in the 2012 budget. This provides an opportunity for the Government to clarify what tobacco tax is primarily for. There appears to have been some ambiguity in recent decades in New Zealand about the actual priority of tobacco taxation—revenue collection or protecting health.

The present Bill being considered [the Customs and Excise (Tobacco Products – Budget Measures) Amendment Bill] reinforces this ambiguity by currently using an option (a 10% tax rise per year for 4 years), that has the least health impact of the options offered by Treasury, and the least impact on the tobacco industry.

We suggest that protecting health should clearly be the priority purpose of tobacco taxation and there is no ethical justification for making revenue a priority. That is, it is clearly unethical in our view for a government to use an addictive drug to raise general revenue from a (relatively deprived) segment of the population.1 Furthermore, if the government goal of a smokefree New Zealand by 2025 is taken seriously, then in the medium term (within 7–8 years or less) the New Zealand Government will need to make other arrangements to find revenue sources, as the tobacco tax take declines.

We suggest that Parliament makes it explicit in the tobacco tax legislation that:

- The primary purpose of the current Bill is to reduce smoking so as to prevent harm to health and to prevent premature deaths, rather than to increase Government revenue.
- The Bill is a key part of the Government plans for achieving a smokefree nation in 2025.

Both these issues could be addressed by adding a “Purpose section” before Section 1 of the Bill.

This emphasis would make it clear that the Government priority is now preventing premature deaths, preventing avoidable suffering and reaping the economic dividend from a smokefree nation, and not gathering revenue.

There will be fewer impacts on infant and child health in a smokefree society (e.g. from sudden infant death syndrome, asthma, respiratory infections etc) but most of the health benefit will be from preventing premature deaths among parents and grandparents (from cardiovascular disease and cancer). This health benefit will be particularly gained for those groups that disproportionately suffer the health burden from tobacco at present: low-income, Māori and Pacific peoples.

A priority for tobacco taxation should also be saving youth from addiction. Youth are relatively price sensitive, with the scientific evidence strongly showing that higher tobacco prices reduce the youth uptake of smoking.2 Furthermore, internal tobacco industry documents support the importance of price for youth.3

A healthier population that has fewer deaths before retirement age is more economically productive. Some of the economic dividend from lower health costs in a
smokefree society will be far in the future, but some benefits are almost immediate. For example, declines in secondhand smoke exposure can lead to reduced hospital admissions from heart attacks within a matter of months. However, as the Government’s smokefree 2025 plans progress, government revenue from tobacco taxation will decline from the present $1.3 billion and will become very small. The more the government is successful, the quicker this will happen. Some of this revenue will be automatically replaced by displaced expenditure (e.g. on food, clothes and other consumer products) and the GST revenue that these generate.

While there will be large net economic benefits to New Zealand from becoming smokefree, the net financial benefits to government may lag, and so new revenue streams should ideally be in place soon (if the Government wishes to maintain the same revenue level).

Finally, along with tobacco tax rises, the New Zealand Government needs to do much more to help smokers to quit and stay quit. The most important actions needed are ones that change the smokers’ environment and that will help make it easier for smokers to quit and stay quit (e.g. smokefree cars, smokefree outdoor pub and café seating, smokefree outdoor pub and café seating, smokefree streets, and ending the anomaly of duty-free sales). These can easily be done by government for little cost. What is more costly—and which should be funded by tobacco tax revenue—are mass media campaigns to promote quitting, at the level used by Australia or more.

All these actions will help to progress the country towards the smokefree nation 2025 goal and to reap the health benefits, the health inequality reduction benefits, and also economic benefits from this visionary strategy.

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