

From: [Meredith Ackrill](#)
To: [Christine Stevenson](#); [BARGH Richard](#)
Cc: [Ministerial Servicing](#)
Subject: Meeting on tobacco excise indexation
Date: Tuesday, 28 November 2023 10:49:26

Mōrena Christine and Richard

The meeting to discuss tobacco excise indexation has been confirmed for 3.30-4pm today. This place is a rabbit warren so I'll meet you at reception and bring you up.

Richard – could I please get the revised paper asap to give to the Minister before the meeting?

Ngā mihi
Meredith



Meredith Ackrill

Private Secretary – Customs | Office of Hon Casey Costello
Minister of Customs
Minister for Seniors
Associate Minister of Immigration
Associate Minister of Health
Associate Minister of Police

DDI: **Section 9 (2) (a) OIA**

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From: [BIGNELL Warwick](#)
To: [DICKSON Denise](#); [KYNE Jacob](#); [LAKE Kim](#); [Ministerial Servicing](#)
Cc: [TAYLOR Nicole](#); [PRICE Gabriella](#)
Subject: FW: Tobacco Indexation Papers
Date: Tuesday, 28 November 2023 12:16:30
Attachments: [Aide Memoire Tobacco Indexation 281123 FINAL to Minister.docx](#)
[CAB Paper tobacco indexation 281123 FINAL to Minister.docx](#)
[CCS221002 - Order in Council Excise and Excise-equivalent Duties Table \(Tobacco\) 2023 - Goatskin.pdf](#)
[Certification Letter \(November 2023\) - Tobacco Indexation OIC 2024.pdf](#)
[image001.png](#)
[image002.png](#)
[image003.png](#)

FYI; indexation material sent today.

As I understand it, the Minister will be briefed later today. At this stage we do still not have a decision.

Regards

Warwick

From: BIGNELL Warwick

Sent: Tuesday, November 28, 2023 11:23 AM

To: Meredith Ackrill <xxxxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx>

Cc: BARGH Richard <xxxxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx>; MACIVER Kathryn <xxxxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx>; STRICKSON Paula <Paula.Strickson@customs.govt.nz>; PRICE Gabriella <xxxxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx>

Subject: Tobacco Indexation Papers

Hi Meredith

Please find attached an Aide Memoire on the Tobacco Indexation for Minister Costello, with attachments of:

1. Proposed Cabinet Paper
2. Draft Order-in-Council, to go with the Cabinet Paper
3. Certification of the Order from Customs' Chief Legal Advisor.

Do you need me to bring the printed copy (with the Goatskin across)?

One thing added to the Aide Memoire is that usually the Minister would make an announcement/press release when the decision has been made. Please advise if this is required – we can send through draft material.

I am happy to discuss.

Regards

Warwick

Warwick Bignell | Senior Analyst, Revenue Policy | New Zealand Customs Service | PO Box 2218 Wellington 6140, New Zealand | **Section 9 (2) (a) OIA** | [xxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx](#) | www.customs.govt.nz

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AIDE MEMOIRE

28 November 2023

RPT 23/155A

EXCISE AND EXCISE-EQUIVALENT DUTIES TABLE (TOBACCO PRODUCTS INDEXATION) AMENDMENT ORDER 2023

Cabinet in week of 27 November 2023

Action sought

- Seek Cabinet's agreement to submit the Excise and Excise-equivalent Duties Table (Tobacco Products Indexation) Amendment Order 2023 (the Order) to the Executive Council. If signed by the Governor-General and notified in the Gazette by 1 December 2023, the increases to tobacco excise will come into force on 1 January 2024.

Speaking points

Tobacco indexation changes are regular and provided for in legislation

- This paper seeks your agreement to increase tobacco excise on 1 January 2024 by 5.64%, as provided for in the Customs and Excise Act 2018. An indexation adjustment for inflation has been carried out for tobacco each year since 1989.
- The tobacco industry expects an indexation increase in the rates and factors it into their annual planning.

Increasing tobacco excise to reflect inflation means the price of tobacco continues to dissuade smoking, as well as increases revenue collected

- Tobacco taxation is one of a range of measures that make up New Zealand's comprehensive tobacco control programme. Increasing the price of tobacco tends to reduce consumption.

To increase tobacco excise, an Order in Council must be signed by the Governor-General in Council

- To implement this change, the Executive Council needs to approve the Order, and then the Governor-General in Council needs to sign the Order (the draft Order attached to the Cabinet paper). The tobacco excise adjustment can only take place on 1 January 2024 under the current legislative settings.

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- If Cabinet declines the proposed adjustment, the next opportunity to adjust excise duty rates on tobacco products by indexation will be on 1 January 2025, to reflect inflation for the year ending 30 September 2024. Future indexation increases cannot retrospectively include an adjustment for inflation for the year ending 30 September 2023, without an amendment to legislation.

To meet expected legislative timeframes, the Order must be notified in the Gazette 28 days prior to it taking effect (or by 1 December 2023 at the latest)

- Usually when an Order is made (signed by the Governor-General), 28 days are required between the notification of the Order in the *New Zealand Gazette* and the date the order takes effect.

Communications

- If you would like to issue a press release, Customs will work with your office to prepare the necessary material.
- After the Order is gazetted, Customs will formally advise the large importers (Imperial Tobacco NZ Ltd, British American Tobacco (NZ) Ltd, Philip Morris (NZ) Ltd, and R&S King Limited), and Retail New Zealand of the new rates.
- Advice of the new rates will also be placed on Customs' website and in the weekly online newsletter *Customs Release*.

Officials attending

- Kathryn MacIver, Group Manager Policy and Strategy and Paula Strickson, Acting Manager, Revenue Policy will be available to attend if required.

Ministerial Consultation

- [Minister's office to complete]

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SUPPORTING INFORMATION

Customs role

- ▶ The New Zealand Customs Service (Customs) carries out border control activities to protect New Zealand and advance New Zealand's economic interests. One of our core functions is to collect Crown revenue.

What is excise duty?

- ▶ Excise duty (tax) is common to several countries as an important part of the overall tax system. Excise duty is levied for several reasons, including reducing demand for goods that contribute to social and personal costs. Alcohol and tobacco excise duty goes into the Government's Crown Account. It is not marked for any particular purpose.

The standard indexation process

- ▶ The following table outlines the usual process for indexation which has been happening since 1989. In 2023, meeting these timeframes has not been possible due to the election and subsequent government formation.

Date	Activity
17 October 2023	Consumer Price Index (exc credit services) for the year ended 30 September 2023 published (5.64% for 2023)
Early November	Advice to the Minister of Customs on the indexation tendered. Once agreed that it will proceed, industry is usually informed.
Mid-November	Cabinet paper presented to Cabinet's Legislation Committee, including a draft Order in Council (certified by Custom's Chief Legal Advisor)
Late November	Executive Council approves the Order, and the Governor-General signs the Order. Notification of the Order is made in the New Zealand Gazette.
Late November/ early December	Communication with industry and affected parties completed. Necessary changes to systems and publications are made
1 January 2024	Order comes into force

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Revenue from the proposed tobacco excise increase

- The following table outlines the additional Crown Revenue¹ if the tobacco excise increase occurs on 1 January 2024.

Additional Crown revenue (\$m)				
2023/24	2024/25	2025/26	2026/27	2027/28
\$11 million ²	\$52 million	\$40 million	\$35 million	\$30 million

- If the annual adjustment is not agreed, the Government will not receive additional revenue of \$11 million this financial year. For the 2024/25 year, the revenue foregone will be \$52 million. Additional revenue from indexation has been included in Treasury forecasts.

Impact of the proposed tobacco excise increase on the price of tobacco

- The proposed increase means the excise on:
 - a packet of 20 cigarettes will increase by a small amount, estimated at \$1.53, to \$28.62
 - 50 grams of roll-your-own-tobacco will increase by \$5.45 to \$101.95³.
- The increase in excise does not directly transfer through to pricing, as the tobacco companies tend to align other price adjustments with the excise increase each year.
- Inflation based adjustments are unlikely to lead to a marked increase in smuggling or the black market, as the price change is minimal.

¹ The revenue figures in future years factor in planned changes to the tobacco control regime that will reduce the availability of tobacco in the New Zealand market that will be implemented in 2024 and 2025. These revenue figures will need to be reviewed should these settings change.

² There are two reasons why the \$11 million estimate in 2023/24 is significantly lower than the figures for subsequent years:

- the new tobacco excise rates are only effective from 1 January 2024 (giving only six months of the financial year at the higher rates); and
- the large importers tend to bring more product into New Zealand prior to the excise rates going up, meaning approximately 80% of tobacco excise is collected the first six months of any financial year (that is, the period from July to December).

³ All figures GST inclusive.

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Excise collected over previous five years

- ▶ The amount of tobacco excise collected for the year to June for the last five years is shown in the table below.

Year ending 30 June 2019	Year ending 30 June 2020	Year ending 30 June 2021	Year ending 30 June 2022	Year ending 30 June 2023
\$1,980 million	\$2,017 million	\$1,637 million	\$1,866 million	\$1,666 million

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