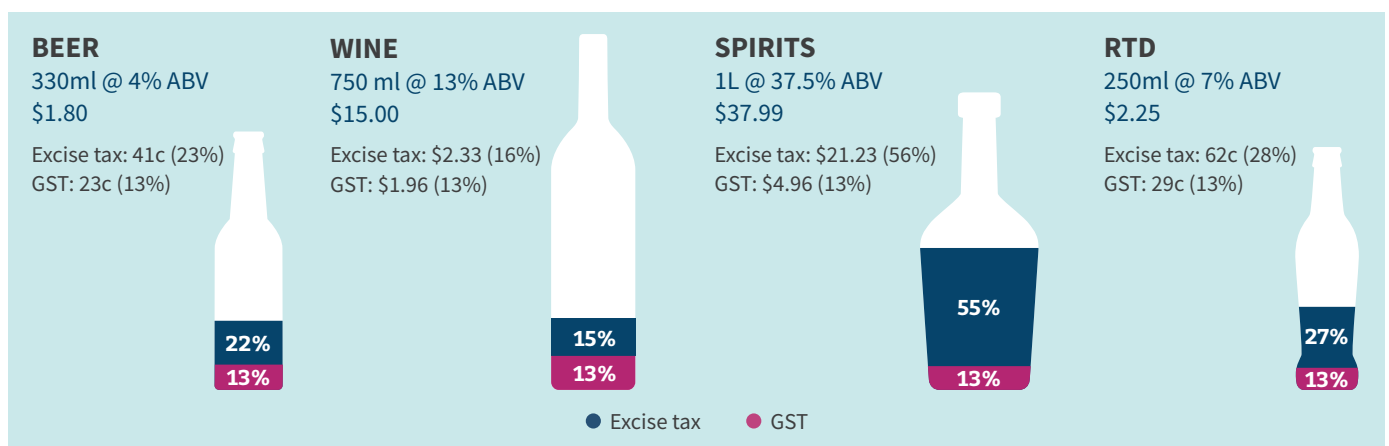


# Alcohol taxes and levies

## Overview

There are two types of tax that are included in the price of alcohol sold in New Zealand: 1) Goods and Services Tax (GST) and 2) alcohol excise tax. The figure below shows the amount and percentage of tax in the price paid for typical products sold in New Zealand.



## 1) Goods & Services Tax

Like most other products in New Zealand, alcohol is subject to GST, which adds 15% to the sale price. Any business that sells alcohol will have to pay GST, although tax credits can be claimed to ensure that businesses only pay GST on the value that they have added to the product.

## 2) Alcohol excise tax

A different type of tax, called an excise duty, is levied on petrol, tobacco and alcohol sold in New Zealand. Unlike GST, alcohol excise tax is not based on the total price of the product. Instead, for some types of drink (e.g. beer, spirits >14% alcohol by volume (ABV)), it is charged by the *volume/amount of pure alcohol* in the product, and for other types of drink (e.g. wine), it is charged by the total volume of the product (regardless of alcoholic strength). Spirits that are >14% ABV are taxed at the highest rate; about 80% higher than the tax rate per litre of pure alcohol for beer and wine.

Alcohol excise is collected by New Zealand Customs and is paid by the manufacturer or importer of the alcohol (≥1.15% ABV) product. It is not paid by New Zealand exporters of alcohol. Every year, at the start of July, the alcohol excise rates are adjusted for inflation.

The annual amount of excise tax paid by drinkers will vary

**In 2020, the Government collected \$1.19 billion in alcohol excise tax**

This means that, on average, every NZ drinker paid \$7.03 per week in alcohol excise tax.



considerably – those who drink more will pay more, those who drink less will pay less.

## Health Promotion Agency levy

In addition to GST and alcohol excise, all alcohol sold in New Zealand is subject to the Health Promotion Agency (HPA) levy. Alcohol is the only product that is subject to this levy, with the rates determined by the total number of litres of each class of alcohol (e.g. beer, wine) imported into, and manufactured in, New Zealand in the preceding year.

The HPA levy rates are substantially lower than the rates for alcohol excise tax. For example, the HPA levy equates to ~2.6 cents on a bottle of wine, 0.52 cents on a 330ml can of beer, 12.8 cents on a 1L bottle of spirits, and 0.68 cents on a 250ml can of 7% RTD.

The money raised by the HPA levy (~ \$11.15 million each year) is used to fund the Health Promotion Agency to undertake

activities to reduce alcohol-related harm. In contrast, the revenue from the alcohol excise (~ \$1.19 billion), like GST, goes to the government's general fund.

### Alcohol excise vs. other taxes

In general, excise duties and special levies are imposed for two reasons. Firstly, they are intended to increase the price of the product to reduce its consumption. When alcohol prices increase, people drink less, and alcohol harm (to the drinker and others) decreases.

These taxes are also designed to raise money for the government to help to pay for costs caused by the product. This is why excise duties and special levies are often 'hypothecated,' which means that revenue raised must be used in a particular way. The HPA levy is an example of hypothecation. So is petrol excise, which goes towards improving New Zealand's roads. Alcohol and tobacco excise taxes are not hypothecated.

New Zealand's excise taxes are different from each other in other ways, too. Petrol excise is levied at 70 cents per litre, or about 33-34.5% of the price of petrol, whereas tobacco excise is levied at ~\$1.05 per cigarette, or about 57%-73% of the price. For alcohol, the proportion of the price of the good that is excise tax varies, but is usually between 20-30% for beer,

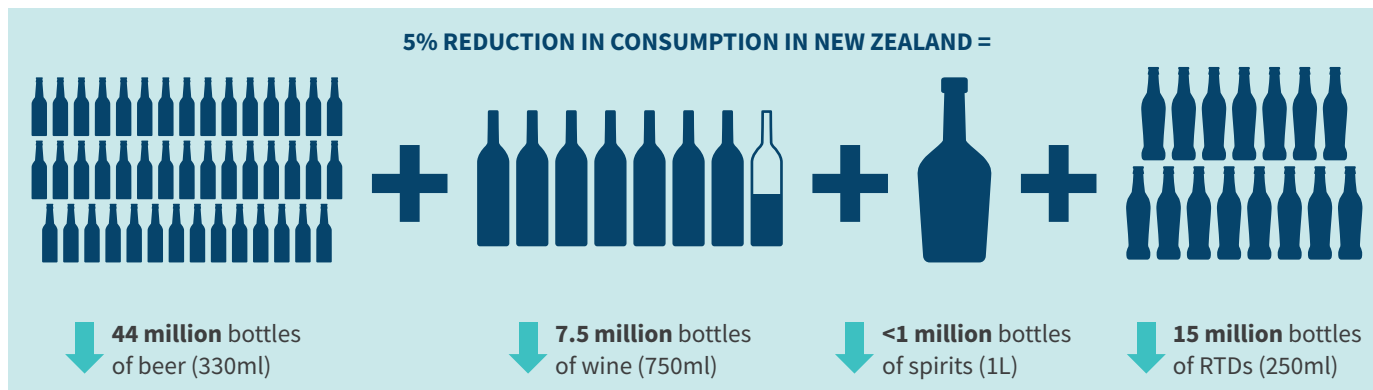
15-22% for wine, and ≥50% for spirits. Whilst alcohol excise revenue generates \$1.19 billion in revenue for the Government, tobacco and petrol excises generate \$1.38 billion and \$1.92 billion, respectively, in tax revenue per year.

Of all tax revenue in New Zealand, the amount collected from alcohol excise comprises ~1.2%. In total, only 4.6% of tax revenue comes from all excise taxes (eg, petrol, tobacco, alcohol), whereas ~90.6% comes from income tax, company tax and GST.

### Increasing excise tax rates to reduce alcohol harm

Alcohol has become more affordable than ever before.<sup>1</sup> To reduce alcohol consumption and harm, it is recommended that alcohol excise tax rates increase by at least 50%.<sup>2</sup> On average, this will increase alcohol prices by 10%. A large body of high-quality research suggests that a 10% increase in price reduces overall alcohol consumption by 5%.<sup>3</sup>

A 5% reduction in overall consumption would benefit all New Zealanders. It would mean that 24.7 million **fewer** litres of alcohol were consumed per year, or or 1.8 million **fewer** litres of pure alcohol. Imagine the safer communities that would result.



As spirits (>14% ABV) have the highest tax rate, their prices would rise the most when excise rates increase. Of all products, it is the cheapest alcohol products that would increase the most in price, as a greater proportion of their price comprises excise tax.



It must be noted that there are anomalies in New Zealand's alcohol excise tax structure that also need to be addressed to create a more effective and fairer approach to tax. These are described elsewhere.

1 Health Promotion Agency. *Trends in affordability of alcohol in New Zealand*. Wellington: New Zealand. 2018.  
 2 New Zealand Law Commission. *Alcohol in our lives: Curbing the harm* (Report 114). Wellington: New Zealand. 2010.  
 3 Wagenaar AC, Salois MJ, Komro KA. Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. *Addiction* 2009; 104: 179-190.