ADD in your company Logo

23 April 2024

Hon Nicola Willis,

Minister of Finance Hon

Casey Costello

Minister of Customs

[Add in your local minister]

Private Bag 18041

Parliament House

Wellington 6160

Via email: N.Willis@ministers.govt.nz, C.Costello@ministers.govt.nz [add in your local minister email]

Dear Ministers

We/I write to express my concerns regarding the upcoming alcohol excise indexation and to advocate for a more sustainable approach that considers the current economic challenges faced we face within the distilling sector in New Zealand.

Firstly, we/I acknowledge the current government’s desire to reduce the burden on businesses in New Zealand and create an operating environment where hard working kiwis and their businesses can get ahead. We/I also acknowledge the government’s need to reduce costs and maximise existing revenue and the fine balance this brings.

However, you not know the alcohol sector faces the additional burden of annual excise indexation, and in times of heightened inflation this burden has hampered growth and impacted the pockets of everyday New Zealanders and small business distillery owners throughout the country.

Over the past two years, the alcohol excise rate has undergone substantial increases. Specifically, in the previous two years excise increased by 6.9% and 6.7%, respectively. With a predicted increase of 4.2-4.7% for the upcoming year the total increase over three years will be over 18%. These continuous and substantial increases have placed immense pressure on our business, hampering our ability to operate effectively and contribute to the broader economy.

It is noteworthy that the rate of alcohol inflation has outpaced the general inflation rate, as indicated by the Selected Commodities Index. This can be partially attributed to the extra costs imposed by elevated annual excise indexation. Furthermore, in the 2022 budget, the previous government expected alcohol excise revenue in 2023 to reach $1.4 billion; however, the actual figure was $1.29 billion, $110 million lower than forecasted, despite a 6.7% increase in the excise rate. This discrepancy highlights the strain that excessive excise increases can place on our business, potentially leading to lower-than-expected revenue generation.

Given these challenging circumstances, we strongly advocate for a temporary freeze on further excise increases. This measure has been implemented by other countries, such as the United Kingdom, recognising the detrimental impact that excessive taxation can have on businesses, potentially leading to closures and job losses.

Additionally, we urge the government to consider establishing a more sustainable approach to excise. One example is the approach recently adopted in Canada of an annual indexation rate of 2%. This approach would provide much-needed certainty and predictability for businesses, enabling them to plan and invest in growth, innovation, and sustainability initiatives more effectively.

By implementing a freeze on excise increases in the short term and transitioning to a more reasonable and predictable indexation rate in the long term, the government can strike a balance between generating revenue and supporting the growth and viability of my business and the wider distilling sector. This sector contributes significantly to the broader economy through job creation, supporting local agriculture and supply chains, and generating tax revenue through increased business activity.

We/I note that this can be done without a legislative change as the Government under current legislation has the ability to increase excise *up to* the level of CPI. Therefore, there is scope where government may choose whether or not to increase the rate and that it *must not exceed* the CPI calculation as provided in the legislation. We/I highlight this matter as we/I believe that future increases may be made at a lower level than the CPI.

In addition to the above we/I are also unsure what the status is of a review of the Alcohol Health Levy started by the previous government. This review was advocating for significant increases in the levy which would further add to the cost burden on my business and the wider sector should this be considered.

Given that alcohol-related harm is falling and that the use and outcomes relating to the levy have been opaque we would ask that consideration be given for it to be held at current levels or even reduced.

We/I kindly request your consideration of our proposals and welcome the opportunity to engage in further dialogue to address this critical issue. My business and the distilled spirits sector are ready to collaborate with the government in crafting policies that foster a competitive and sustainable business environment while safeguarding the interests of consumers and the broader public.

Thank you for your attention to this matter, and we/i look forward to your response.

Yours sincerely,

[Add your name and company details]