

# The Treasury

## Budget 2016 Information Release

### Release Document July 2016

[www.treasury.govt.nz/publications/informationreleases/budget/2016](http://www.treasury.govt.nz/publications/informationreleases/budget/2016)

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

**Budget Report:** Increasing tobacco excise – CPI adjustments to welfare payments

---

<b>Date:</b>	12 April 2016	<b>Report No:</b>	T2016/655
		<b>File Number:</b>	SH-13

**Action Sought**

---

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Agree</b> to the recommendations	Friday 15 April 2016

**Contact for Telephone Discussion (if required)**

---

<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
Matt Cowan	Senior Analyst, Tax Strategy	04 917 6137 (wk)	[23] (mob)	✓
Suzy Morrissey	Team Leader, Tax Strategy	04 917 6292 (wk)	[23] (mob)	

**Actions for the Minister's Office Staff (if required)**

---

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

## **Budget Report:      Increasing tobacco excise – CPI adjustments to welfare payments**

---

### **Executive Summary**

---

In recent years, various welfare payments have been indexed to a measure of CPI that excludes the price of tobacco products. This was done to ensure that increases in tobacco excise, and subsequent increases in the price of tobacco products, do not flow through to CPI adjustments to these welfare payments. The legislation for this approach is time-limited, and will need to be extended to incorporate further increases in tobacco excise from January 2017 onwards.

### **Recommended Action**

---

We recommend that you:

- a      **agree** to exclude tobacco products from the CPI measure applied to adjust the main benefits, pensions and student allowances in 2018, 2019, 2020 and 2021.

*Agree/disagree*

- b      **agree** to introduce legislation for the above recommendation at Budget.

*Agree/disagree*

Matt Cowan  
**Senior Analyst, Tax Strategy**

Hon Bill English  
**Minister of Finance**

**Budget Report:** Increasing tobacco excise – CPI adjustments to welfare payments

---

**Purpose of Report**

---

1. We understand you have decided to increase tobacco excise by 10% each year for four years starting in January 2017. This report requests your decision on a consequent issue: whether to continue to exclude tobacco products from the CPI measure applied to adjust various welfare payments

**Background**

---

2. In recent years, the welfare payments listed below have been wholly or partly indexed to a measure of CPI that excludes the price of tobacco products – “CPI-excluding-tobacco”.
  - Jobseeker Support
  - Youth Payment and Young Parent Payment
  - Supported Living Payment
  - Sole Parent Support
  - Orphans and Unsupported Childs Benefit
  - Foster Care Allowances
  - Working for Families Tax Credit
  - New Zealand Superannuation
  - Veterans’ Pension
  - Student Allowances
3. This was done to ensure that increases in tobacco excise, and subsequent increases in the price of tobacco products, do not flow through to CPI adjustments to these welfare payments. This reinforces the objective behind increases in tobacco excise: to reduce smoking prevalence by reducing the affordability of tobacco products.

**Issue**

---

4. The legislation that provides for these welfare payments to be indexed to CPI-excluding-tobacco is time-limited. As it stands, indexation adjustments from 2018 onwards will be based on CPI-*including*-tobacco. This will incorporate the price effects of the four increases in tobacco excise from 2017 onwards. The indexation adjustments will therefore be higher than if they were based on CPI-excluding-tobacco.
5. In order to continue to base indexation adjustments on CPI-excluding-tobacco, the legislation needs to be extended.

## Fiscal Impact

---

6. The table below provides an estimate of the difference between the costs of adjusting welfare payments by CPI-including-tobacco and CPI-excluding tobacco:

	\$m				
	2015/16	2016/17	2017/18	2018/19	2019/20
NZ Super & Veterans' Pensions <sup>1</sup>	0	0	12	56	96
Benefits <sup>2</sup>	0	0	3	22	45
<b>Total</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>78</b>	<b>141</b>

7. We have taken a conservative view that extending the legislation to adjust payments by CPI-excluding tobacco would not count as a saving against operating allowances. Instead, it would count as the avoidance of a cost – that of higher welfare payments caused by an increase in tobacco prices following an increase in tobacco excise.

## Legislation

---

8. Extending the legislation will require amendments to the following:

- Social Security Act 1964
- Children, Young Persons, and Their Families Act 1989
- Income Tax Act 2007
- New Zealand Superannuation and Retirement Income Act 2001
- Veterans Support Act 2014
- Student Allowance Regulations 1998

9. All the amendments could be legislated together in one Bill, together with the increases in tobacco excise. This could be done through legislation introduced at Budget or later in the year.

## Treasury Comment

---

10. Treasury recommends legislating at Budget to continue to index the above welfare payments to CPI-excluding-tobacco.

---

<sup>1</sup> The NZ Super costs only occur because in recent forecasts wages are below inflation in some years. When the opposite is true, NZ Super rates remain on the "66% of the average wage" floor, so whether the CPI measure is CPI-including-tobacco or CPI-excluding-tobacco has no affect NZ Super costs.

<sup>2</sup> Whether the CPI measure is CPI-including-tobacco or CPI-excluding-tobacco does not change the next forecasted indexation date of the Family Tax Credit (FTC) component of Working for Families tax credits, and has only a fairly minor impact on costs of indexing FTC.