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GST on Food

Background:

In April 2010, a Bill from the Maori Party was pulled from the ballot: the Good and Services Tax (Exemption of Healthy Food) Amendment Bill. The purpose of this bill was to address rising food prices by removing goods and services tax from healthy food (as defined by the Ministry of Health). The bill was voted down in September. However, the debate over whether and to what extent GST should apply to food continues.

The Facts:

- Supermarkets in New Zealand routinely put mark-ups of 100 percent to 200 percent – and sometimes as high as 500 percent – on fruit and vegetables.
- New Zealand-based research has shown that those on high incomes spend – 9% of their income on healthy food, compared with low earners, who spent about 30% of their income.
- An Otago University study conducted in Wellington and Dunedin in 2007 and 2008 found that 10% of New Zealand households had low ‘food security’ and 30% were only moderately secure.
- Those with moderate to low food security often limited variety and decreased the quality of the food they ate, ran out of some food, became stressed or decreased the quantity of food they ate to compensate.

- An Otago University study surveying the health and nutritional habits of some 1,100 shoppers concluded that a 12.5 percent drop in price increased people’s consumption of healthy food by 11 %.
- With a GST rate of 15%, New Zealand now has the fourth highest GST rate as a proportion of GDP in the OECD countries.
- Food prices in New Zealand have risen more than 20 percent in the last 3 years, while real incomes have risen only very slightly, and, within this, the increases for fruit, vegetables, and milk have been particularly high.
- New Zealand’s obesity ranking is third out of the OECD countries.
- 8,000 preventable deaths a year are related to poor nutrition and obesity, and there will be a rising cost of \$1.3 billion in the next few years for type 2 diabetes alone.

The Arguments:

Those against eliminating GST on food argue that currently, New Zealand’s GST system is simple and universal. Differential rates would lead to an increase in business’ compliance costs, and are just an unnecessary complication.

But organisations such as the Public Health Association of New Zealand and the National Heart Foundation have called for the goods and services tax to be removed from healthy foods, arguing that “in years to come, New

Zealand taxpayers will be supporting the health needs of those... who cannot afford enough nutritious food today to sustain basic good health into the future”.

Consumption taxes such as GST hit low-income people the hardest, as they spend a higher proportion of their income on basics such as food. For that reason, other developed countries exempt food from their consumption tax. Australia, for instance, has operated a food exemption for GST for nearly ten years. Many other countries, including Canada and Britain, also remove the GST equivalent on certain foods.

However, reducing GST on food may not result in an actual price reduction in supermarkets. There is no guarantee that the price on food will come down, as markets know they can get high prices and may continue to do so even GST was removed. An alternative is to tackle the exorbitant mark-ups that supermarkets put on fruit and vegetables. The New Zealand Food and Grocery Council has proposed a supermarket code of conduct, similar to that of the United Kingdom’s Grocery Supply Code of Practice, which sets out how supermarket retailers and suppliers conduct their business.

For more information see:

- www.nogstonfood.org
No GST on Food Campaign
- www.pha.org.nz
Public Health Association of New Zealand