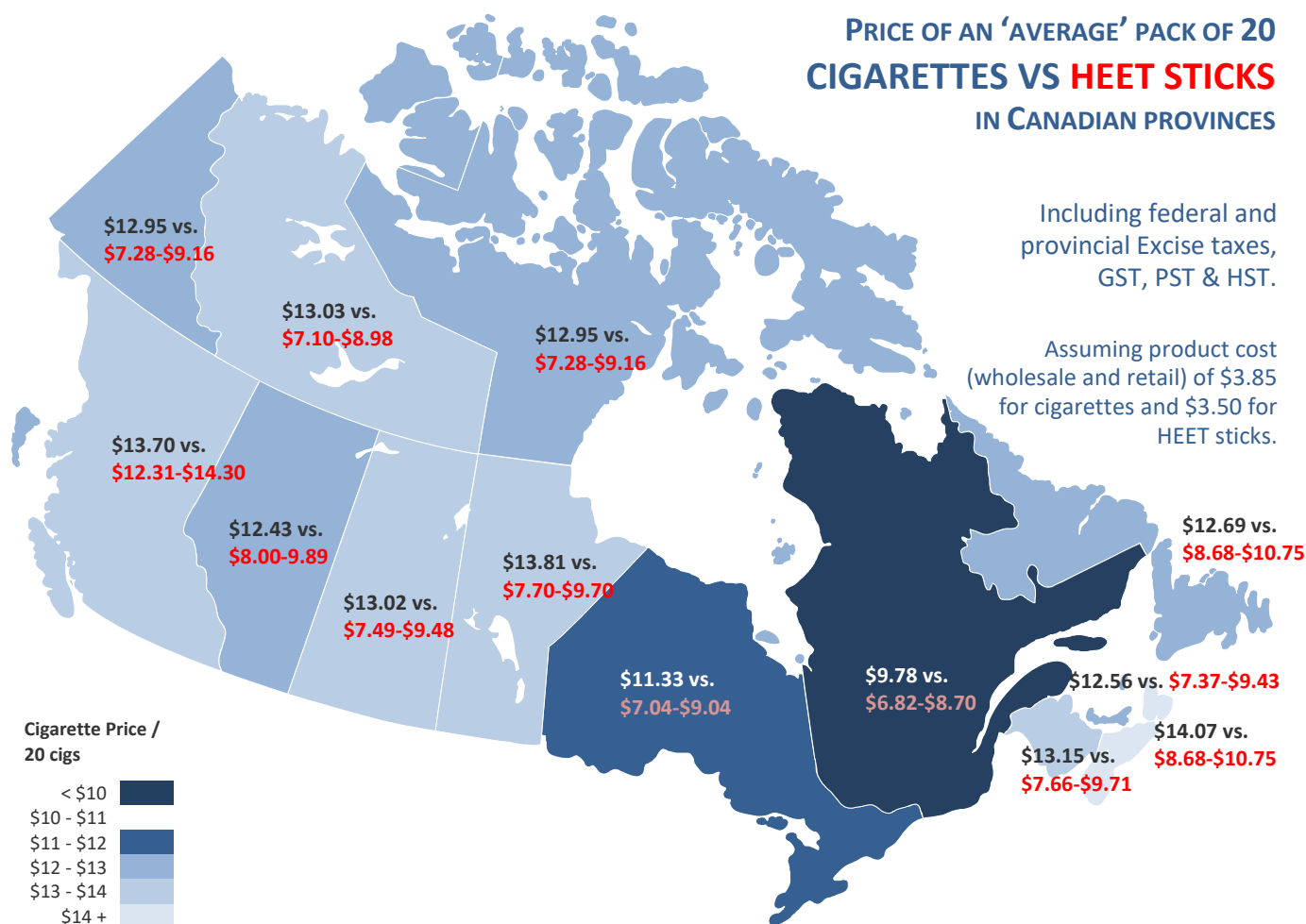


Taxes on heat not burn cigarettes in Canadian jurisdictions

PRICE OF AN 'AVERAGE' PACK OF 20 CIGARETTES VS HEET STICKS IN CANADIAN PROVINCES

Including federal and provincial Excise taxes, GST, PST & HST.

Assuming product cost (wholesale and retail) of \$3.85 for cigarettes and \$3.50 for HEET sticks.



Cigarette price based on a national average wholesale product cost of \$3.50 for a package of 20 cigarettes, consistent with the average wholesale prices provided to Health Canada, and an estimated retail market up of 10%.

HEET price based on an average wholesale-retail price of \$3.50 for HEET sticks, consistent with price charged in Ontario and Quebec stores in April 2020.

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Background

Heat-not-burn (HNB) tobacco products may look like short cigarettes, but they function in a very different way. In cigarettes, it is fire (combustion) that releases the nicotine from the tobacco leaf. With heat-not-burn cigarettes, the tobacco rod is inserted into a device, where it is impaled on an electronically-heated element which vaporizes the nicotine.

Heat-not-burn cigarettes were introduced to the Canadian marketplace in late 2016 by Rothmans, Benson and Hedges (RBH) under the brand names IQOS (device) and HEETS (tobacco sticks).¹ British American Tobacco introduced its similar "i-glo"/"glo" product in Canada in 2017, but withdrew it in 2019.² Japan Tobacco International manufactures a heat not burn device (PLOOM), but does not appear to sell it in Canada.

Because HNB products are not "smoked", they are not considered cigarettes under tobacco tax law.³ Only one province (British Columbia) has established a tax category for these tobacco products. The other provinces and the federal government classify them under the same tax category that is used for chewing or pipe tobacco.

For most provinces, this means HNB tobacco products are taxed for each gram of weight. The federal government, however, taxes this category of tobacco on the basis of 50 grams of weight "or fraction of 50 grams".⁴ This measure was introduced in the 2008 federal budget as a way of preventing the marketing of "kiddy packs" of smokeless tobacco.⁵ The federal tax (currently set at \$7.76 for every 50 grams or fraction thereof) thus functions as a minimum price for all products which fall into the "manufactured tobacco" category.

A package of 20 heat sticks contains 6.2 grams of tobacco, compared with about 10-12 grams of tobacco in a package of 20 cigarettes. The federal tax on a package of 20 HNB sticks (if they were sold separately) is \$7.76, but if sold in a carton of 160 sticks works out to \$0.97 per 20 stick 'sub-unit'. By contrast, the federal tax on a package of cigarettes is \$2.48 per package, or \$39.74 for 160 cigarettes.

RBH has responded to this unusual structure in tobacco law by selling its HEET sticks only in cartons or bundled packages. The two package sizes it uses are a carton of 160 sticks (containing 8 'sub-units' of 20 sticks each) and a bundle of 50 sticks (packaged in 5 'sub-units' of 10 sticks each). (It has also lobbied the federal government to change its tax policy.⁶)

The federal tax policy on heat-not-burn tobacco thus has the following effects:

- The federal tax structure creates an incentive for manufacturers to set a large minimum package size for heat-not-burn products, although it does not force them to do so.
- Although the minimum price for HNB products is higher than for tobacco (which are sold in minimum package sizes of 20), the per-unit cost is lower. HNB sticks are much less expensive than regular cigarettes.



An IQOS device and HEETS stick (below) and a conventional Marlboro cigarette

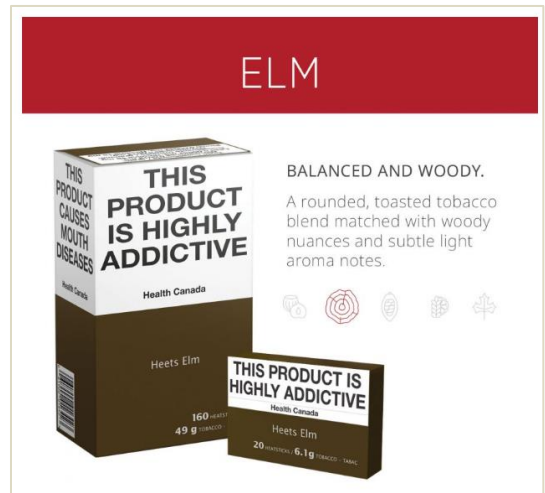
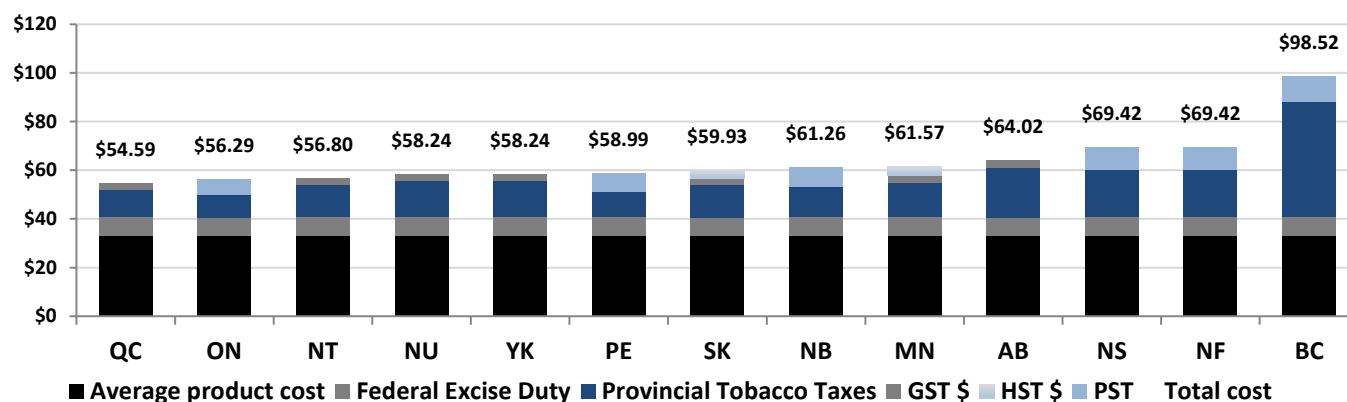


Figure 1: Package sizes for HEET products. 160 sticks (above) lists for \$60 in Ontario and 50 sticks (below) lists for for \$20.

Price of a carton of 160 HEET sticks in Canadian provinces and components of this cost.



Taxes on a carton of 160 HEET sticks (8 'sub-units' of 20 sticks)

Product	Excise Taxes		Sales taxes applied to tobacco				Total cost	\$ per 20 sticks	
	Federal Excise Tax	Prov. Excise	Total	GST	PST	HST			
160 sticks									
British Columbia	\$33.00	\$7.76	\$47.20	\$54.96		12%	12%	\$98.52	\$12.31
Alberta	\$33.00	\$7.76	\$20.21	\$27.98	5%		5%	\$64.02	\$8.00
Saskatchewan	\$33.00	\$7.76	\$13.23	\$20.99	5%	6%	11%	\$59.93	\$7.49
Manitoba	\$33.00	\$7.76	\$14.21	\$21.97	5%	7%	12%	\$61.57	\$7.70
Ontario	\$33.00	\$7.76	\$9.05	\$16.82			13%	\$56.29	\$7.04
Quebec	\$33.00	\$7.76	\$11.23	\$18.99	5%		5%	\$54.59	\$6.82
New Brunswick	\$33.00	\$7.76	\$12.50	\$20.27			15%	\$61.26	\$7.66
Nova Scotia	\$33.00	\$7.76	\$19.60	\$27.36			15%	\$69.42	\$8.68
Prince Edward Island	\$33.00	\$7.76	\$10.54	\$18.30			15%	\$58.99	\$7.37
Newfoundland	\$33.00	\$7.76	\$19.60	\$27.36			15%	\$69.42	\$8.68
Northwest Territories	\$33.00	\$7.76	\$13.33	\$21.09	5%		5%	\$56.80	\$7.10
Nunavut	\$33.00	\$7.76	\$14.70	\$22.46	5%		5%	\$58.24	\$7.28
Yukon	\$33.00	\$7.76	\$14.70	\$22.46	5%		5%	\$58.24	\$7.28
50 sticks									
British Columbia	\$9.40	\$7.76	\$14.75	\$22.51		12%	12%	\$35.74	\$14.30
Alberta	\$9.40	\$7.76	\$6.39	\$14.36	5%		5%	\$24.73	\$9.89
Saskatchewan	\$9.40	\$7.76	\$4.19	\$12.08	5%	6%	11%	\$23.70	\$9.48
Manitoba	\$9.40	\$7.76	\$4.50	\$12.40	5%	7%	12%	\$24.26	\$9.70
Ontario	\$9.40	\$7.76	\$2.86	\$10.72			13%	\$22.63	\$9.05
Quebec	\$9.40	\$7.76	\$3.55	\$11.43	5%		5%	\$21.75	\$8.70
New Brunswick	\$9.40	\$7.76	\$3.96	\$11.85			15%	\$24.29	\$9.71
Nova Scotia	\$9.40	\$7.76	\$6.20	\$14.16			15%	\$26.87	\$10.75
Prince Edward Island	\$9.40	\$7.76	\$3.33	\$11.20			15%	\$23.57	\$9.43
Newfoundland	\$9.40	\$7.76	\$6.20	\$14.16			15%	\$26.87	\$10.75
Northwest Territories	\$9.40	\$7.76	\$4.22	\$12.11	5%		5%	\$22.45	\$8.98
Nunavut	\$9.40	\$7.76	\$4.65	\$12.56	5%		5%	\$22.90	\$9.16
Yukon	\$9.40	\$7.76	\$4.65	\$12.56	5%		5%	\$22.90	\$9.16

Cigarette price based on a national average wholesale product cost of \$3.50 for a package of 20 cigarettes, consistent with the average wholesale prices provided to Health Canada, and an estimated retail market up of 10%.

HEET price based on an average wholesale-retail price of \$33.00 for 160 HEET sticks, consistent with price charged on-line in Ontario in April 2020.

GST: Federal Goods and Services Tax; PST: Provincial Sales Tax as applied to tobacco; HST: Harmonized provincial and federal sales taxes.

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- 4 Revenue Canada. EDN63. Adjusted Rates of Excise Duty on Tobacco Products Effective April 1, 2020 <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edn63/adjusted-rates-excise-duty-tobacco.html>
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