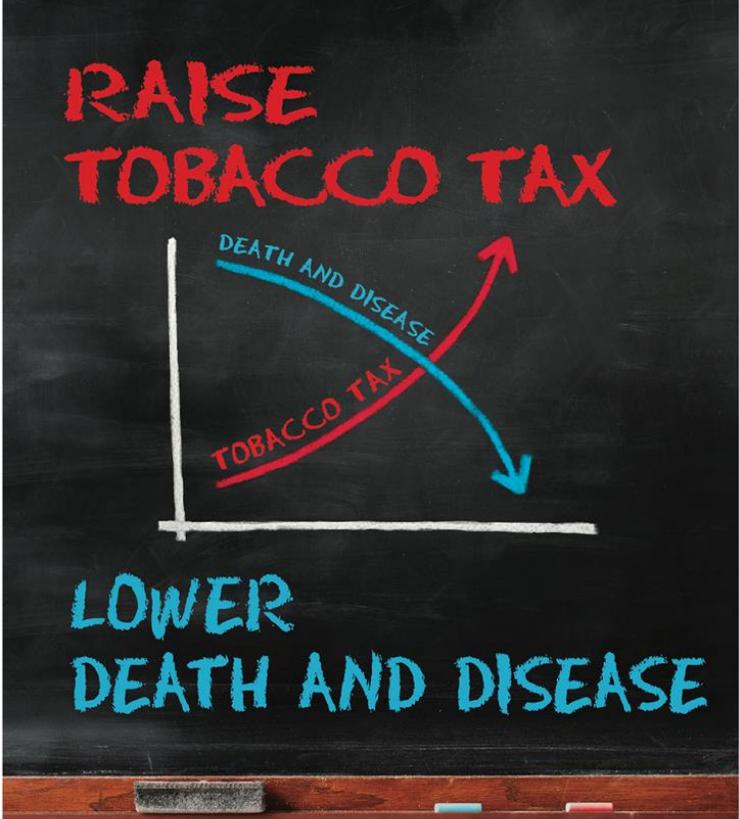


Tobacco and Vaping Tax Measures

Briefing Note for Canadian Regulators

Updated – August 2023



Higher tobacco taxes = fewer smokers,
less death and healthier communities.

WORLD NO TOBACCO DAY, 31 MAY
www.who.int/world-no-tobacco-day

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Physicians *for a* Smoke-Free Canada

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Briefing note

Tobacco and Vaping Tax Measures

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TAXES ON TRADITIONAL TOBACCO PRODUCTS

THE RATIONALE FOR TOBACCO TAXES

Tobacco use is a leading preventable cause of death and disease in Canada, responsible for about one in six deaths and one third of full-day hospitalization costs.¹ It is the greatest risk factor for the three first causes of death in Canada: cancer, cardiovascular disease and respiratory disease.² Nicotine is a powerfully addictive substance, and more than half of those who are unable to quit will lose more than a decade of their life as a result of cigarette smoking. Every million cigarettes smoked in Canada leads to one death.³

These are some of the reasons that governments give priority to policies and programs which prevent people from starting to smoke or which help them quit. Among these are policies to use taxes to increase product prices and internalize the economic burden of tobacco into the market price.

The economic burden caused by tobacco products is borne by individual smokers, by their families, by their communities and by the state. Annual direct and indirect costs associated with tobacco use in Canada in 2020 exceeded \$11 billion.⁴

TAXES WHICH INCREASE PRICES ARE AN ESSENTIAL HEALTH POLICY.

It has long been known that when governments raise the price of tobacco by increasing tobacco taxes, smoking rates go down. Higher taxes and prices reduce the amount of tobacco that smokers consume, they encourage smokers to quit, they help prevent young people from starting, and they reduce health inequities.

Because of this evidence, international health and financial authorities - including the World Health Organization⁵ (WHO) and the World Bank Group - place great importance on governments including high tobacco taxes as a centrepiece of their tobacco control strategies.

“EVERY MILLION CIGARETTES
SMOKED LEADS TO ONE DEATH IN THE
US AND CANADA.”

PRABHAT JHA, 2020³

1 Statistics Canada. Smokers' use of acute care hospitals – a prospective study. 2019.

2 Health Canada. Smoking and Mortality.

3 Jha, P. The hazards of smoking and the benefits of cessation: a critical summation of the epidemiological evidence in high-income countries. *Epidemiology and Global Health*. 2020.

4 Canadian Centre on Substance Abuse and Addiction. Canadian Substance Use Costs and Harms Scientific Working Group. (2023). Canadian substance use costs and harms 2007-2020.

5 World Health Organization. Health taxes: a primer. 2019.

The International Agency for Research on Tobacco concluded that increasing reduces tobacco use among adults and young people, and that such taxes have a larger impact with lower-income populations.⁶

This means that higher tobacco taxes can help address disparities in smoking rates between lower- and upper- income Canadians. Children, adolescents and those living on poor incomes are most price-sensitive, and so benefit even more from tax policies which keep tobacco prices high.

The WHO estimates that in developed countries like Canada, a 10% increase in tobacco taxes may be expected to decrease the number of cigarettes smoked by 5%. Even if the impact is lesser, as some economists suggest,⁷ the use of taxes to increase the price of tobacco products can be expected to reduce the number of people becoming ill as a result of tobacco use.

“HEALTH TAXES ARE IMPOSED ON PRODUCTS THAT HAVE A NEGATIVE PUBLIC HEALTH IMPACT (E.G. TAXES ON TOBACCO, ALCOHOL, SUGAR-SWEETENED BEVERAGES, FOSSIL FUELS).

THESE TAXES RESULT IN HEALTHIER POPULATIONS AND GENERATE REVENUES FOR THE BUDGET EVEN IN THE PRESENCE OF ILLICIT TRADE/EVASION.

THESE ARE PROGRESSIVE MEASURES WHICH BENEFIT LOW-INCOME POPULATIONS RELATIVELY MORE, ONCE HEALTH CARE COSTS AND HEALTH BURDEN ARE TAKEN INTO ACCOUNT.”

WORLD HEALTH ORGANIZATION⁹

WHO’s recommendations for tobacco taxation⁸

- **Use excise tax increases to achieve the public health goal of reducing the death and diseases caused by tobacco use**
- **Increase tobacco taxes significantly to reduce the affordability of tobacco products**
- **Apply tax increases that exceed increases in consumer prices and incomes, to reduce the affordability of tobacco products**
- **Tax all tobacco products in a comparable way**
- **Strictly regulate new and emerging tobacco and nicotine products where they are not banned and impose an excise tax**
- **Ensure at least 75% excise tax share in final consumer price**
- **Minimize incentives for tobacco users to switch to cheaper brands or products in response to tax increases**

6 International Agency for Research on Cancer, "Effectiveness of Tax and Price Policies for Tobacco Control," 2011.

7 National Bureau of Economic Research. The Economics of Tobacco Regulation: A comprehensive review. 2020

8 World Health Organization. MPOWER. Raise Taxes on Tobacco.

9 World Health Organization. Tobacco Tax Policy and Administration. 2021.

HIGH TOBACCO TAXES ARE AN ESSENTIAL ECONOMIC POLICY.

Increasing the excise tax rates on tobacco not only benefits the health of individuals and their communities, it also strengthens household and national economies.

- Tobacco taxes reduce the extent to which tobacco companies can externalize the costs that result from their products onto the general community.
- Tax revenues can be used to defray the direct and indirect costs to government of the economy which result from the illnesses, disabilities and premature deaths of smokers.

Tobacco tax revenues in Canada currently fall significantly short of the economic burden caused by smoking.

“RAISING TOBACCO TAXES TO MAKE THESE DEADLY PRODUCTS UNAFFORDABLE IS THE MOST COST-EFFECTIVE MEASURE TO REDUCE TOBACCO USE AND IMPROVE HEALTH OUTCOMES FOR INDIVIDUALS AND COMMUNITIES.

HIGHER TAXES ON TOBACCO PRODUCTS REDUCE TOBACCO CONSUMPTION AND IMPROVE PUBLIC HEALTH, WHILE ALSO INCREASING GOVERNMENT REVENUES THAT CAN BE USED TO FUND PRIORITY INVESTMENTS AND PROGRAMS THAT BENEFIT THE ENTIRE POPULATION.”

THE WORLD BANK GROUP¹⁰

Direct health care and productivity costs associated with tobacco use in Canada,¹¹ provincial cigarette tax revenues,¹² and GDP.¹³, 2017. (\$ millions), 2020

Province / Territory	Direct Health Care Costs related to tobacco	Lost Productivity Costs	Revenues from Excise Taxes on Tobacco Products-	GDP
Newfoundland/ Labrador	\$123	\$137	\$135	\$35,816
Prince Edward Island	\$29	\$37	\$32	\$9,101
Nova Scotia	\$211	\$215	\$208	\$55,860
New Brunswick	\$152	\$142	\$143	\$45,760
Québec	\$923	\$1,347	\$971	\$547,874
Ontario	\$2,204	\$1,808	\$1,099	\$1,051,538
Manitoba	\$195	\$157	\$198	\$86,087
Saskatchewan	\$189	\$165	\$204	\$102,403
Alberta	\$678	\$550	\$755	\$404,867
British Columbia	\$688	\$653	\$711	\$364,595
Federal government			\$3,073	
All Canada	\$5,429	\$5,249	\$7,492	\$2,622,362.2

10 World Bank Group. Taxing Tobacco: A win-win for public health outcomes and mobilizing domestic resources.

11 Canadian Substance Use Costs and Harms Scientific Working Group. (2023). Canadian substance use costs and harms 2007–2020. Healthcare costs related to tobacco include inpatient hospitalizations, day surgeries, emergency department visits, specialized treatment, physician time and prescription drugs. Government health expenditures include costs of hospitalization, physician services and drugs. Cost estimates of lost productivity were based on the lost value of work due to premature death, long-term disability and short-term disability.

12 Physicians for a Smoke-Free Canada. Tax Revenues from Tobacco Sales 2020-2021.

13 Statistics Canada. National Health Expenditure Data base 2022, Canadian institutes for Health Information. Data Tables Appendix A.

HIGH TOBACCO TAXES HELP REDUCE HEALTH INEQUALITIES

Because low-income and otherwise disadvantaged Canadians are more likely to smoke than those who are more privileged, there are concerns that tobacco taxes might be regressive and increase income inequality.

The view that tobacco taxes are regressive has been advanced by some Canadian health economists,^{14 15} but subsequent systematic reviews have found this perspective to not be supported by the majority of evidence.¹⁶ A review by the international cancer agency, IARC, for example, found that increasing tobacco taxes will reduce the total amount of tobacco tax paid by the poor.¹⁷ Other reviews have found tax and price measures are more effective at addressing tobacco-related health equity than are other policies.¹⁸ This conclusion has also been reaffirmed by the World Bank Group in a 2019 policy note focusing on the equity impact of tobacco taxes.¹⁹ Research suggests that the benefits of taxes can be protected by concurrent price measures,²⁰ as discussed later in this briefing note and by the concurrent use of other measures to reduce smoking.²¹

Impact on equity of tobacco control policies.²²

	Positive	Neutral	Negative	Mixed	Unclear	Total
Tax/price increases	14	6	4	1	2	27
Smokefree (partial or voluntary)	1	1	19	0	4	25
Smokefree (comprehensive-compulsory)	2	9	6	1	4	19
Mass media	3	2	5	2	6	18
Mass Media (with Quitline’s and NRT)	5	3	3	0	0	12
Controls on advertising and marketing	2	7	0	0	1	9
Population-level cessation support	4	2	0	1	2	9
Settings-based	2	4	1	0	0	7
Multiple	0	2	0	1	1	4

“THE KEY TAKE-AWAY MESSAGE TO CONVEY TO POLICY MAKERS AND OTHER ACTORS IS THAT HIGHER PRICES OF CIGARETTES PROVIDE MORE HEALTH AND FINANCIAL GAINS TO THE POOREST THAN TO THE RICHEST GROUPS OF THE POPULATION...EVIDENCE FOR SEVERAL COUNTRIES SHOWS THAT LARGE PRICE SHOCKS ON CIGARETTES CAN GENERATE PROGRESSIVE AND WELFARE-IMPROVING MEDIUM AND LONG-TERM NET IMPACTS, THAT PARTICULARLY IMPROVE WELFARE OF LOWER-INCOME HOUSEHOLDS.”

WORLD BANK.
IS TOBACCO TAXATION REGRESSIVE?

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- 14 Gaspodinov, N and Irvine, I. Tobacco Taxes and Regressivity. *Journal of Health Economics*. 2009.
- 15 Gaspodinov, N and Irvine, I. A ‘long march’ perspective on tobacco use in Canada. *Canadian Journal of Economics*. 2005.
- 16 Bader, P et al. Effects of Tobacco Taxation and Pricing on Smoking Behavior in High Risk Populations: A Knowledge Synthesis. *International Journal of Environmental Research and Public Health*. 2011.
- 17 IARC Handbooks of Cancer Prevention. Tobacco Control. Volume 14. Effectiveness of Tax and Price Policies for Tobacco Control. 2011.
- 18 Brown, T. Equity impact of population-level interventions and policies to reduce smoking in adults: A systematic review. *Drug and Alcohol Dependence*, May 2014.
- 19 World Bank. Policy Note. Is Tobacco Taxation Regressive? 2019
- 20 Kalousova, L. Cigarette taxes, prices, and disparities in current smoking in the United States, *Population Health*. 2020.
- 21 Verguet, S et al. Questioning the regressivity of tobacco taxes: a distributional accounting impact model of increased tobacco taxation. *Tobacco Control* 2021.
- 22 Brown, T. Equity impact of population-level interventions and policies to reduce smoking in adults: A systematic review. *Drug and Alcohol Dependence*, May 2014.

Conclusion statement	Strength of Evidence	
	Sufficient*	Strong†
Increases in tobacco excise taxes that increase prices result in a decline in overall tobacco use.	<input checked="" type="checkbox"/>	
Increases in tobacco excise taxes that increase prices reduce the prevalence of adult tobacco use.	<input checked="" type="checkbox"/>	
Increases in tobacco excise taxes that increase prices induce current tobacco users to quit.	<input checked="" type="checkbox"/>	
Increases in tobacco excise taxes that increase prices reduce the prevalence of tobacco use among young people.	<input checked="" type="checkbox"/>	
Increases in tobacco excise taxes that increase prices reduce the initiation and uptake of tobacco use among young people with a greater impact on the transition to regular use.	<input checked="" type="checkbox"/>	
Increases in tobacco excise taxes that increase prices lower the consumption of tobacco products among continuing users.	<input checked="" type="checkbox"/>	
Tobacco use among young people responds more to changes in tobacco product taxes and prices than does tobacco use among adults.	<input checked="" type="checkbox"/>	
In high-income countries tobacco use among lower-income populations is more responsive to tax and price increases than is tobacco use among higher-income populations.		<input checked="" type="checkbox"/>
Changes in the relative prices of tobacco products lead to some substitution to the products for which the relative prices have fallen.		<input checked="" type="checkbox"/>
Tobacco industry price discounting strategies price-reducing marketing activities and lobbying efforts mitigate the impact of tobacco excise tax increases.	<input checked="" type="checkbox"/>	
Tobacco tax increases that increase prices improve population health.	<input checked="" type="checkbox"/>	
Higher and more uniform specific excise taxes result in higher tobacco product prices and increase the effectiveness of taxation policies in reducing tobacco use.	<input checked="" type="checkbox"/>	
Tax avoidance and tax evasion reduce but do not eliminate the public health and revenue impact of tobacco tax increases.	<input checked="" type="checkbox"/>	
A co-ordinated set of interventions (a set of interventions that includes international collaborations strengthened tax administration increased enforcement and swift severe penalties) reduces illicit trade in tobacco products.		<input checked="" type="checkbox"/>
Increases in tobacco tax increase tobacco tax revenues.	<input checked="" type="checkbox"/>	
Increases in tobacco tax do not increase unemployment.		<input checked="" type="checkbox"/>

* Sufficient evidence: an association has been observed between the intervention under consideration and a given effect in studies in which chance bias and confounding can be ruled out with reasonable confidence. The association is highly likely to be causal.

† Strong evidence: there is consistent evidence of an association but evidence of causality is limited by the fact that chance bias or confounding have not been ruled out with reasonable confidence. However explanations other than causality are unlikely.

²³ International Agency for Research on Cancer. Effectiveness of Tax and Price Policies for Tobacco Control. 2011

CURRENT TOBACCO TAX POLICY IN CANADA

TAXES ON MANUFACTURED CIGARETTES

Federal, provincial and territorial governments in Canada all impose excise taxes on tobacco products. These include:

- **Excise taxes:** Tobacco excise taxes levied by federal and provincial governments include **specific taxes** (those based on quantity) and **ad valorem taxes** (those based on price) .
- **Value-added or sales taxes:** The federal GST applies to all tobacco products. Some provinces apply both excise and their provincial sales or harmonized sales taxes on tobacco products. Some jurisdictions (Alberta and the territories) do not have sales taxes and Quebec does not apply a sales tax to tobacco products.

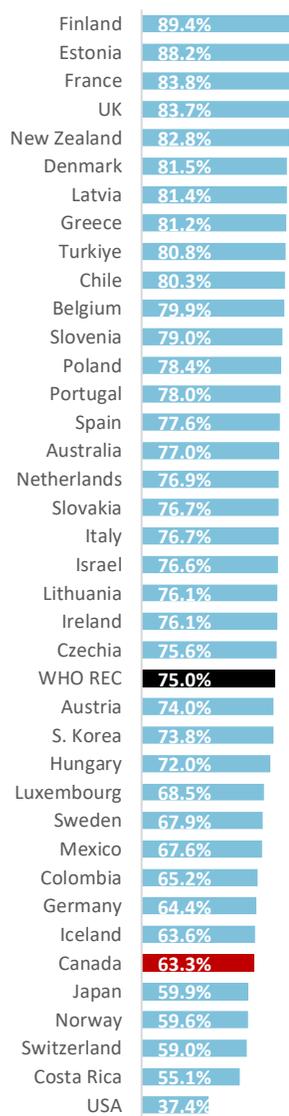
Current Canadian cigarette taxes do not meet the WHO recommended levels of 75% of purchase price

For most Canadians, however, these taxes are set below the levels recommended by the World Health Organization. As a benchmark, the WHO encourages countries to set taxes so that they represent at least 75% of the price of cigarettes is made up of tobacco taxes.²⁴ In 2023, WHO found that among the 38 high-income OECD countries, Canada was sixth from the bottom with respect to the proportion of cigarette prices that was made up of taxation.

This is a problem which has become greater in recent years. While governments have imposed modest tax increases (or none at all), tobacco companies have raised their prices in ways that have allowed them to increase their total revenue and to reduce the share of revenue paid in excise taxes in excess of any reduction in sales. Based on reports filed with Health Canada, their annual revenues from cigarette sales increased by 24% (\$1.3 billion) between 2013 and 2022, even though sales volume dropped by 40% (from 31.5 billion cigarettes to 18.4 billion).²⁵

One result of under-taxation is the ability of tobacco companies to further externalize the economic hardship of tobacco use by increasing profits while reducing tax revenues to cover health-care and other related costs.

Cigarette tax as a proportion of the price of the most sold package of cigarettes, 2022.²⁶



24 World Health Organization. Promoting taxation on tobacco products.

25 Health Canada. Cigarette Sales in Canada 2022. June 2023. Presentation given to NGOs.

26 Data from the World Health Organization's 2023 report on the Global Tobacco Epidemic.

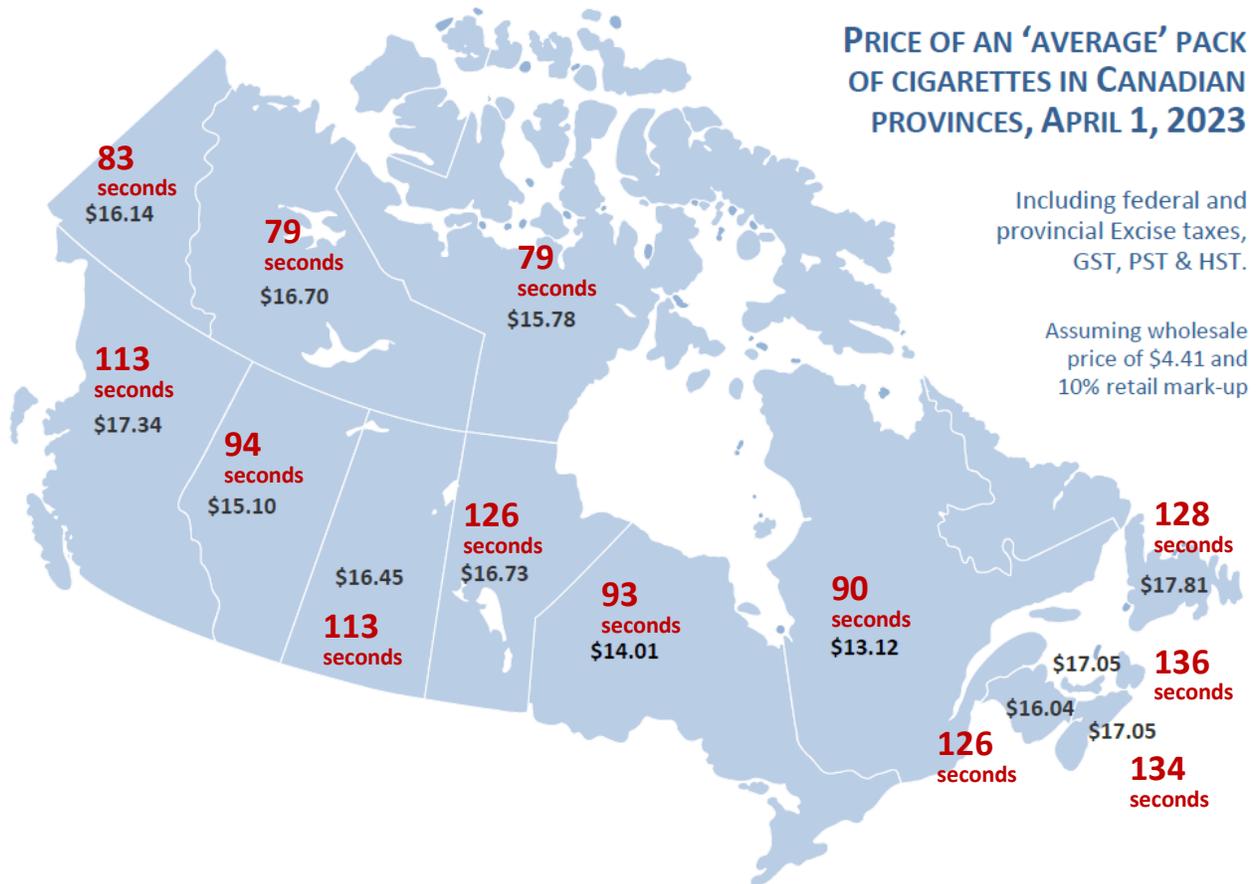
Cigarettes remain very affordable for most Canadians.

In 2022, tobacco companies in Canada reported selling an average of 13 cigarettes per day²⁷ to an estimated 3.8 million smokers.²⁸ At this level of sales-per-smoker, the daily federal tax paid is about \$2.08, with provincial taxes ranging from \$2.48 (Quebec) to \$4.27 (Newfoundland) on this average daily cigarette use.

The median hourly wages across Canada range from about \$23 per hour (Atlantic region) to over \$27 in the most westerly provinces and over \$35 in the northern territories.²⁹ At the pre-tax median wage, the cost of a cigarette can be earned in 1 to 2 minutes across Canada. This required level of effort cannot be expected to meaningfully discourage smoking.

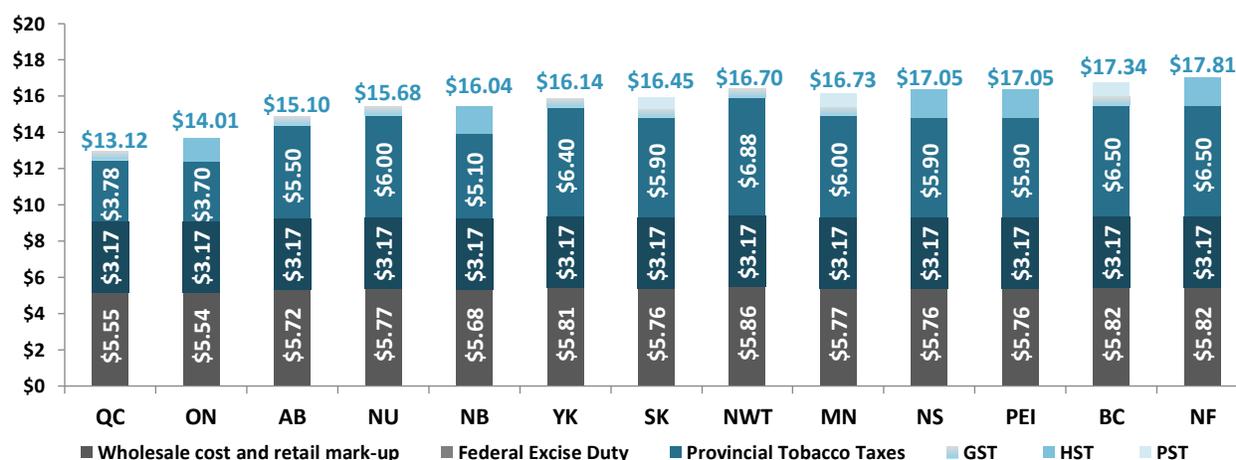
“WITH VERY DIFFERENT RATES OF TAXES SET BY THE PROVINCES, THE OPTIMAL ROLE FOR THE FEDERAL GOVERNMENT IS TO RAISE TAXES IN THOSE PROVINCES WHICH HAVE FAILED TO DO SO. THIS IS CONSISTENT WITH THE PRACTICE ESTABLISHED IN THE 1990S FOR DIFFERING RATES OF FEDERAL TAX ACROSS THE COUNTRY.”

ACTION ON SMOKING AND HEALTH, QUEBEC COALITION FOR TOBACCO CONTROL AND PHYSICIANS FOR A SMOKE-FREE CANADA. 30



27 Health Canada. Tobacco Control Directorate. Cigarette sales in Canada 2022. 18,376,765,809 cigarettes were reported sold in 2022.
 28 Statistics Canada. Canadian Community Health Survey. Health Characteristics, annual estimates. Table 13-10-0096-1.
 29 Employment and Social Development Canada. Hire a temporary worker in a high-wage of low-wage position. Median hourly wages by province or territory. May 11, 2020 wage.
 30 Action on Smoking and Health, Quebec Coalition for Tobacco Control and Physicians for a Smoke-Free Canada. Budget 2021: Addressing the unhealthy economics of tobacco. Submission to the Standing Committee on Finance.

Price of a typical³¹ pack of cigarettes in Canadian provinces and components of this cost, April 1, 2023.



Taxes on a carton of 200 cigarettes in Canadian jurisdictions, April 1, 2023³²

Per 200 cigarettes	Whole sale	Retail (10%)	Excise Taxes			Sales taxes applied to tobacco				Cost - 20 cigarettes
			Federal Excise Tax	Prov. Excise	Total Excise taxes	GST	PST	HST	Total	
British Columbia	\$44.41	\$14.08	\$31.66	\$65.00	\$96.66	5%	7%		5%	\$17.34
Alberta	\$44.41	\$13.08	\$31.66	\$55.00	\$86.66	5%			5%	\$15.10
Saskatchewan	\$44.41	\$13.48	\$31.66	\$59.00	\$90.66	5%	6%		11%	\$16.45
Manitoba	\$44.41	\$13.58	\$31.66	\$60.00	\$91.66	5%	7%		12%	\$16.73
Ontario	\$44.41	\$11.27	\$31.66	\$36.95	\$68.61			13%	13%	\$14.01
Quebec	\$44.41	\$11.36	\$31.66	\$37.80	\$69.46	5%			5%	\$13.12
New Brunswick	\$44.41	\$12.68	\$31.66	\$51.04	\$82.70			15%	15%	\$16.04
Nova Scotia	\$44.41	\$13.48	\$31.66	\$59.04	\$90.70			15%	15%	\$17.05
Prince Edward Island	\$44.41	\$13.48	\$31.66	\$59.04	\$90.70			15%	15%	\$17.05
Newfoundland & Lab	\$44.41	\$14.08	\$31.66	\$65.00	\$96.66			15%	15%	\$17.81
Northwest Territories	\$44.41	\$14.46	\$31.66	\$68.00	\$100.46	5%			5%	\$16.70
Nunavut	\$44.41	\$13.58	\$31.66	\$60.00	\$91.66	5%			5%	\$15.68
Yukon	\$44.41	\$13.98	\$31.66	\$64.00	\$95.66	5%			5%	\$16.14

31 Based on a national average wholesale product cost of \$4.41 for a package of 20 cigarettes with a retail mark-up of \$0.44.

32 Tax rates for each jurisdiction for cigarettes and other products are available at the following links:

Federal government. Rates of Excise Duty. <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/ed1-5-1/rates-excise-duty.html>

British Columbia. Tobacco Tax Rates. <https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/tobacco-tax>

Alberta: Tobacco tax rates <https://www.alberta.ca/about-tax-levy-rates-prescribed-interest-rates.aspx#tobacco>

Saskatchewan. Tobacco Tax. <https://www.saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tobacco-tax>

Manitoba. Tobacco Tax. <https://www.gov.mb.ca/finance/taxation/bulletins.html>

Ontario. Tobacco Tax. <https://www.fin.gov.on.ca/en/tax/tt/>

Quebec. Tobacco Tax Rate Table. <https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/ta-1-v/>

New Brunswick. Tobacco tax. <https://www2.gnb.ca/content/gnb/en/departments/finance/taxes.html#11>

Nova Scotia. Tobacco & Fuel. <https://www.novascotia.ca/finance/en/home/taxation/tax101/tobaccofuel.aspx>

Prince Edward Island. Tobacco Tax Rates. <https://www.princeedwardisland.ca/en/information/finance/tobacco-tax-rates>

Newfoundland and Labrador. Tobacco Tax. <https://www.gov.nl.ca/fin/tax-programs-incentives/personal/tobacco/>

Northwest Territories. Tobacco Tax. <https://www.fin.gov.nt.ca/en/services/licences-taxes-and-fees/tobacco-tax>

Nunavut. Tax rates. <https://www.gov.nu.ca/finance/documents/nunavut-tax-rates-2020>

Yukon. Find current tobacco tax rates in Yukon. <https://yukon.ca/en/tobacco-tax-rates>

TAXES ON OTHER TRADITIONAL TOBACCO PRODUCTS.

Across Canadian, various tax laws provide for several categories of tobacco, including Cigarettes (manufactured cigarettes), tobacco sticks (semi-manufactured cigarettes), cigars, other forms of manufactured tobacco, raw-leaf tobacco and partially manufactured tobacco.³³ Tobacco products without distinct federal tax rates include snus, ‘modern oral’, heat-not-burn tobacco, shisha, nasal snuff, dissolvable tobacco, bidis, etc. Three jurisdictions (British Columbia, Nunavut, and Saskatchewan) have introduced separate categories for some forms of non-combusted tobacco.^{34 35} Most reported tobacco sales (94% by value) in Canada involve manufactured cigarettes.³⁶

Taxes on fine-cut (rolling) tobacco

Most Canadians who smoke cigarettes purchase manufactured cigarettes. In 2021, around 360,000 kilograms of fine-cut tobacco were sold in Canada, compared with more than 2.5 million in 2003. Fine-cut tobacco represented 1.7% of the wholesale tobacco market value in 2021 (\$129 million, including federal excise tax which is levied at wholesale.)³⁷

Categories of tobacco addressed in Excise Tax laws.

	Cigarettes	Tobacco Sticks	Smoked Tobacco	Fine-cut	Raw Leaf Tobacco	Cigars	Smokeless Tobacco	Heated Tobacco	Loose Tobacco	Manufactured Tob.	Other Tobacco
Federal	●	●			●	●				●	
British Columbia	●	●				●		●	●		
Alberta	●	●				●			●		
Saskatchewan	●	●				●	●	●			●
Manitoba	●			●	●	●					●
Ontario	●			●		●					●
Quebec	●	●			●	●			●		●
New Brunswick	●	●				●					●
Nova Scotia	●	●		●		●					●
Prince Edward Island	●	●				●					●
Newfoundland and Labrador	●	●				●					●
Northwest Territories	●					●			●		
Nunavut	●		●			●	●				
Yukon	●					●					●

Definitions for tobacco products taxed under the federal Excise Act, 2001.

cigar includes (a) a cigarillo or cheroot; and (b) any roll or tubular construction intended for smoking that consists of a filler composed of pieces of natural or reconstituted leaf tobacco, a binder of natural or reconstituted leaf tobacco in which the filler is wrapped and a wrapper of natural or reconstituted leaf tobacco.

cigarette includes any roll or tubular construction intended for smoking, other than a cigar or a tobacco stick. If a cigarette exceeds 102 mm in length, each portion of 76 mm or less is considered to be a separate cigarette.

manufactured tobacco means every article, other than a cigar or packaged raw leaf tobacco, that is manufactured in whole or in part from raw leaf tobacco by any process.

raw leaf tobacco means unmanufactured tobacco or the leaves and stems of the tobacco plant.

tobacco stick means any roll or tubular construction of tobacco intended for smoking, other than a cigar, that requires further preparation to be consumed. If a tobacco stick exceeds 90 mm in length or 800 mg, each portion of 60 mm or less or each portion of 650 mg or less, respectively, is considered to be a separate stick.

33 See, for example, definitions in the federal Excise Act, 2001.

34 British Columbia Tobacco Tax Act, 1996 (revised 2020).

35 Nunavut. Tobacco Tax Act

36 Health Canada. Tobacco Sales in Canada 2021. Key Trends. October 2022. Presentation to Civil Society Stakeholders

37 Health Canada. Tobacco Sales in Canada 2021: Key Trends. October 2022. Presentation to Civil Society Stakeholders

In Canada rolling tobacco is generally referred to as “fine-cut”. Each of Canada’s major tobacco companies sells fine-cut under the same brand names as manufactured cigarettes (i.e. Players, Export A, Canadian Classic) in packages of 50 and 200 grams. They also sell branded pre-manufactured cigarette tubes (including filters) which can be used with rolling machines to assemble a cigarette from fine-cut.

Federal tax law places fine-cut tobacco in the category of “manufactured tobacco” and sets a minimum tax quantity of 50 grams. This provision was established in the 2008 budget as a way of “reducing the availability of small-sized packages [of roll-your-own tobacco] to youth.”³⁸ Provincial governments assess tax on each gram of roll-your-own tobacco sold.

At the same weight as the tobacco in cigarettes (0.7 grams), excise taxes on hand-made cigarettes are less than those on manufactured cigarettes in several, but not all provinces. The tax on fine-cut is 80% or less than that levied on manufactured cigarettes in 6 provinces. Generally, sales of fine-cut are higher where the taxes are relatively lower. A significant exception to this is Ontario, where sales of fine-cut are very low even though they receive a preferential tax rate.³⁹

Taxes on a 50 gram container of fine-cut tobacco in Canadian jurisdictions April 2023.

	Federal Excise Tax per 50 grams ⁴⁰	Prov. Excise per gram	Tax per 50 gram package
British Columbia	9.89524	\$0.65	\$42.40
Alberta	9.89524	\$0.4125	\$30.52
Saskatchewan	9.89524	\$0.35	\$27.40
Manitoba	9.89524	\$0.455	\$32.65
Ontario	9.89524	\$0.18475	\$19.13
Quebec	9.89524	\$0.189	\$19.35
New Brunswick	9.89524	\$0.2552	\$22.66
Nova Scotia	9.89524	\$0.26	\$22.90
Prince Edward Island	9.89524	\$0.40	\$29.90
Newfoundland and Labrador	9.89524	\$0.56	\$37.90
Northwest Territories	9.89524	\$0.473	\$33.55
Nunavut	9.89524	\$0.40	\$29.90
Yukon	9.89524	\$0.32	\$25.90

Specific taxes on a 50 gram pouch of fine-cut tobacco in Canadian jurisdictions. (April 2023)



38 Government of Canada. Federal Budget 2008. Tax Measures. Supplementary Information. <https://www.budget.gc.ca/2008/plan/ann4a-eng.html>

39 Physicians for a Smoke-Free Canada. Taxes on rolling tobacco in Canadian jurisdictions. September 2020.

40 Canada Revenue Agency. Excise Duty Rates. <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edrates/excise-duty-rates.html>.

Taxes on cigars

In 2021, the cigar market in Canada was worth \$231 million, or about 3% of the dollar value of the Canadian tobacco market (not including electronic or vapour products).⁴¹ A wide range of cigars are sold - more than 2,500 brands in 2018.⁴² Sales of cigars have decreased significantly since flavourings were prohibited in some categories. In 2021 there were about 322 million cigars sold in Canada, half the quantity in 2009 and about the level of sales in 2004.⁴³

Although federal law provides different regulations for packaging and labelling of “little cigars” and “cigars”,⁴⁴ these two products are treated equally under federal tax law. Little cigars are those products which, with the exception of some historic brands, were largely introduced to the Canadian market in the early 2000s and found to be particularly attractive to young Canadians.⁴⁵ The distinction between little cigar and cigarette is made on the basis of whether the wrapping is made of a substance made of tobacco leaves (cigar) or of paper or other substance (cigarette).

One element that contributed to youth use of these products was the price: cigarettes were required to be sold in packages of at least 20, but cigars which looked like cigarettes could be sold in individual units. (Discrepancies in other labelling requirements, such as health warnings, were also likely to have played a role.)

Under the *Tobacco and Vaping Products Act*, Cigars which meet the legal definition of “little cigars” must be sold in packages of not less than 20 units. Other cigars may be sold on a per-unit basis.

Federal and provincial tax laws impose ad valorem taxes on cigars. That is, the tax rate is set as a percentage of the wholesale or retail price. Unlike cigarettes and manufactured tobacco, where a specific per-unit tax is imposed, different levels of tax are imposed on the same weight or quantity of cigars.

Definitions for little cigars under the federal Tobacco and Vaping Products Act:

little cigar means a roll or tubular construction that

(a) is intended for smoking;

(b) contains a filler composed of natural or reconstituted tobacco;

(c) has a wrapper, or a binder and a wrapper, composed of natural or reconstituted tobacco; and

(d) has a cigarette filter or weighs no more than 1.4 g, excluding the weight of any mouthpiece or tip.

It includes any tobacco product that is designated by the regulations to be a little cigar.⁴⁶

41 Health Canada. Tobacco Sales in Canada, Key Trends 2021. October 2022.

42 Houston, C. Health Canada. Tobacco Sales in Canada 2019-2020. Conference presentation

43 Houston, C. Health Canada. Tobacco Sales in Canada 2019-2020. Conference presentation

44 See, for example, the regulations on Plain and Standardized Appearance (SOR/2019-17)

45 Physicians for a Smoke-Free Canada. Protecting young Canadians from tobacco marketing. An Appropriate Response to Little Cigars. 2008.

46 Government of Canada. Tobacco and Vaping Products Act. Definitions

The provinces have adopted somewhat varying approaches to calculating the ad valorem amount, using wholesale, retail or taxable prices as the basis.

Federal, provincial and territorial taxes on cigars, July 2023.

Jurisdiction	Tax rates on Cigars
Federal	\$34.45873 per 1,000 cigars plus the greater of \$0.12385 per cigar and 88 per cent of the sale price or duty-paid value.
British Columbia	90.5% of the taxable price or the retail price, to a maximum of \$7 per cigar
Alberta	142% of the taxable price of the cigar, with a minimum tax per cigar of 27.5 cents and a maximum of \$8.61.
Saskatchewan	100% of taxable value, with a minimum tax of 25.0¢ per cigar and a maximum tax of \$5.00 per cigar
Manitoba	75% of retail selling price (maximum tax \$5.00 per cigar)
Ontario	56.6 per cent of the taxable price of a cigar.
Quebec	80% of the taxable price of each cigar
New Brunswick	Seventy-five percent (75%) of the normal retail selling price of each cigar.
Nova Scotia	60% of the retail selling price (manufacturer's or importer's)
Prince Edward Island	75 per cent of the retail price of each cigar purchased
Newfoundland and Labrador	125% of purchase price
Northwest Territories	75% of suggested retail price
Nunavut	140% of the wholesale price of each cigar
Yukon	130% of taxable price per cigar. (The taxable price per cigar is 130% of manufacturer's or importer's selling price.)

RAISING TAXES IS THE MOST EFFECTIVE MEASURE TO REDUCE TOBACCO USE. PRICING STRATEGIES ARE POWERFUL TOBACCO CONTROL MEASURES WITH POTENTIAL TO PREVENT UPTAKE AND INCREASE QUIT RATES.

*HEART & STROKE
A TOBACCO ENDGAME FOR CANADA:
CREATING A FUTURE FREE OF COMMERCIAL
TOBACCO USE*

Elaborating on Quebec's example to vendors,⁴⁷ a typical single cigar sold with a non-tax price of \$0.84 in that province would be taxed as follows, with a final cost of \$13.23.

	Amount	Cumulative
Non-tax price sold to consumer	\$0.82	\$0.82
Federal tax (88% of sale price + \$0.031)	\$6.19	\$7.00
GST (5%) used to calculate Quebec tax	\$0.35	
Quebec tax – (80% of \$7.35)	\$5.88	\$12.60
GST (5%) in final price	\$0.63	\$13.23

⁴⁷ Revenue Quebec. Tax collection method for cigars.

Taxes on oral (chewing) tobacco

Although smokeless tobacco is banned in some countries (including most of the European Union⁴⁸), it is legal for sale across Canada.

Few Canadians use smokeless tobacco. In the most recent federal government survey of tobacco behaviour, only 1% of Canadians aged 15 or over reported that they had used smokeless tobacco in the past month, and only 0.2% reported using it once a week or more.⁴⁹

The value of the wholesale smokeless market in Canada (including federal excise tax) in 2021 was \$98 million (1.3% of the total tobacco market), on a sales volume of 227,000 kilograms. Historically, virtually all of the sales (greater than 90%) are in the provinces west of Quebec. In 2019 Alberta is the largest market (40%), followed by British Columbia (17%, Ontario (15%), Manitoba and Saskatchewan (8% and 9%). Of these provinces, only Alberta and Ontario ban the sale of flavoured smokeless.^{50 51}

Smokeless tobacco is taxed by each province and jurisdiction, as well as by the federal government. The tax laws in these jurisdictions mostly do not provide a separate category of taxation for smokeless tobacco, and generally include smokeless in the category of “other tobacco products.”

Federal tax law treats smokeless tobacco as a form of “manufactured tobacco” and sets a minimum tax quantity of 50 grams, for which the tax rate is currently \$9. 9.89524. Provincial governments tax on a per gram basis, with rates varying from a low of \$0.185 in Ontario to \$0.65 in British Columbia. In Canada, the total tax on a typical single-use quantity of smokeless tobacco (1 gram pouch) purchased in a 34 gram tin ranges from \$0.48 to \$0.94.

Smokeless tobacco is generally packaged in quantities of less than 50 grams, and manufacturers have complained to the federal government that the minimum tax rate creates an “air tax” on the difference between the minimum tax and their package sizes.⁵²

Specific taxes on a 34g tin of smokeless tobacco, (July 1 2023)



48 European Commission. Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco.

49 Statistics Canada. Canadian Tobacco and Nicotine Survey. Public Use Microdata File

50 Health Canada. Tobacco Sales in Canada: Key Trends. August 2019.

51 Physicians for a Smoke-Free Canada. Regulatory Update. Flavour bans on tobacco products in Canada and selected other jurisdictions. May 2020.

52 National Smokeless Tobacco Company. Response to federal consultation on “Seizing the Opportunity: The Future of Tobacco Control in Canada”. April 2017. <https://www.nstco.ca/assets/pdf/Federal-Tobacco-Control-Strategy-Submission%E2%80%933April-2017.pdf>

In the United States, where oral tobacco use is much greater than in Canada,⁵³ a variety of traditional and next generation products are for sale. Using a weight-based tax on newer products which use a lower weight of tobacco (such as snus) is claimed to result in significant under-taxing of some forms of oral tobacco.⁵⁴ The use of a minimum 50-gram quantity for federal taxes in Canada may prevent under-taxation of very light weight smokeless products.

Taxes on pipe tobacco

Health Canada reports that pipe tobacco represents a very small portion (0.1% in 2021) of the Canadian tobacco market, by wholesale value.⁵⁵ Nonetheless, over 517 brands of pipe tobacco were reported sold in 2018.⁵⁶ These would include tobacco smoked in traditional pipes, and also in water pipes (shisha). No jurisdiction has a specific category for pipe tobacco, and it is taxed as “other” or “manufactured” tobacco. The federal minimum tax of 50 grams applies.

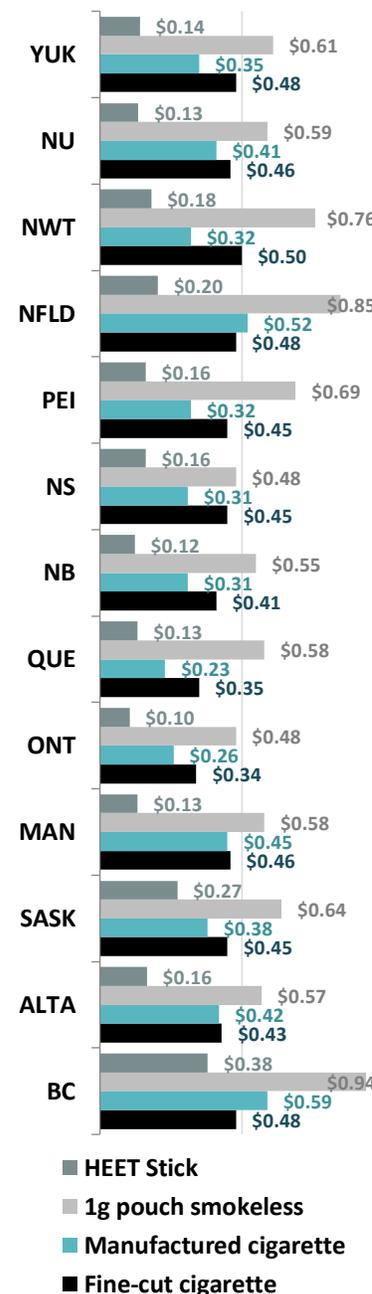
TAXES ON NEW TOBACCO AND MODERN ORAL PRODUCTS

Taxes on heated tobacco

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 the nicotine is vaporized when heated by a battery-operated element.

These modern tobacco products 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). British American Tobacco introduced its similar “i-glo”/”glo” product in some parts of Canada in 2017, but withdrew it in 2019. Japan Tobacco International manufactures a heat-not-burn device (PLOOM), but does appear to sell it in Canada.

Comparison of specific excise taxes on a single-use portions of tobacco products, July 2023.



53 U.S. Centers for Disease Control. Smokeless Tobacco Use in the United States. https://www.cdc.gov/tobacco/data_statistics/fact_sheets/smokeless/use_us/index.htm

54 Tobacco Free Kids. Closing weight-based tax loopholes for the new generation of low weight moist snuff smokeless tobacco products. <http://tobaccopolicycenter.org/wp-content/uploads/2017/11/232.pdf>

55 Health Canada. Tobacco Sales in Canada: Key Trends 2021. October 2022.

56 Health Canada. Tobacco Sales in Canada: Key Trends. August 2019.

Health Canada does not currently require manufacturers to report sales data on heated tobacco products, and the volume of sales in Canada is not publicly available.

Because HNB products are not “smoked”, they are not considered cigarettes under federal excise tax laws or those of most provinces. Two provinces (British Columbia and Saskatchewan) have established a tax category for these tobacco products.^{57 58} In British Columbia, this had the effect of more than doubling the taxes on these products, bringing each stick to the same price as a cigarette on August 1, 2020.

In other Canadian jurisdictions, these products are taxed 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".⁵⁹ This larger measure was introduced in the 2008 federal budget⁶⁰ as a way of preventing the marketing of “kiddy packs” of smokeless tobacco. The federal tax (currently set at \$9.89524 for every 50 grams or fraction thereof) thus functions as a minimum price for all products which fall into the “manufactured tobacco” category.



Because they are taxed at a lower rate, heat-not-burn tobacco products cost less than regular cigarettes in most Canadian provinces.

Retail price sign. Downtown Montreal, November 2021

Federal, provincial and territorial excise taxes on a carton of 160 sticks of heated tobacco, July 1, 2021.

	Fed. Excise	Prov. Excise	Total
British Columbia	\$9.90	\$52.00	\$61.09
Alberta	\$9.90	\$20.21	\$29.30
Saskatchewan	\$9.90	\$32.80	\$41.89
Manitoba	\$9.90	\$14.21	\$23.30
Ontario	\$9.90	\$9.05	\$18.14
Quebec	\$9.90	\$11.23	\$20.32
New Brunswick	\$9.90	\$12.50	\$21.59
Nova Scotia	\$9.90	\$19.60	\$28.69
Prince Edward Is.	\$9.90	\$10.54	\$19.63
Newfoundland	\$9.90	\$19.60	\$28.69
Northwest Territories	\$9.90	\$13.33	\$22.42
Nunavut	\$9.90	\$14.70	\$23.79
Yukon	\$9.90	\$14.70	\$23.79

57 British Columbia. Tobacco Tax Act. Chapter 452.
 58 Saskatchewan’s measures were announced in the budget tabled April 6, 2021 and become effective June 1, 2021.
 59 Canada Revenue Agency. 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>
 60 Finance Canada. Budget 2008. Annex 4. Tax measures: supplementary information and Notice of Ways and Means Motion. <https://www.budget.gc.ca/2008/plan/ann4a-eng.html>

A package of 18 heat sticks contains 4.8 grams of tobacco, compared with about 10-12 grams of tobacco in a package of 20 cigarettes. The federal tax on a package of 18 HNB sticks (if they were sold separately) is \$9.90, but when sold in a carton of 180 sticks works out to \$0.99 per 18 stick 'sub-unit'. By contrast, the federal tax on cigarettes is almost three times as much (\$28.53 for 180 cigarettes).

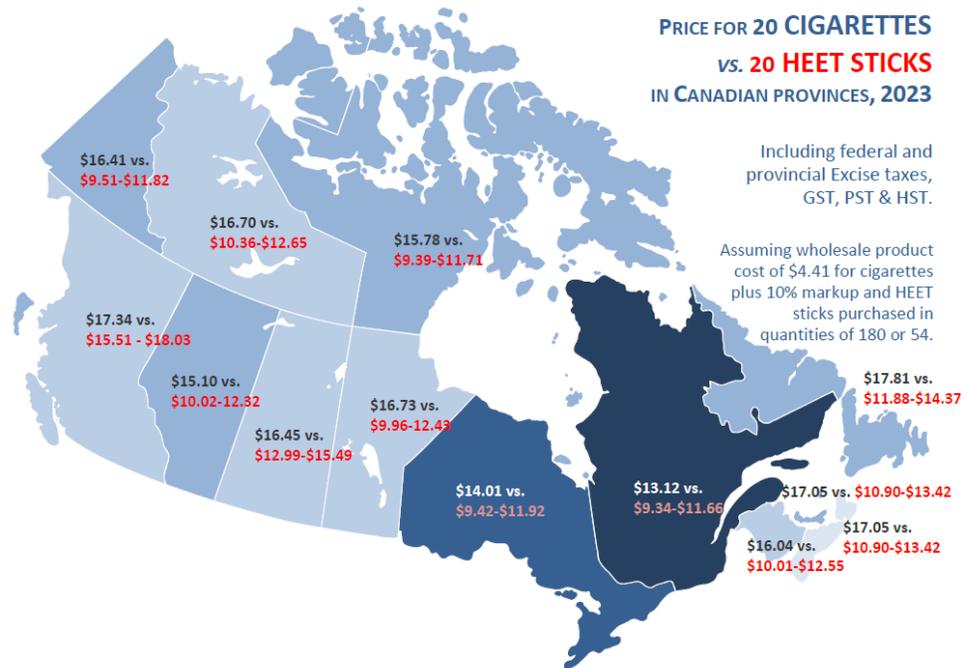


An IQOS device and HEETS stick (below and middle) and a conventional cigarette (above)

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 180 sticks (containing 10 'sub-units' of 18 sticks each) and a bundle of 54 sticks (packaged in 3 'sub-units' of 18 sticks each). (It has also lobbied the federal government to change the rules).⁶¹

What does this mean for public health? 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 less expensive than regular cigarettes.



61 Rothmans, Benson and Hedges. Written Submission for the pre-budget consultations in advance of the 2022 budget. <https://www.ourcommons.ca/Content/Committee/441/FINA/Brief/BR11510825/br-external/RothmansBensonAndHedgesInc-e.pdf>

International examples of taxes on heated tobacco

Generally speaking, heated tobacco products are sold at a lower price than premium cigarettes. Philip Morris has made public the retail selling price of its heated tobacco units (HTUS) and also its leading cigarette brand, Marlboro, for 57 of countries in which it sells heated tobacco.⁶² Of these, the price of heated tobacco is cheaper in all but 3 countries. Of the OECD nations, the relative price of its heated sticks is cheapest in Canada (56%), lower only in the United Kingdom (40%) and New Zealand (39%).

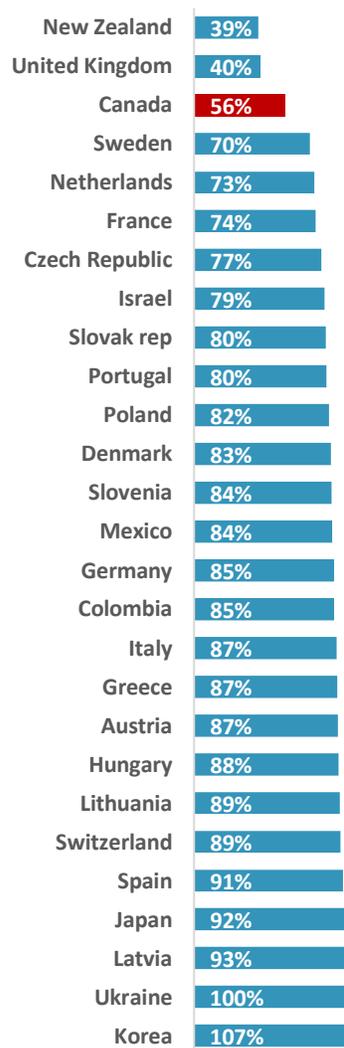
In some cases, as in Canada, differences in tax contribute to the price differential. In the United Kingdom, cigarettes are taxed at £0.245 per stick (plus 16.5% of retail price), whereas heated tobacco is taxed by weight (£251.60 per kg), equivalent to £0.067 per IQOS HEET stick.⁶³

As the range of tobacco and nicotine products grow, health regulators and tax officials are working to review and revise their tax system. For example, in preparing for a revision of its 2011 Directive on Tobacco Excise Tax, the European Commission, for example, recently conducted an evaluation of the extent to which its tax framework contributed to their tax criteria of supporting the EU internal market, protecting public health and addressing contraband. A key concern of this evaluation is addressing novel tobacco products, including heated and electronic cigarettes:⁶⁴ *“The developments and emergence of new products (e-cigarettes, heated tobacco products and new addictive products containing nicotine or cannabis) reveals the limits of this legal framework. The current scope and provisions of the [EU Excise Tobacco Tax] Directive are not able to cope with these market developments.”*⁶⁵

Fourteen countries do not permit the sale of heated tobacco products. These include Australia, India, Malta, Norway, Panama, Singapore, Thailand, and Turkey.⁶⁶

Heated tobacco products are relatively cheaper in Canada.

Tax-included purchase price of IQOS compared with Marlboro cigarettes. April 2023



62 Philip Morris International. Investor Information. May 2023

63 HM Revenue & Customs. Tobacco Products Duty Rate. Effective November 16, 2020.

<https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-tobacco-duty/excise-duty-tobacco-duty-rates>

64 European Commission . Evaluation of the Council Directive 2011/64/EU of 21 June 2011 on the structure and rate of excise duty applied to manufactured tobacco.

65 European Commission. Executive Summary of Evaluation of the Council Directive 2011/64/EU of 21 June 2011 on the structure and rate of excise duty applied to manufactured tobacco

66 Knowledge Action Change. Global State of Tobacco Harm Reduction, 2022. (NB – Tobacco industry-funded research)

Taxes on modern oral nicotine

Another category of smokeless nicotine has recently been authorized for sale in Canada as a stop smoking medication, although it is sold in many other countries on the consumer market.⁶⁷

These “modern oral” products claim to be “tobacco free- because they are made with reconstituted fibre from trees or other non-tobacco plants, to which nicotine has been added.

The sale of these products as not contemplated in the federal *Tobacco and Vaping Products Act*, and they are only permitted for sale under the regulatory control of the *Food and Drugs Act*. They are eligible for market authorization as Prescription Drugs (if they contain more than 4 mg of nicotine per unit) or natural health products (if less than 4 mg).

As they do not contain tobacco, they would not be subject to specific excise taxes under current Canadian tax laws, although they are subject to GST and provincial sales tax.⁶⁸



At least one brand of nicotine pouch is now legal for sale in Canada, although Zyn and other brands are not yet marketed here.

TAXES ON VAPING PRODUCTS

Cigarettes and vaping products which do not contain tobacco were initially exempt from tobacco excise taxes in Canada and in other countries. As these products become more common, and in response to specific concerns about young people using them, several countries – including Canada - have considered or have applied taxes to electronic cigarettes.

There is limited international or domestic experience in taxation of vaping products. The product category is new, the products and their marketing (including price) are changing and there is considerably international variance in the market conditions. For these reasons, it may be difficult to extrapolate from the limited experience of those countries which have imposed taxes on vaping devices or liquids



British American Tobacco says its VUSE brand product are the best-selling vaping brands in the gas and convenience chain market.

67 Physicians for a Smoke-Free Canada. BAT shoehorns its nicotine pouches onto the Canadian market. July 21, 2023 <https://smoke-free.ca/bat-shoehorns-its-nicotine-pouches-onto-the-canadian-market/>

68 Physicians for a Smoke-Free Canada. Yet another novel nicotine product on the Canadian horizon: tobacco-less oral tobacco. November 2019. <http://smoke-free-canada.blogspot.com/2019/11/yet-another-novel-nicotine-product-on.html>

Reflecting the recent arrival of vaping products, International guidelines taxing this category, comparable to those for tobacco taxes,⁶⁹ have not yet been developed, although work to support such guidance has been undertaken by:

- The European Commission, in support of a revision to the EU 2011 Directive on Tobacco Excise Tax.⁷⁰
- The World Bank Group Tobacco Program Team.⁷¹

These recommendations and a review of the recent pricing of vaping products in Canada suggests the following be taken into consideration when reviewing the potential for vaping taxes in Canada.

World Bank Group Recommendations on E-cigarette taxes⁷²

1. Imposing a tax on e-cigarette products could limit youth access to these harmful products and reduce e-cigarette use initiation and consumption.
2. Taxation should be applied to all e-cigarette products because this strategy would likely have the greatest effect on the youth e-cigarette use. It also has the potential for generating the most revenue. A specific tax could be applied to e-liquids and an ad valorem tax to devices. The mixed taxation could help in maintaining the equality of tax across products and therefore increasing its political palatability.
3. All kinds of liquids for e-cigarettes should be taxed, regardless of nicotine content, including nicotine-free liquids.
4. It should be noted that high taxes for e-cigarette products could encourage switching to traditional tobacco products. However, this unintended consequence could be reduced by also increasing the tax on all other tobacco products.
5. Effectiveness of taxation policies can be increased by implementing other regulatory policies to e-cigarettes in line with the FCTC COP recommendations.

69 WHO FCTC. Guidelines for Implementation of Article 6 of the WHO FCTC.

70 European Commission . Evaluation of the Council Directive 2011/64/EU of 21 June 2011 on the structure and rate of excise duty applied to manufactured tobacco.

71 World Bank Group Global Tobacco Program Team. Working Note E-cigarettes use and taxation. April 2019.

72 World Bank Group Global Tobacco Program Team. Working Note E-cigarettes use and taxation. April 2019.

CONSIDERATIONS FOR SETTING E-CIGARETTE TAXES IN CANADA.

1. **There is considerable tax/price room for measures to dissuade uptake of these products by non smokers.**

Since 2018, companies have charged as much as \$65 and as little as \$10 for vaping devices or starter kit. Within brands, device or starter kit prices have dropped as much as \$35. In 2020, companies were selling devices for \$1 when they were bundled with pods as “starter kits”. Companies give devices away in promotional events.

Pods, which contain from 0.7 to 2 ml of liquid, currently retail at about \$5-\$6 each, roughly half the price of the package of cigarettes that each replaces.

It is possible to make these products less affordable for young people without raising the cost above that of cigarettes.

2. **The marketing of “Starter kits” is antithetical to public health.**

The convenience (and reduced price) of selling device and pods together increases the appeal and affordability of these products, and functions as a marketed inducement for trial. Taxes can be set to blunt the impact of this marketing practice.

3. **Vaping taxes can reduce use-inducing affordability of these products to young people and non-smokers**

On devices: A specific tax on vaping devices of \$35 combined with a minimum price of \$45 will result in a typical price (including tax) at about the mid-range of highest price charged by vaping companies since 2018 (about \$45). The corporate decision to lower this price suggests that this threshold reduces affordability to new users.

On liquids: A specific tax of \$3 per pod (including federal and provincial taxes), combined with a minimum price per pod of \$7 will raise the price of vaping products **without making them more expensive than cigarettes**. Ad valorem taxes, including HST, PST and GST can also be applied, as Nova Scotia has done

CURRENT TAXES ON VAPING PRODUCTS IN CANADA

The federal government imposes a specific excise tax on vaping liquids. Four provinces (British Columbia, Nova Scotia, Newfoundland and Saskatchewan) have imposed special taxes on vaping liquids or devices.^{73 74 75 76 77} General sales taxes, like the harmonized sales tax (HST), the provincial sales tax (PST) or Goods and Services Tax (TST) are also applied in all provinces.

THE FEDERAL VAPING TAX

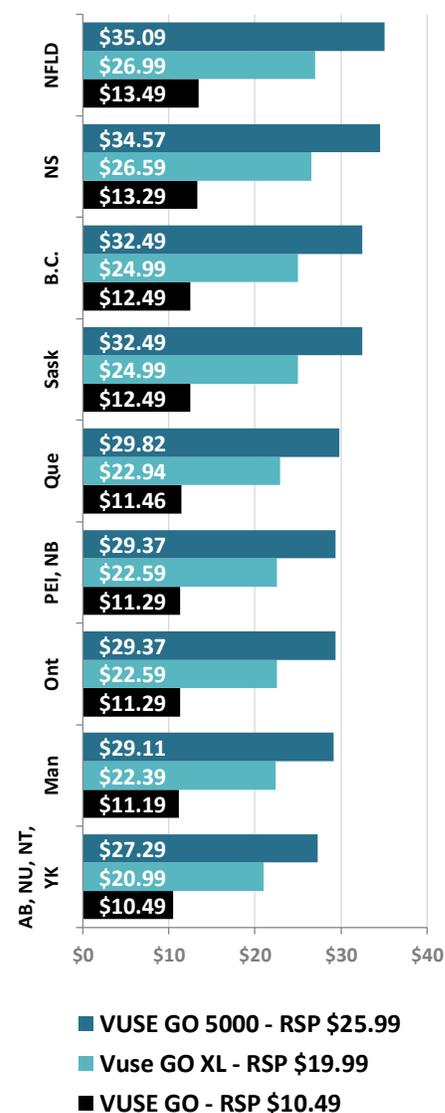
The federal government promised a tax on vaping products in the April 2021 budget with the stated purpose of reducing youth vaping: *"Young Canadians' use of vaping products, such as e-cigarettes, is on the rise ... In addition to raising revenues, vaping taxation could become an effective means to help curtail harmful consumption of these products."*⁷⁸

The tax was put in place in the 2022 budget and fully implemented on January 1, 2023.⁷⁹⁸⁰

The new excise tax category is similar to the tax on manufactured tobacco in that a minimum rate is set for 10 ml, although the rate is reduced for larger quantities. This puts a higher tax burden on the products that youth favour -- capsule products and disposables -- and a lower tax burden on bottled liquids. The federal tax on liquids is:

- \$1 per 2 millilitres (mL), or fraction thereof, for the first 10 mL of vaping substance in the vaping device or immediate container
- \$1 per 10 mL, or fraction thereof, for amounts over the first 10 mL.

Tax included price of VUSE disposable e-cigarettes, July 2023



73 British Columbia's Provincial Sales Tax Act increased the HST to 20% for vapour products. The tax came into effect on January 1, 2020.

74 Nova Scotia's Revenue Act was amended to impose a 20% tax on vaping devices and a \$0.50 tax per millilitre of liquids. The HST is applied after this tax.

75 Alberta announced a tax in 2020, but in its 2021 budget said that it was "on hold".

76 Newfoundland's vapour products tax came into effect on January 1, 2021. The tax was implemented by the 2020 Act to Amend the Revenue Administration Act.

77 Saskatchewan announced in its 2021 budget that it would replace the 6% provincial sales tax on vaping products with a 20% vaping products tax.

78 Finance Canada. Budget 2021. <https://www.budget.canada.ca/2021/pdf/budget-2021-en.pdf>

79 Canada Revenue Agency. Message to vaping retailers. https://www.canada.ca/content/dam/cra-arc/serv-info/tax/vpng_xcs_nfgrphc_rtrr-e.pdf

80 Canada Revenue Agency. Calculating the vaping duty. <https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies/excise-duty-vaping-products/calculating-vaping-duty.html>

PROVINCIAL VAPING TAX

Four Canadian provinces have implemented taxes on vaping products:

- British Columbia applies HST at a rate of 20% to vaping devices and liquids since January 1, 2020,⁸¹ in lieu of the regular provincial sales tax.
- Nova Scotia applies a specific tax of \$0.50 per millilitre for liquids, and a 20% tax on devices, effective September 15, 2020. Packages which contain both are taxed at the highest of these two rates⁸²
- Newfoundland and Labrador imposes a sales tax of 20% on vaping products, in addition to HST effective January 1, 2021.⁸³
- Saskatchewan imposes a sales tax of 20% of vaping products (replacing a 6% sales tax), effective on September 1, 2021.⁸⁴

In addition, three provinces have indicated that they intend to impose higher tax on e-cigarettes than they do on other consumer goods:

- Alberta announced in October 2019⁸⁵ that it would tax vaping products and set the tax rate at 20% in its February 2020 budget,⁸⁶ but the following year announced that this had been put on hold.⁸⁷ In 2022, the Alberta government budget indicated the province would explore a coordinated approach with the federal government.

In May 2022, Prince Edward Island adopted legislation to allow its government to enter into an agreement with the federal government for the co-administration of vaping taxes, which is also provided for in the federal legislation establishing an excise tax on vaping products.⁸⁸

Federal excise duty applied on typical vaping products



30 mL liquid

RSP \$24.00

Federal duty included: \$7

Duty as % of price: 29%



4.5 mL liquid

RSP: \$19.99

Federal duty included: \$3

Duty as % of price: 15%



3.8 mL liquid

RSP: \$17.99

Federal duty included: \$2

Duty as % of price: 11%

81 British Columbia. Bill 45, the Tax Statutes Amendment Act, 2019. <https://www.leg.bc.ca/parliamentary-business/legislation-debates-proceedings/41st-parliament/4th-session/bills/progress-of-bills>

82 Nova Scotia. Budget 2020.

<https://beta.novascotia.ca/sites/default/files/documents/6-2046/ftb-bfi-041-en-budget-2020-2021.pdf>

83 Newfoundland and Labrador. Vapour Products Tax.

<https://www.gov.nl.ca/fin/tax-programs-incentives/business/vapour-tax/>

84 Saskatchewan. Vapour Products Tax.

<https://www.saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/vapour-products-tax>

85 Alberta. Fiscal Plan 2019-2023.

<https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

86 Alberta Budget 2020. <https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf>

87 Alberta. Fiscal Plan. Budget 2021.

<https://open.alberta.ca/dataset/6f47f49d-d79e-4298-9450-08a61a6c57b2/resource/ec1d42ee-ecca-48a9-b450-6b18352b58d3/download/budget-2021-fiscal-plan-2021-24.pdf>

88 Prince Edward Island. Vaping Products Taxation Agreement Act. Royal Assent May 6, 2022.

- In its 2022 economic update, the Quebec government indicated that it was exploring a coordinated approach to taxing vaping products with the federal government, suggesting an annual revenue of \$40 million per year.⁸⁹
- New Brunswick was reported in April 2022 to be interested in collaborating with the federal government on taxing vaping products.⁹⁰

Tax rates applied to sale of vaping liquids and devices in Canadian provinces and territories

	Federal Excise	Liquids	Devices
Alberta, Nunavut, Northwest Territories, Yukon.	\$1 per 2 mL for the first 10 mL	5% GST	5% GST
Saskatchewan	Plus	20% PST 5% GST	6% PST 5% GST
Manitoba	\$1 per additional 10 mL	12% HST	12% HST
Ontario		13% HST	13% HST
Quebec		9.975% PST 5% GST	9.975% PST 5% GST
Prince Edward Island, New Brunswick,		15% HST	15 HST
Newfoundland and Labrador		20% 15% HST	20% VAT 15% HST
British Columbia		20% PST 5% GST	20% PST 5% GST
Nova Scotia		\$0.50/ml 15% HST	20% VAT 15% HST

INTERNATIONAL EXAMPLES OF TAXES ON VAPING PRODUCTS

There is limited international or domestic experience in taxation of vaping products. The product category is new, the products and their marketing (including price) are changing and there is considerably international variance in the market conditions. For these reasons, it may be difficult to extrapolate from the limited experience of those countries which have imposed taxes on vaping devices or liquids.

More than 40 countries are reported to currently tax vaping products.⁹¹

89 Quebec. Economic Update. December 2022. http://www.finances.gouv.qc.ca/Budget_and_update/maj/documents/AUTEN_updateDec2022.pdf

90 Fredericton Daily Gleaner. New Brunswick signals willingness to join feds in taxing vaping. April 12, 2022 <https://tj.news/telegraph-journal/101842629>

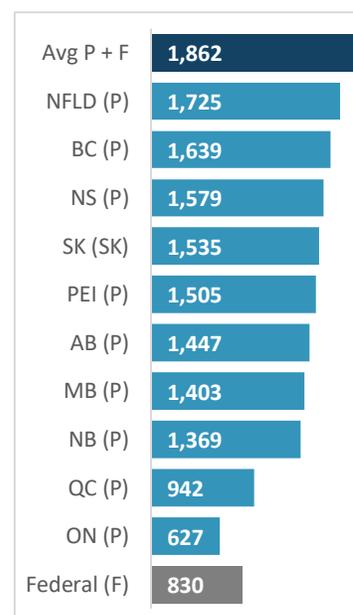
91 Vaping 360. Vaping Taxes in the United States and Around the World <https://vaping360.com/learn/tax-rates-on-vaping-products/>

TAX REVENUES

Tobacco tax revenues represent a relatively small but not insignificant portion of the income of most Canadian jurisdictions – between 0.6% and 1.3% of total revenues and between 0.9% and 16.2% of tax revenues.

Tax revenue generated for the average smoker is about \$1,860 per year (including federal and provincial excise taxes paid), with annual provincial tobacco tax revenues per smoker varying from \$627 per year (Ontario) to \$1,725 per year (Newfoundland).⁹²The differences between provinces reflect both the range in tax rates applied and also the number of smokers who do (or who do not) purchase tax-paid tobacco.

Provincial (P) and federal (F) tax revenues per smoker, 2021-2022



Provincial and federal tax revenues per smoker, 2021-2022

	Number of Smokers (12+) ⁹³	Tobacco tax revenues ⁹⁴	Annual tobacco tax per smoker	Daily tobacco tax per smoker
	2021	2021-2022	2021-2022	2021-2022
Canada (federal government)	3,830,200	\$3,178,709,981	\$830	\$2.27
Newfoundland & Lab.	61,800	\$106,618,000	\$1,725	\$4.73
Prince Edward Island	19,800	\$29,797,000	\$1,505	\$4.12
Nova Scotia	114,800	\$181,297,000	\$1,579	\$4.33
New Brunswick	83,100	\$113,800,000	\$1,369	\$3.75
Quebec	974,800	\$918,000,000	\$942	\$2.58
Ontario	1,479,100	\$927,000,000	\$627	\$1.72
Manitoba	121,200	\$170,000,000	\$1,403	\$3.84
Saskatchewan	117,500	\$180,407,000	\$1,535	\$4.21
Alberta	426,400	\$617,000,000	\$1,447	\$3.96
British Columbia	431,900	\$708,000,000	\$1,639	\$4.49
Total	3,830,200	\$7,130,628,981	\$1,862	\$5.10

⁹² Physicians for a Smoke-Free Canada. Tobacco tax revenues per smoker, Canada 2011 to 2022.

⁹³ Statistics Canada. Table 13-10-0096-10 (formerly CANSIM 105-0501). Estimates of smoking prevalence is reported for the calendar year.

⁹⁴ Data taken from the Public Accounts of each province and the federal government. Tax data is reported for the fiscal year (April 1 to March 31)

Tax revenues were relatively stable for several years, once inflation is considered, but have fallen steadily over the past 5 years..

In contrast, tobacco industry revenues have grown in recent years, even though the volume of cigarettes sold has fallen.

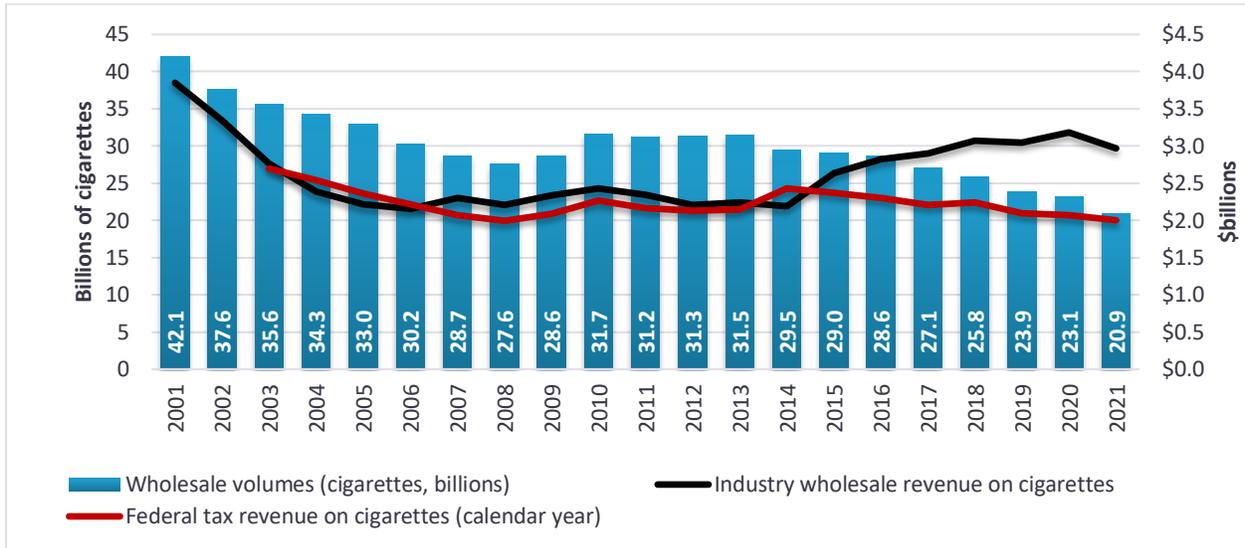
The ability of companies to increase prices (and revenues) without any impact on taxes is a function of the choice of specific taxes (set amounts) instead of ad valorem taxes (proportionate amounts). Tax revenue does not change with the price of the product. If governments wish to ensure that industry does not take excess profits from cigarettes, a combination of ad valorem and specific taxes could be used (including applying the ad valorem tax only above a certain price point).

Tobacco tax revenues as a portion of total tax revenues and total revenues, 2021-220. ⁹⁵

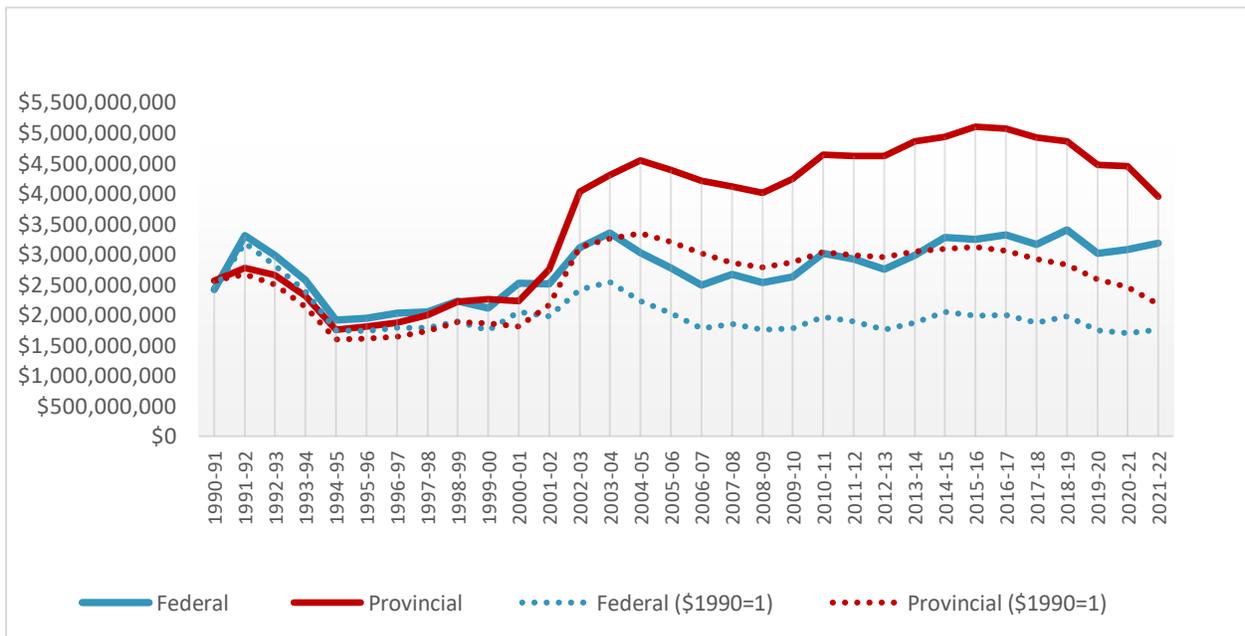
	Tobacco tax revenues	Total tax revenues	Total Revenues	% of Tax revenues	% of Total revenues
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
Canada (federal government)	\$3,178,709,981	\$350,669,325,000	\$413,277,203,000	0.9%	0.8%
Newfoundland & Lab.	\$106,618,000	\$4,501,900,000	\$8,595,900,000	2.4%	1.2%
Prince Edward Island	\$29,797,000	\$1,141,600,000	\$2,652,700,000	2.6%	1.1%
Nova Scotia	\$181,297,000	\$3,945,449,000	\$14,075,497,000	4.6%	1.3%
New Brunswick	\$113,800,000	\$5,530,400,000	\$11,390,800,000	2.1%	1.0%
Quebec	\$918,000,000	\$86,925,000,000	\$138,831,000,000	1.1%	0.7%
Ontario	\$927,000,000	\$131,700,000,000	\$185,100,000,000	0.7%	0.5%
Manitoba	\$170,000,000	\$9,730,000,000	\$19,107,000,000	1.7%	0.9%
Saskatchewan	\$180,407,000	\$8,071,109,000	\$15,478,962,000	2.2%	1.2%
Alberta	\$617,000,000	\$23,506,000,000	\$68,322,000,000	2.6%	0.9%
British Columbia	\$708,000,000	\$40,717,000,000	\$72,392,000,000	1.7%	1.0%
Northwest Territories	\$14,278,000	\$284,795,000	\$2,262,199,000	5.0%	0.6%
Nunavut	\$24,617,000	\$152,354,000	\$2,816,745,000	16.2%	0.9%
Yukon	\$12,894,000	\$231,461,000	\$1,767,827,000	5.6%	0.7%

95 Taken from the public accounts and/or budget documents of each jurisdiction . The federal government provides information on the amount of revenue received for cigars, manufactured cigarettes and manufactured tobacco, the provinces aggregate revenues from all tobacco categories. This information is provided for the fiscal year, ending in March 31.

Cigarette sales, federal revenues from excise taxes on cigarettes and wholesale revenues on cigarette sales, adjusted 2001=\$1



Total Federal & Provincial Revenues from excise taxes on tobacco products, 1990 – 2022, nominal and inflation adjusted⁹⁶



96 Physicians for a Smoke-Free Canada. Tax Revenues from Tobacco Sales.