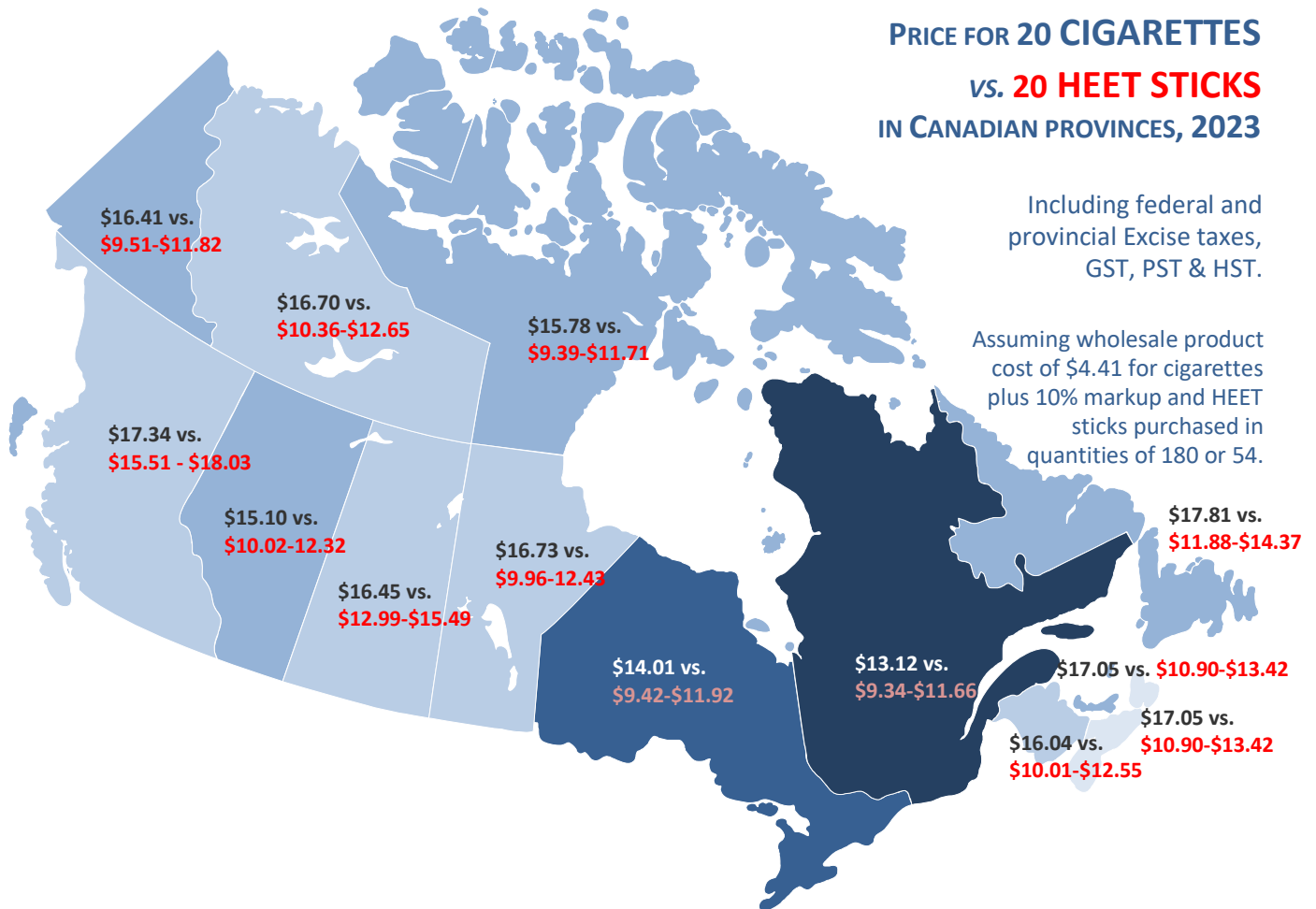


Taxes on heat-not-burn cigarettes in Canadian jurisdictions

PRICE FOR 20 CIGARETTES vs. 20 HEET STICKS IN CANADIAN PROVINCES, 2023

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

Assuming wholesale product cost of \$4.41 for cigarettes plus 10% markup and HEET sticks purchased in quantities of 180 or 54.



Cigarette price based on a national average wholesale product cost of \$4.41 for a package of 20 cigarettes, consistent with the average wholesale prices provided to Health Canada, and an estimated retail mark up of 10%.

HEET price based on an average wholesale-retail price of \$56.23 for 180 HEET sticks and \$16.81 for 54 HEET sticks, consistent with price charged on-line in Ontario in July 2023.

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 federal excise tax laws or those of most provinces. Two provinces (British Columbia and Saskatchewan) have established a tax category for these tobacco products.^{3 4}

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".⁵ This measure was introduced in the 2008 federal budget as a way of preventing the marketing of "kiddy packs" of smokeless tobacco.⁶ 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.

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. For a package of 180 sticks, which contains 48 grams of tobacco, the tax is also \$9.90, or 5.5 cents per stick. By contrast, the federal tax on a package of 20 cigarettes is \$3.17, or 16 cents per stick.

RBH has responded to this unusual structure in tobacco law taxation by selling its HEET sticks only in cartons or bundled packages. The two package sizes it now 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 its tax policy.⁷)

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. On a per-unit basis, HNB sticks are less expensive than conventional cigarettes.

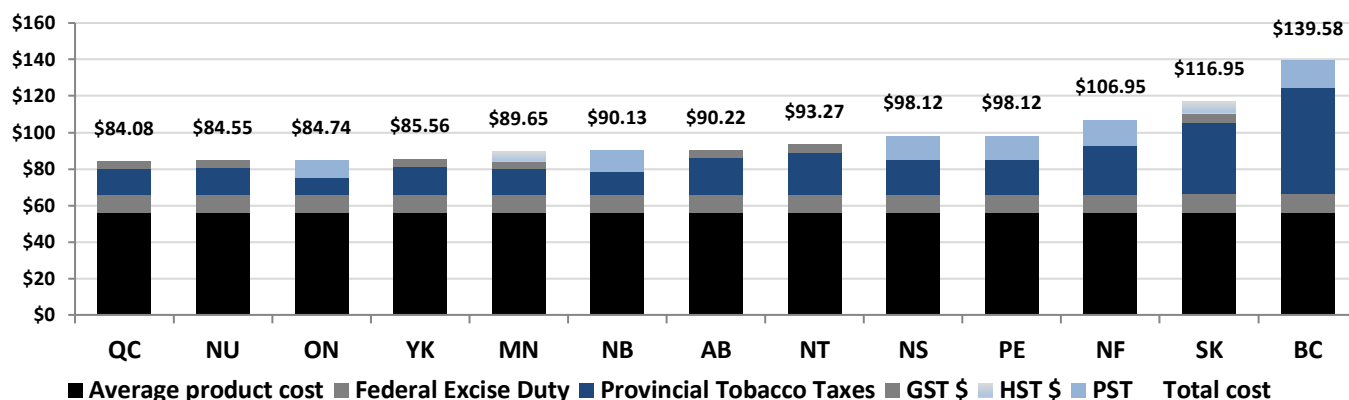


An IQOS device and HEETS stick (below and middle) and a conventional cigarette (above)



Figure 1: Package sizes for HEET products. 180 sticks (above) lists for \$75 in Ontario and 54 sticks (below) lists for \$28.50

Price of a carton of 180 HEET sticks in Canadian provinces and components of this cost, July 2023.



Taxes on a carton of 180 HEET sticks (10 'sub-units' of 18 sticks) (July 2023)

	Excise Taxes			Sales taxes applied to tobacco			Total cost	\$ per 20 sticks		
	Product wholesale	Federal Excise Tax	Prov. Excise	Total	GST	PST			HST	
160 sticks										
British Columbia	\$56.23	\$9.90	\$58.50	\$68.40			12%	12%	\$139.58	\$17.45
Alberta	\$56.23	\$9.90	\$19.80	\$29.70	5%			5%	\$90.22	\$11.28
Saskatchewan	\$56.23	\$9.90	\$39.24	\$49.14	5%	6%		11%	\$116.95	\$14.62
Manitoba	\$56.23	\$9.90	\$13.92	\$23.82	5%	7%		12%	\$89.65	\$11.21
Ontario	\$56.23	\$9.90	\$8.87	\$18.76			13%	13%	\$84.74	\$10.59
Quebec	\$56.23	\$9.90	\$13.95	\$23.85	5%			5%	\$84.08	\$10.51
New Brunswick	\$56.23	\$9.90	\$12.25	\$22.14			15%	15%	\$90.13	\$11.27
Nova Scotia	\$56.23	\$9.90	\$19.20	\$29.10			15%	15%	\$98.12	\$12.27
Prince Edward Island	\$56.23	\$9.90	\$19.20	\$29.10			15%	15%	\$98.12	\$12.27
Newfoundland & Lab.	\$56.23	\$9.90	\$26.88	\$36.78			15%	15%	\$106.95	\$13.37
Northwest Territories	\$56.23	\$9.90	\$22.70	\$32.60	5%			5%	\$93.27	\$11.66
Nunavut	\$56.23	\$9.90	\$14.40	\$24.30	5%			5%	\$84.55	\$10.57
Yukon	\$56.23	\$9.90	\$15.36	\$25.26	5%			5%	\$85.56	\$10.69
50 sticks										
British Columbia	\$16.81	\$9.09	\$17.55	\$26.64			12%	12%	\$48.67	\$18.03
Alberta	\$16.81	\$9.09	\$5.78	\$14.87	5%			5%	\$33.26	\$12.32
Saskatchewan	\$16.81	\$9.09	\$11.77	\$20.86	5%	6%		11%	\$41.82	\$15.49
Manitoba	\$16.81	\$9.09	\$4.06	\$13.15	5%	7%		12%	\$33.56	\$12.43
Ontario	\$16.81	\$9.09	\$2.59	\$11.68			13%	13%	\$32.19	\$11.92
Quebec	\$16.81	\$9.09	\$4.07	\$13.16	5%			5%	\$31.47	\$11.66
New Brunswick	\$16.81	\$9.09	\$3.57	\$12.66			15%	15%	\$33.90	\$12.55
Nova Scotia	\$16.81	\$9.09	\$5.60	\$14.69			15%	15%	\$36.23	\$13.42
Prince Edward Island	\$16.81	\$9.09	\$5.60	\$14.69			15%	5%	\$36.23	\$13.42
Newfoundland & Lab.	\$16.81	\$9.09	\$7.84	\$16.93			15%	15%	\$38.81	\$14.37
Northwest Territories	\$16.81	\$9.09	\$6.62	\$15.71	5%			5%	\$34.15	\$12.65
Nunavut	\$16.81	\$9.09	\$4.20	\$13.29	5%			5%	\$31.61	\$11.71
Yukon	\$16.81	\$9.09	\$4.48	\$13.57	5%			5%	\$31.90	\$11.82

HEET price based on an average wholesale-retail price of \$56.23 for 180 HEET sticks and \$16.81 for 54 HEET sticks, consistent with price charged on-line in Ontario in July 2023.

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

Sources for tax rates

- Federal government. Canada Revenue Agency. EDN63 Adjusted Rates of Excise Duty on Tobacco Products Effective April 1, 2023. <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edn86/adjusted-rates-excise-duty-tobacco-products.html>
- British Columbia. Tobacco tax rates <https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/tobacco-tax>
- Alberta. Tax, levy, and prescribed interest rates <https://www.alberta.ca/about-tax-levy-rates-prescribed-interest-rates.aspx>
- Saskatchewan. Business and Industry. Tobacco Tax. <https://www.saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tobacco-tax>
- Manitoba. Finance. Taxation Division. Tobacco Tax. <https://www.gov.mb.ca/finance/taxation/taxes/tobacco.html>
- Ontario. Ministry of Finance. Tobacco Tax. <https://www.ontario.ca/document/tobacco-tax>
- Revenu Quebec. Tobacco Tax Rate Table. <https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/ta-1-v/>
- New Brunswick. Finance and Treasury Board. Tobacco Wholesaler's Guide. <https://www2.gnb.ca/content/gnb/en/departments/finance/taxes/wholesalers.html>
- Nova Scotia. Provincial Tax Commission. Tax Information. <https://beta.novascotia.ca/sites/default/files/documents/1-1191/tobacco-tax-program-overview-en.pdf>
- Newfoundland Ministry of Finance. Tobacco Tax. <https://www.gov.nl.ca/fin/tax-programs-incentives/personal/tobacco/>
- Prince Edward Island. Tobacco Tax Rates https://www.princeedwardisland.ca/sites/default/files/publications/ttn_138may-2022_rate_increase.pdf
- Yukon. Taxation. Current tobacco tax rates in Yukon. <https://yukon.ca/en/tobacco-tax-rates>
- Northwest Territories. Tobacco Tax Rates. <https://www.fin.gov.nt.ca/en/services/licences-taxes-and-fees/tobacco-tax>
- Nunavut Tax Rates 2020. https://www.gov.nu.ca/sites/default/files/nunavut_tax_rate_sheet_2023_updated_en_0.pdf

References

- 1 Philip Morris International. Our Products in Canada. <https://www.pmi.com/markets/canada/en/about-us/our-products>
- 2 Heat180. Glo Discontinued in Canada. <https://heat180.com/glo-discontinued-in-canada/>
- 3 British Columbia. Tobacco Tax Act. Chapter 452.
- 4 Saskatchewan's measures were announced in the budget tabled April 6, 2021 and become effective June 1, 2021.
- 5 Revenue Canada. EDN63. Adjusted Rates of Excise Duty on Tobacco Products Effective April 1, 2023 <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edn86/adjusted-rates-excise-duty-tobacco-products.html>
- 6 Finance Canada. Budget Plan 2008. Supplementary Information. <https://www.budget.gc.ca/2008/plan/ann4a-eng.html>
- 7 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>