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TOBACCO TAX ACT **RATE INCREASE**

I. ISSUE

Raise tobacco tax rates to provide additional funding for cancer research.

II. BACKGROUND

The current tobacco tax rates are 23.9 cents per cigarette or gram of tobacco. There is a separate tax rate for cigars.

Tobacco tax rates for cigarettes and grams of loose tobacco were increased:

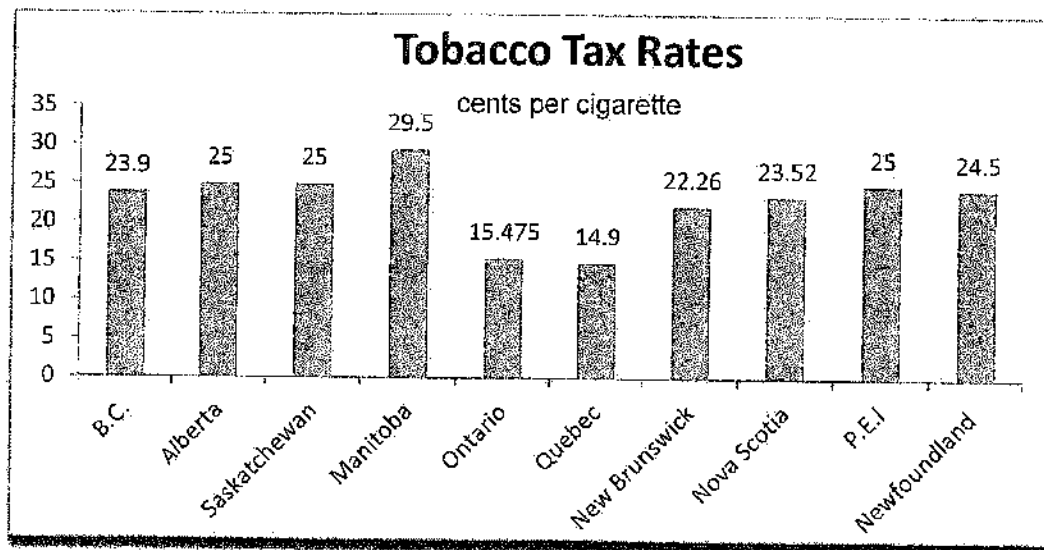
- 1.6 cents effective April 1, 2014 (to 23.9 cents from 22.3 cents).
- 1 cent effective October 1, 2013 (to 22.3 cents from 21.3 cents).
- 2.8 cents effective April 1, 2013 (to 21.3 cents from 18.5 cents).
- 0.6 cents effective February 18, 2009 (to 18.5 cents from 17.9 cents).

The rate increases in 2014 and October 2013 were revenue measures.

The rate increase in April 1, 2013, was to keep tobacco prices constant with the elimination of the harmonized sales tax on tobacco products.

The rate increase in 2009 was to align BC tobacco tax rates with Alberta tobacco tax rates.

The chart below shows current tobacco tax rates on cigarettes by province, excluding proposed increase for BC.



Note: Different provinces have additional tax rates for different types of tobacco products in addition to cigars and have variable tax rates for different regions.

In 1994, Ontario, Quebec and the federal government were forced to dramatically cut tobacco tax rates to fight cigarette smuggling into central Canada from the United States. Tobacco tax rates in Ontario and Quebec have subsequently increased since 1994, but remain significantly lower than all other provinces.

It was estimated in 2009 that BC loses an average of approximately \$125 million per year in tobacco tax revenue due to untaxed illicit cigarette sales. BC illicit cigarettes originate from four main sources:

- Cigarettes imported illegally from Asia through BC ports;
- Baggies of cigarettes produced in New York State and on reserves in central Canada and smuggled through First Nations reserves in Ontario and Quebec;
- Native brand cigarettes manufactured on First Nation reserves in Ontario and Quebec and sold off reserve untaxed; and
- Tax exempt blackstock tobacco products diverted from BC First Nation reserves to non-First Nation consumers.

A recent study by the Western Convenience Store Association indicates that about 15 per cent of cigarettes in BC are illicit. This is generally consistent with previous studies which indicated that illicit tobacco ranged from 15 to 25 per cent in Canada. The level of illicit tobacco varies by province reflecting different distribution networks and social acceptability of purchasing illicit tobacco between provinces.

IV DISCUSSION

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IV. OPTIONS

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V. EVALUATION

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