

MEETING - Backgrounder

Meeting Date: 3 October 2017

Cliff:

MEETING: FPT CANNABIS CONFERENCE CALL, HONOURABLE WILIAM MORNEAU, MINISTER OF FINANCE, HONOURABLE RALPH GOODALE, MINISTER OF PUBLIC SAFETY AND EMERGENCY PREPAREDNESS

ISSUE: FEDERAL FRAMEWORK FOR CANNABIS TAXATION

KEY FACTS REGARDING THE ISSUE:

- To date the federal government has only provided the provinces with a “one-pager” high level overview of what a proposed coordinated federal-provincial taxation framework would look like.
- The federal government has proposed levying a single federal excise tax on cannabis and then sharing revenues with the provinces. In exchange provinces would not impose any additional cannabis specific taxes of their own.
- This approach could simplify the administration of a cannabis tax in BC.
- The proposal cannot be evaluated without details on how the tax arrangement would function and what the expected provincial revenues would be.
- The federal government had committed to provide the provinces details on the proposed framework, including basic material required to evaluate the proposal such as:
 - a draft of the elements of a coordinated tax approach agreement (e.g. how it is administered, information sharing, changes in federal law....);
 - an economic analysis on the size of the recreational cannabis market; and
 - further discussion of the distinctions between markups and other tax tools
- The federal government recently announced that they would begin public consultation on the taxation framework for cannabis in the near future.
- After the announcement the federal government scheduled and then abruptly canceled a FPT meeting on the topic of taxation. Provincial officials expressed an expectation that information that had been previously promised would be shared.

ADVICE:

s.13,s.16

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Program Area Contact:	Name	Number
	Steve Hawkshaw	250-387-7364

Ministry of Finance
BRIEFING DOCUMENT

To: Carole James
Minister of Finance
and Deputy Premier

Date Requested: October 5, 2017

Date Required: October 5, 2017

Initiated by: Heather Wood
Assistant Deputy Minister
Policy and Legislation Division

Date Prepared: October 5, 2017

Ministry Contact: Steve Hawkshaw
Director
Tax Policy Branch

Phone Number: 250-387-7364
Email: Steve.Hawkshaw@gov.bc.ca

361272

TITLE: Federal Announcement on the Taxation of Cannabis

PURPOSE:

FOR INFORMATION

COMMENTS:

DATE PREPARED: October 5, 2017

TITLE: Federal Announcement on the Taxation of Cannabis

BACKGROUND:

Canada has publicly announced that it intends to enact a cannabis-specific excise tax that would be applied at the federal level, with a 50/50 revenue split between provinces and the federal government. The tax would have a minimum rate of \$1 dollar per gram of cannabis, with an alternative ad valorem tax rate of 10 per cent that would apply if the sale price of cannabis exceeded \$10 a gram. The federal proposal assumes that Federal and Provincial sales taxes of general application (GST/HST/PST) will also apply to cannabis.

DISCUSSION:

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NEXT STEPS:

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Issue	Cannabis Taxation
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- The federal government has proposed an excise duty of 10% on cannabis¹, with a minimum tax of \$1/gram and a 50/50 sharing of revenue between federal and provincial/territorial governments.

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¹ The cannabis regulatory framework and tax relate to dried cannabis, fresh cannabis and oils only. How to deal with cannabis food products ("edibles") will be considered by Canada at a future date.

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Position of Other Provinces/Territories

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Recommended BC Position

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Contact: Aaron Nelson (778-698-8181)
Tax Policy Branch, Ministry of Finance

November 28, 2017

Ministry of Finance
BRIEFING DOCUMENT

To:	Carole James Minister of Finance and Deputy Premier	Date Requested: December 5, 2017
		Date Required: December 5, 2017
Initiated by:	Heather Wood Assistant Deputy Minister Policy and Legislation Division	Date Prepared: December 5, 2017
Ministry Contact:	Aaron Nelson Director Tax Policy Branch	Phone Number: 778-698-8181 Email: Aaron.Nelson@gov.bc.ca 362854

TITLE: Implications of ^{s.13} Federal Excise Tax on Cannabis

PURPOSE:

(X) FOR INFORMATION

COMMENTS:

DATE PREPARED: December 5, 2017

TITLE: Implications of ^{s.13} Federal Excise Tax for Cannabis

BACKGROUND:

Canada has publicly announced that it intends to enact a cannabis-specific excise tax that would be applied at the federal level, with a 50/50 revenue split between provinces and the federal government. The tax would have a minimum rate of \$1 dollar per gram of dried cannabis, with an alternative ad valorem tax rate of 10 per cent that would apply if the sale price of cannabis exceeded \$10 a gram. The federal proposal assumes that Federal and Provincial sales taxes of general application (GST/HST/PST) will also apply to cannabis.

Provinces and Territories (PT's) have been evaluating the proposed federal excise tax and the potential revenue that the tax would generate. The PT's are concerned that a 50/50 revenue share may not sufficiently cover provincial regulatory costs and have been seeking to receive a higher share. The PT's are also concerned that a higher revenue share may not adequately cover provincial costs.

This note looks at the implications of ^{s.13} the federal excise tax framework for cannabis.

DISCUSSION:

The federal objectives of legalizing cannabis are as follows:

- Keeping cannabis out of the hands of youth
- Keeping profits out of the hands of criminals

A federally coordinated excise tax has been proposed in support of these objectives. The objective of the excise tax is to generate sufficient revenues to offset the expected incremental cost and deliver a final retail price that is competitive with illicit market prices across the country.

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CONCLUSION:

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Ministry of Finance
BRIEFING DOCUMENT

To:	Carole James Minister of Finance and Deputy Premier	Date Requested: December 5, 2017
		Date Required: December 5, 2017
Initiated by:	Heather Wood Assistant Deputy Minister Policy and Legislation Division	Date Prepared: December 5, 2017
Ministry Contact:	Aaron Nelson Director Tax Policy Branch	Phone Number: 778-698-8181 Email: Aaron.Nelson@gov.bc.ca 362853

TITLE: Federal/Provincial Costs of Cannabis Legalization

PURPOSE:

(X) FOR INFORMATION

COMMENTS:

DATE PREPARED: December 5, 2017

TITLE: Federal/Provincial Costs of Cannabis Legalization

BACKGROUND:

Canada has publicly announced that it intends to enact a cannabis-specific excise tax that would be applied at the federal level, with a 50/50 revenue split between provinces and the federal government. The tax would have a minimum rate of \$1 dollar per gram of dried cannabis, with an alternative ad valorem tax rate of 10 per cent that would apply if the sale price of cannabis exceeded \$10 a gram. The federal proposal assumes that Federal and Provincial sales taxes of general application (GST/HST/PST) will also apply to cannabis.

Provinces and Territories (PT's) have been evaluating the proposed federal excise tax and the potential revenue that the tax would generate. The PT's are concerned that a 50/50 revenue share may not sufficiently cover provincial regulatory costs and have been seeking to receive a higher share. The PT's are also concerned that a higher revenue share may not adequately cover provincial costs.

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DISCUSSION:

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CONCLUSION:

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PROVINCIAL SALES TAX ACT
APPLICATION OF PST TO CANNABIS SALES

I. ISSUE

Application of PST to medical and recreational cannabis sales following the full legalization of cannabis in Canada.

II. BACKGROUND

The federal government is intending to legalize the sale and use of recreational cannabis across Canada effective July, 2018. Along with the legalization of cannabis the federal government has proposed a federally administered excise tax that would apply to both medical and recreational cannabis sales. The proposed excise tax is the higher of \$1/gram or 10 per cent of the sales value. Revenue collected from the proposed excise tax would be shared with the provinces.

The federal government has proposed amendments to the *Excise Tax Act* making medical and recreational cannabis taxable under GST/HST. Medical cannabis is currently subject to GST/HST.

Under the *Provincial Sales Tax Act* (PST Act), drugs purchased through prescriptions from authorized health practitioners are exempt from PST. Medical cannabis falls into this exemption and is therefore not subject to PST.

The PST Act also provides exemptions for drugs and substances that relieve pain. In certain circumstances, recreational cannabis may be considered exempt under this provision.

Initially only the sale of fresh or dried cannabis and the sale of seeds and seedlings will be made legal. Further federal legislation supporting cannabis edibles and other products will be introduced approximately one year following the initial legalization. The PST treatment of these products will be considered at that time.

As a related matter, BC, led by the ministries of Public Safety and Solicitor General and Health, is working to develop a provincial regulatory framework consistent with the proposed federal *Cannabis Act* that is expected to come into effect on or before July 1, 2018

III. DISCUSSION

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IV. OPTIONS

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V. EVALUATION

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VI. RECOMMENDATION

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VII. DECISION

Option 1 / Option 2 / Option 3

Ministry of Finance
BRIEFING DOCUMENT

To: Carole James
Minister of Finance
and Deputy Premier

Date Requested: March 21, 2018

Date Required: March 29, 2018

Initiated by: Shauna Brouwer
Assistant Deputy Minister
Policy and Legislation Division

Date Prepared: March 21, 2018

**Ministry
Contact:** Aaron Nelson
Tax Policy Branch

Phone Number: 778-698-8181
Email: Aaron.Nelson@gov.bc.ca

Cliff #: 366293

TITLE: s.12

PURPOSE:

(X) FOR DECISION

s.12

DATE PREPARED: March 21, 2018

s.12,s.13

TITLE:

BACKGROUND:

Canada has publicly announced that it intends to enact a cannabis-specific excise tax that would be applied at the federal level, with a 75/25 revenue split between provinces and the federal government. The tax would have a minimum rate of \$1 per gram of dried cannabis, with an alternative ad valorem tax rate of 10 per cent that would apply if the sale price of cannabis exceeded \$10 per gram.

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DISCUSSION:

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RECOMMENDATION:

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APPROVED / NOT APPROVED

Carole James
Minister of Finance and Deputy Premier

Date