

## Higher rate now: Why excise tax on tobacco is long overdue for an increase

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Canadian Medical Association:

Submission to the Standing Senate Committee on Banking, Trade and Commerce

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A healthy population and a vibrant medical profession  
Une population en santé et une profession médicale  
dynamique

The Canadian Medical Association (CMA) is the national voice of Canadian physicians.

Founded in 1867, the CMA is a voluntary professional organization representing more than 80,000 of Canada's physicians and comprising 12 provincial and territorial medical associations and 60 national medical organizations.

CMA's mission is to serve and unite the physicians of Canada and be the national advocate, in partnership with the people of Canada, for the highest standards of health and health care.



## Introduction

The Canadian Medical Association (CMA) welcomes the opportunity to provide input to the Standing Senate Committee on Banking, Trade and Commerce study of Bill C-31 the Budget Implementation Bill, in particular the section concerned with tobacco taxation.

Tobacco use is still the number one cause of preventable disease and death in Canada, claiming 37,000 or more Canadians' lives every year. It is a major risk factor for the chronic diseases that burden Canadians and their health care system, and it costs the country over \$17 billion per year for medical treatment, social assistance, lost productivity and reduced quality of life. While progress has been made in lowering smoking rates and changing attitudes towards smoking much work remains - nearly 4.6 million Canadians still smoke.

Physicians have been warning of the dangers of smoking for over 50 years. Canada's doctors treat the harmful effects of tobacco use every day in their offices, and see first-hand the devastation it causes to patients and their families. The CMA has consistently recommended tough legislative and regulatory measures to control tobacco use. Comprehensive tobacco control efforts must include legislation, regulation, together with public education and smoking cessation programs.

## Impact of Price on Smoking

Research has shown that an increase in cigarette prices has an impact on reducing both the number of cigarettes smoked and smoking prevalence rates. Permanent, inflation-adjusted increases in cigarette prices, which could be achieved by increasing cigarette taxes, will contribute to reducing cigarette smoking rates in Canada. Youth are up to three times more sensitive to price than adults, with a 10 per cent price increase estimated to reduce youth smoking prevalence by 5 per cent or more and also to reduce cigarette consumption among continuing young smokers<sup>i</sup>

With the current smoking rate of 20 per cent among Canadian young adults, higher than the smoking rate for the rest of Canada which is 16 per cent, additional initiatives to reduce smoking in this population are urgently required.

Research has also shown that persons of low socioeconomic status are more responsive to price than the general population but it is less clear on the impact on long-term heavy smokers and aboriginal smokers<sup>ii</sup>

Estimates imply that the long-run effect of a permanent price increase is approximately double the short-run impact. Thus, a 10 per cent increase in cigarette price is expected to reduce the prevalence of cigarette smoking by approximately 8 per cent in the long run.<sup>iii</sup>

## Excise Tax Adjustments

The current proposal to adjust the domestic rate of excise duty on tobacco products to account for inflation and eliminate the preferential excise duty treatment of tobacco products available through duty free markets will increase the cost of cigarettes and other tobacco products like fine-cut tobacco for use in roll-your-own cigarettes, chewing tobacco and cigars. For example, the government has stated that the excise “duty free” rate for cigarettes will increase from \$15.00 to \$21.03 per carton of 200 cigarettes. The commitment to make an automatic inflation adjustment every 5 years is a means to ensure that tobacco tax rates retain their real value in the future.

The CMA recommends passage of the proposal under Part 3 of Bill C-31 to increase the domestic rate of excise duty, accounting for inflation and eliminating the preferential excise duty treatment of tobacco products. This proposal represents a positive step toward the development of a federal integrated tobacco tax strategy for both domestic and imported products, and speaks to the importance of the relationship between health policy and tax policy.

## Unintended Consequences

There is a risk that a rise in tobacco taxes with the resultant rise in the cost of smoking will lead to an increase in the smuggling of lower-cost cigarettes. To avoid potential unintended consequences, such as smuggling, the CMA recommends that the federal government work with other countries to ensure that tobacco prices are harmonized across national borders. In addition, all levels of government should take the most stringent measures possible to control the sale and distribution of contraband tobacco, on their own and in cooperation with other affected jurisdictions.

## Investing Tobacco Taxes in Health Promotion

The Minister of Finance has estimated that increasing tobacco taxes, including excise taxes on tobacco products, will increase federal tax revenues by \$96 million in 2013–14, 685 million in 2014–15 and \$660 million in 2015–16.

The CMA recommends that the revenue from increased taxation should be directed towards strengthening Canada’s tobacco control strategy.

The CMA recommends that tobacco taxation policy should be used in conjunction with other strategies for promoting healthy public policy, such as public education programs to reduce tobacco use. The federal government should place a high priority for funding tobacco prevention and evidence-based cessation programs for young Canadians as early as primary school age. For these, substantial and sustainable funding is required.

A portion of these tobacco taxes should also be used to defray the costs of tobacco interventions, including physician-based clinical tobacco intervention services and up to 12 weeks stop-smoking medication annually per smoker. We encourage the government to focus their efforts on “high-risk” and “hard-to-reach” populations.

## **Research**

For Canada’s Tobacco Control strategy to continue to reduce smoking rates in Canada we must continue to assess evolving best practices in smoking cessation programs, and conduct research on the impact of policies on high risk populations.

The CMA recommends that a portion of the revenues from tobacco taxes can be directed towards supporting evidence-based action to reduce tobacco use. This evidence comes from surveying Canadians on smoking behavior, conducting research and evaluation, and keeping track of trends and emerging issues.

## **Conclusion**

The CMA supports increasing the excise duty on tobacco products. An increase in the excise duty tax on tobacco products is long overdue and a welcome contribution to efforts already underway to further reduce smoking rates in Canada.

## Summary of Recommendations

The CMA recommends passage of the proposal under Part 3 of Bill C-31 to increase the domestic rate of excise duty, accounting for inflation and eliminating the preferential excise duty treatment of tobacco products.

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<sup>i</sup> The Impact of Price on Youth Tobacco Use, Tobacco Control Monograph NO. 14  
Frank J. Chaloupka, Rosalie Liccardo Pacula

<sup>ii</sup> Effects of Tobacco Taxation and Pricing on Smoking Behavior in High Risk Populations: A Knowledge Synthesis  
Pearl Bader, David Boisclair, Roberta Ferrence  
Int J Environ Res Public Health. 2011 November; 8(11): 4118–4139. Published online 2011 October 26. doi:  
10.3390/ijerph8114118  
PMCID: PMC3228562

<sup>iii</sup> The Impact of Price on Youth Tobacco Use, Tobacco Control Monograph NO. 14  
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