

Intelligence MEMOS



From: Ian Irvine

To: Canadians Concerned About Vaping

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Re: **VAPING TAXES: BAD FISCAL POLICY IS ALSO BAD HEALTH POLICY**

Federal and provincial taxation of vaping products has increased dramatically in the past three years.

When the federal government moved in 2022 to levy a substantial excise tax on vapor, it took care of its own revenues in a shared tax jurisdiction. Unsurprisingly, the provinces now want a piece of the pie and several are seeking to match the federal levy. Ontario, for example, has entered into an agreement with the federal government to have it collect the combined levies and remit the province its share.

The current federal tax on a 30 ml bottle of e-liquid is \$7. By doubling this tax with a provincial equivalent (on a product that sells pre-tax for between \$15 and \$20) the ultimate price will be between 90 and 120 percent higher: A \$14 excise levy on a \$20 product plus sales tax of 13 percent results in a price of \$38.42, making for a 92-percent tax rate. That becomes 118 percent if the price is \$15.

Such tax rates will have very unfortunate effects: Fewer people will switch from cigarettes and dual users will be less inclined to use non-combustibles. As a result, more will ultimately die prematurely.

Canadian surveys in the past several years indicate that vaping has been a major driver in reducing smoking among youth and young adults. The drop in smoking has been strongest among those 20 to 24. Half as many smoke today compared to 2015. Relatively inexpensive vapes have driven much of this decline.

Most economic research indicates that consumers will switch out of legal e-cigarettes in response to higher [prices](#) and [bans](#) on product availability. This is because vapes and combustibles are what economists call substitutes. A 100-percent or more tax disregards the fiscal principle of proportionality – that where products carry some risk, the rate of taxation should reflect such risk. And Public Health England and the Royal College of Physicians have [told us](#) for a decade that vapes are 95 percent less risky than cigarettes.

Bloated taxes on a lower risk product incorrectly suggests vaping is almost as dangerous as cigarettes. And uninformed consumers (the majority, according to Statistics Canada surveys) will make bad decisions as a result: They may stick with a deadly product (cigarettes) if taxes are high or low-risk substitute goods – flavoured e-cigarettes – are banned. The longer-term consequences for morbidity and mortality are clear.

Research from all [over the planet](#) indicates smoking rates have fallen fastest where low-risk alternative nicotine products are available to smokers as is the case in Japan, Sweden, New Zealand, Norway, and numerous European cities where non-combustible products have gained a foothold.

Not all vapers will switch back to cigarettes or change the balance of vaping and smoking if they are dual users. Some will hunt online for the cheapest comparable products. With provinces harmonizing their taxes, this source will very likely be vendors based on First Nations land or internationally, where products of any flavour, disposables of any capacity and e-liquid bottles of any size can be found. All are delivered to your doorstep in a plain package with no punitive taxes, as a casual drive through some First Nations lands or a perfunctory Internet search will confirm.

We need the provinces to realize, and Health Canada to inform the public in an unambiguous way of the relative risks of different nicotine delivery systems. And it should not be too much to expect of Ottawa that Health and Finance cooperate on designing risk-proportionate tax rates. As it is, Ottawa imposed a heavy tax on a low-risk product and invited the provinces to do the same.

A uniform risk-proportionate rate of tax across Canada will probably require Ottawa to direct most of the revenue to the provinces. Otherwise, some provinces will opt out and impose their own preferred rates, with predictable negative consequences. Such a strategy will certainly result in a loss of revenue to Ottawa in favour of the provinces. Would that be so bad if it reined in illegality and incentivized nicotine users to stay away from combustibles?

While the prospect of extraordinary taxes on vaping is the most urgent issue on the nicotine taxation agenda, Canada must also confront the question of how it will tax heat-not-burn products in a risk-proportionate manner, and also how it will tax modern oral products that carry more than 4 mg of nicotine. Modern oral – small pouches of synthetic nicotine and ground leaf that tuck under the lip – is exploding in the US market and Imperial Tobacco introduced its Canadian version last fall. Swedes consume copious amounts of nicotine in this way, a factor in the nation's 5-percent smoking rate and lowest lung cancer incidence in the developed world.

Crying wolf and describing youth vaping as 'epidemic' also ignores the reality that as a group youth vape at perhaps one quarter the rate their parents and grandparents smoked, and that cigarettes are 20 times as dangerous. Punitive taxes on a product that is substantially less harmful than alcohol and cannabis may reduce teen vaping slightly, but at great cost to adult health and integrity of the tax system.

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