

Intelligence MEMOS



From: Ian Irvine
To: Canadians Concerned About Vaping
Date: March 3, 2022
Re: VAPING TAX REPRISE

The federal government introduced a vaping excise tax proposal for public discussion in its 2021 budget, and said the tax would be implemented this year.

That [proposal](#) recognized that e-cigarettes are less hazardous than combustible cigarettes and suggested a much lower excise tax than on cigarettes. However, the proposal also treated different segments of a diverse vaping market inequitably.

The 2021 proposal is a volume-based levy with a rate of \$1 per 10 millilitres of e-liquid. The \$1 tax would be fully applicable to any amount of e-liquid less than 10 ml in a closed pod. Closed (non-refillable) pod systems, like Juul and Vuse often sold at gas and convenience stores, may contain less than 1 millilitre or several millilitres. Open tank systems in contrast are refillable and usually purchased in a vape shop.

This proposal is inequitable because vapers who consume a given amount of nicotine per day would pay different amounts of tax depending upon whether they purchase a low concentrate or a high concentrate. Specifically, a vaper using 1 ml of an 18 milligram (mg) per ml concentration would pay one third of the tax paid by a vaper who consumes 3 ml of a 6 mg/ml concentration.

The inequity could be removed by considering nicotine as a tax base rather than volume of e-liquid. My proposal is for a federal excise levy of less than one cent per mg of nicotine, combined with an additional provincial levy.

E-cigarette vapor contains [less than 5 percent](#) of the toxins in combustible cigarette smoke. Nicotine induces dependence, but the carcinogens created by combustion kill. Hence e-cigarettes are reduced-risk, not zero-risk, products. (See [here](#) for arguments on why youth vaping is not an epidemic.)

To determine an appropriate excise rate, a good starting point is to consider the levy imposed upon combustible cigarettes. That levy is currently about \$9 per pack (20 sticks with a federal rate just under 15 cents and provincial rates that vary between 20 cents and 30 cents per stick). Using the risk-based levy of 5 percent of the \$9 for e-liquid that delivers the same amount of nicotine would yield a tax rate of 45 cents. Such a low rate is unlikely to satisfy health advocates, so consider a rate of 90 cents instead, with one third going to the federal government and two thirds to provincial governments.

The highest permissible nicotine concentration is currently 20 mg/ml. As an approximation, 2 millilitres of a 20 mg/ml concentration might yield the same nicotine as in a pack of cigarettes (or 4 millilitres of a 10 mg/ml concentration). Hence, if e-cigs were to have an excise levy of one tenth the rate imposed upon combustibles, then 2 ml of 20 mg/ml liquid would carry a levy of 45 cents per millilitre, or \$4.50 per 10 millilitres, with \$1.50 going to the federal government and the remaining \$3 to provincial governments.

In the case of a 10 mg/ml concentration e-liquid the rate would be half of this – 75 cents per 10 ml to the federal government. In this context, the initial federal proposal for a \$1 tax per 10 ml was about right.

As explained above, the 2021 proposal involves a discriminatory levy based, not on the liquid volume or strength, but on the form of e-liquid packaging. Furthermore, that penalty favors disposables – one-use or one-fill e-cigarettes. Disposables have grown in importance and now account for a sizable share of the vape-shop market. Their pods may contain several ml of liquid (some as much as 8 ml), and thus the 2021 proposal favors such devices over models that contain a small fraction of this. Disposables are also an environmental hazard, but that is a subject for a full study in itself.

Finally, it is important to recognize that Health Canada has already imposed approximately a 100-percent tax on high-concentration vapers. Prior to July 2021 vapers could purchase concentrations in the 50 - 60 mg/ml range. The new limit of 20 mg/ml means that it now costs at least twice as much to purchase the same amount of nicotine. That virtual tax hit essentially many of the vape and convenience shops and on-line buyers. This means that we are starting with a 100% *de facto* virtual tax on about half of the market, even if it yields no revenue.

Finance Canada should recognize the principle of relative risk and, in harmony with provincial governments, introduce a vaping levy that would be a small fraction of the tax paid by smokers. The new excise levy should also be as equitable as possible when considering different means of delivering nicotine.

Ian Irvine, professor, of economics, Concordia University, Montreal, has. I have advised the federal government as a consultant on alcohol and tobacco policy; I have also advised the private sector and been the recipient of a grant from the Foundation for a Smoke Free World.

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