A man in a dark suit stands with his back to the camera, looking out a large window at a city skyline. The scene is brightly lit, with a blue tint. A yellow graphic element is in the top left corner.

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

**Impact on Legal Sales and Provincial
Tobacco Tax Revenues**

September 2023



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Executive Summary

Over the last decade, one of the biggest growth stories in Canada’s economy has occurred underground, without remitting so much as a dollar in provincial or federal taxes. The industry in question is illegal, contraband tobacco and as of the time of writing, its growth continues unabated, possibly costing the governments of British Columbia, Ontario and Newfoundland as much as **\$2.47 billion** in lost tax revenues between 2019 and 2022.

Canada’s contraband tobacco market is unlike any other in the world. Not simply because of its sheer volume, but also due to a confusing legal framework that exists for the manufacturing and sale of cigarettes on First Nations reserves. In an effort to reduce smoking rates, federal and provincial governments have increased taxes on legal tobacco products. The result? Many smokers have sought cheaper tobacco on the illicit market instead. Organized crime groups exploit this demand with low-cost cigarettes manufactured on reserve, and then traffic these products to non-status individuals. These cigarettes are illegally sold, tax and duty free, without any Health Canada regulations or inspections and retail for a fraction of legal tobacco prices. In fact, contraband tobacco is eight times more profitable to traffic than cocaine¹ – and the penalties, if caught, amount to a drop in the bucket for organized crime groups. It is not surprising that the Canadian contraband tobacco market is growing at a pace that it is eclipsing the legal tobacco market in nearly every corner of the country.

In 2020, a rare event offered a glimpse into the scope and scale of Canada’s illegal tobacco industry: a global pandemic. That year, Ernst & Young (EY) conducted a study for the Convenience Industry Council of Canada (“CICC”) (https://convenienceindustry.ca/wp-content/uploads/2020/12/Impact-of-COVID-19-on-Contraband-Tobacco-and-Provincial-Tax-revenues-in-Canada_EN-Final.pdf). It established a clear link between the temporary closure of tobacco manufacturing operations and smoke shops on First Nations reserves at the onset of the COVID-19 pandemic in mid-March with a dramatic, temporary increase in legal tobacco sales.

The episode revealed a stunning level of penetration of illegal cigarettes in Canada. In Atlantic Canada, legal sales shot up by between 44% and 47%, owing to the temporary restrictions on travellers from outside the Atlantic provinces due to COVID-19. The so-called, “Atlantic Bubble” was a major factor restricting the movement of illegally trafficked tobacco products, forcing smokers to return to the legal purchase of tobacco products.

Notably, when on-reserve cigarette factories and distribution networks re-opened in July 2020, legal sales plummeted back down to pre-pandemic levels as the production and distribution of contraband tobacco products resumed. The organized crime groups known to be behind so-called First Nations smokes quickly regained their lost market share — and have been aggressively expanding it ever since.

In this second report commissioned by the CICC, we provide a follow up to the findings and conclusions of the 2020 Report using sales data gathered since that time from the three major manufacturers of legal tobacco products who are members of the Canadian Tobacco Manufacturers Council (“CTMC”) and publicly available provincial tax data. The report examines the trend in legal sales since 2019 in three provinces: British Columbia (“B.C.”), Ontario and Newfoundland & Labrador (“Newfoundland”).

Section II of the report shows that legal sales in British Columbia have fallen by 33.1% from 2019 to 2022. Over this same four-year period, legal sales in Ontario fell by 20.2% and in Newfoundland they fell by a staggering 49.5%.

To explain this rapid drop off in legal cigarette sales, section III quantifies the major driver of the explosive growth of illegal cigarettes in Canada: the significant price difference between tax-paid legal cigarettes and contraband

¹ See Christian Leuprecht, *Cause and Effect: Why Higher Taxes Require Better Contraband Enforcement to Reduce Smoking*, Macdonald-Laurier Institute Commentary, May 2018.

cigarettes. Contraband cigarettes may be purchased for only about 40 percent of the price of legal, tax-paid cigarettes.

Section IV provides illustrative anecdotal information on the scale of the involvement by organized crime groups in the contraband trade, as well as how these groups use contraband tobacco to help finance other criminal activities. While contraband cigarettes originate on First Nations reserves in Ontario and Quebec, they have become First Nations in name only, co-opted and controlled by well-known and established organized criminal groups, such as the Hell's Angels.

Section V estimates the size of the contraband market in terms of absolute sales volume and as a percentage of the total market (legal plus contraband). It concludes that in 2022 contraband cigarettes likely accounted for at least 32.1 percent of the total market in British Columbia and perhaps as much as 44.9 percent, at least 38.7 percent in Ontario and perhaps as much as 50.3 percent and at least 31.1 percent of the market in Newfoundland and perhaps as much as 44.2 percent.

It also concludes that the federal government's official surveys underestimate the true prevalence of smoking in Canada, which results in an underestimating of the size of the contraband market. This calls into question the government's belief that its policies are achieving the objective of reduced smoking prevalence among the population. Illegal cigarettes are available for a fraction of the cost, are sold over the internet without any age-checks and are openly marketed to adults and minors without appropriate health warnings or plain packaging. This flies in the face of everything Canadian governments aim to achieve with their tobacco policies.

Section VI dives deeper into this contradiction by examining the public policy tool of making cigarettes less and less affordable as a means of achieving the health policy objective of reducing smoking prevalence. It presents a conceptual framework for analyzing the contraband market suggesting that while this policy objective is putting downward pressure on legal sales, as intended, it is also undoubtedly having the unintended effect of putting upward pressure on contraband sales, so that the net effect on smoking prevalence is far from clear — but certainly it is not what government policy makers had in mind.

Section VII examines actual tobacco tax revenues collected by these three provinces from 2019 to 2022 and compares them with revenue forecasts. Year after year, finance officials consistently overestimate the amount of revenue tobacco taxes will bring in. The shortfalls in revenue collected compared to the prior years' forecasts further suggest that contraband has been growing at rates that were not anticipated by provincial governments, who have yet to acknowledge the scale of the problem.

Section VIII quantifies the likely tobacco tax revenue loss incurred by each province from 2019 to 2022 as a result of competing sales of tax-free contraband cigarettes. The cumulative tax revenue loss in these four years is conservatively estimated to be at least \$215 million in British Columbia and possibly as high as \$591 million, at least \$990 million in Ontario and possibly as much as \$1.7 billion and at least \$25 million in Newfoundland and possibly as much as \$81 million. This does not include the losses in other provincial taxes, including sales tax and business and personal income taxes, that are associated with this reduction in legal sales. There is no reason to believe that the revenue loss is any less on a per capita basis in the other provinces not included in this study. The gross revenue realized from contraband tobacco sales in just these three provinces over the past four years is also estimated and it is likely somewhere between \$2.4 billion and \$4.5 billion. Although beyond the scope of this study, clearly at least some of this revenue is being used by the organized crime groups involved to finance their other criminal activities.

Finally, section IX summarizes the conclusions reached in the study: that whereas contraband's share of the total market had historically been highest in Ontario and Quebec, where the contraband is manufactured on First Nations reserves, the increasing involvement of organized criminal groups that move tobacco products and other illicit goods from coast to coast with sophisticated, nationally organized trafficking operations has made contraband tobacco a truly national problem. Without concerted, coordinated efforts from all orders of government, it is hard to see how

the trends identified in this report can be reversed.

Summary of CICC Recommendations for Governments:

- 1. Increase Resources:** Currently, the annual RCMP budget for combatting contraband tobacco is \$3 million. In a recent public opinion poll, 71% of respondents agree that “my provincial government should make fighting illegal tobacco a priority because of its links to organized crime and impact on community safety.” Policing agencies are at the frontline of the contraband epidemic in Canada but they have limited resources. As noted in this report’s findings, contraband tobacco fuels other more serious offences for criminal syndicates. Resourcing police agencies to crack down on illegal tobacco networks could also assist police with other priorities. It is further recommended to allow local police to keep fines and disposal of assets seized as proceeds of crime arising from enforcement action against illegal tobacco, as is the case in Quebec.
- 2. Increase Enforcement and Penalties:** Provinces should seek the federal government’s agreement to empower all police forces to enforce the federal Excise Act 2001, and provincial law enforcement should be provided greater resources and incentives to pursue contraband tobacco infractions. This increased enforcement approach has been deployed in Quebec, with considerable success and a demonstrated return on investment for a number of years. The federal and provincial governments should increase penalties for possession, sale and trafficking of contraband tobacco. Currently, Manitoba and Alberta penalties are calculated based on three times the taxable value of the amount seized. The same penalty formula should be adopted by all provinces.
- 3. Public Awareness:** As this report demonstrates, contraband tobacco is a complicated issue but with very real consequences. The manufacture and sale of illegal tobacco is not subject to any health regulations, oversight or inspections, nor are age-restrictions on sales tracked or enforced. It is critical that the public know the difference and know the risks of contraband tobacco. Almost half (49%) of respondents in a recent survey did not know it was illegal to purchase tobacco online or on a First Nations reserve if you are not First Nations. There is an immediate need for a public awareness campaign, “Know the difference, Know the risks.”
- 4. Regular and Public Reporting:** Even with limited resources and competing priorities, police agencies have had many successes in combatting contraband tobacco trafficking rings. It would be useful for government, stakeholders and police to have regular public reports of contraband tobacco busts across the country. Equally important, is tracking and reporting the estimated tax revenue losses by each level of government as a result of illegal tobacco sales.
- 5. Federal-Provincial Coordination:** As already noted, contraband tobacco is a national problem in Canada, from coast to coast, and each jurisdiction has different penalties and resources dedicated to tackling the problem. We recommend that contraband tobacco be included at the next meeting of the Federal-Provincial Ministers responsible for Justice and Public Safety. Just as the issue of bail reform was effectively addressed at the last meeting, the issue of illegal tobacco needs to have all levels of government working in concert for any chance of sustained success.

I. Introduction

In 2020, EY conducted *The Impact of COVID-19 on contraband tobacco and provincial tax revenues in Canada* study for the Convenience Industry Council of Canada (“CICC”) that examined the extent of the illegal cigarette market in Canada at that time — and the cost to provincial treasuries in foregone tobacco tax revenue.²

The report, released in December 2020, established a clear link between the temporary closure of tobacco manufacturing operations and smoke shops on First Nations reserves at the onset of the COVID-19 pandemic in mid-March and an increase in legal tobacco sales as this temporary closure coincided with an marked uptick in legal cigarette sales across Canada.

Comprehensive legal sales data gathered from retail convenience stores included in the study showed that legal cigarette sales peaked in June 2020, representing a 24% increase over sales compared to June 2019. Notably, when on-reserve cigarette factories and stores re-opened in July of 2020, legal sales plummeted back down to pre-pandemic levels as the production and distribution of contraband tobacco products resumed and they quickly regained their lost market share.

The increase in legal sales during the shutdown was most dramatic in Atlantic Canada. Legal cigarette sales in the month of June 2020 were up 44.9% in New Brunswick, 47% in PEI and 44.3% in Newfoundland and Labrador, compared to June 2019. The study concluded that temporary travel restrictions on travellers from outside the Atlantic provinces due to COVID-19 (labelled “the Atlantic Bubble”) was a major factor restricting the movement of illegal tobacco traffickers.

This second report commissioned by the CICC follows up on the findings and conclusions of the 2020 study by examining and analyzing the pattern of legal sales for the four years from 2019 to 2022 in three provinces: British Columbia, Ontario and Newfoundland & Labrador (“Nfld.”). Sales data was obtained from the three major manufacturers of legal tobacco products who are members of the Canadian Tobacco Manufacturers Council (“CTMC”).³

II. Legal Cigarette Sales Volumes: 2019 to 2022

Legal sales volumes for British Columbia, Ontario and Newfoundland are tracked graphically in Figures 1, 2 and 3. The raw data behind these figures may be found in Appendix 1, Tables A1, A2 and A3, respectively.

As these figures show, legal sales from 2019 to 2022 have fallen quite drastically in all three provinces. In British Columbia sales have fallen by 33.1%. Over this same four-year period, legal sales in Ontario fell by 20.2% and in Newfoundland they fell by a staggering 49.5%.

In the last year alone, sales in British Columbia fell by 20.7%, by 10.4% in Ontario and by 27.1% in Newfoundland. The smaller percentage decrease in Ontario is probably because contraband already occupied a larger share of the total

² See *The Impact of COVID-19 on contraband tobacco and provincial tax revenues in Canada: March-August 2020*. https://convenienceindustry.ca/wp-content/uploads/2020/12/Impact-of-COVID-19-on-Contraband-Tobacco-and-Provincial-Tax-revenues-in-Canada_EN-Final.pdf

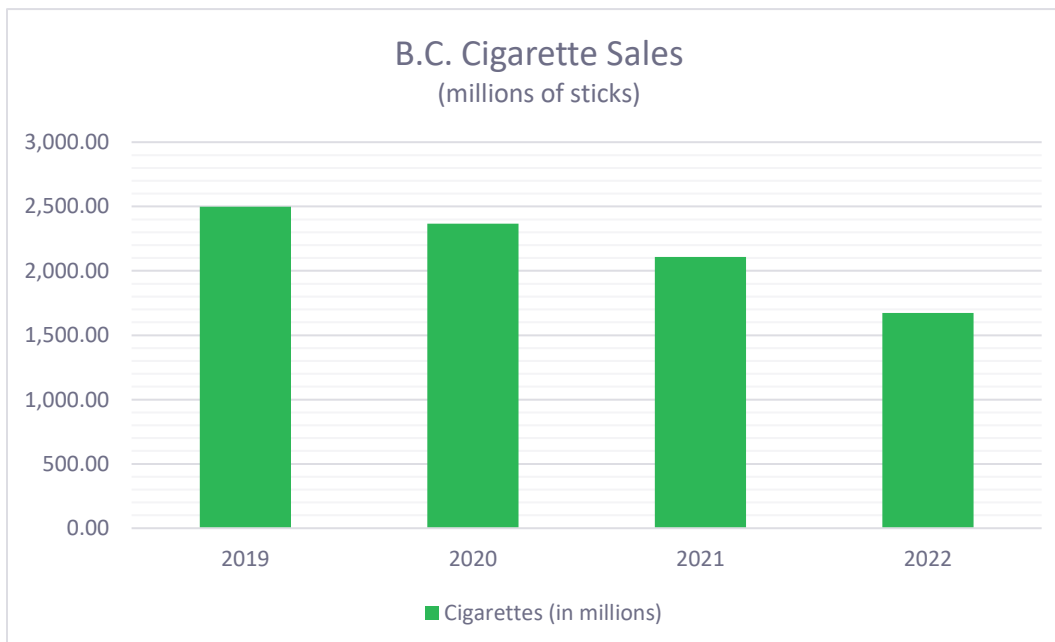
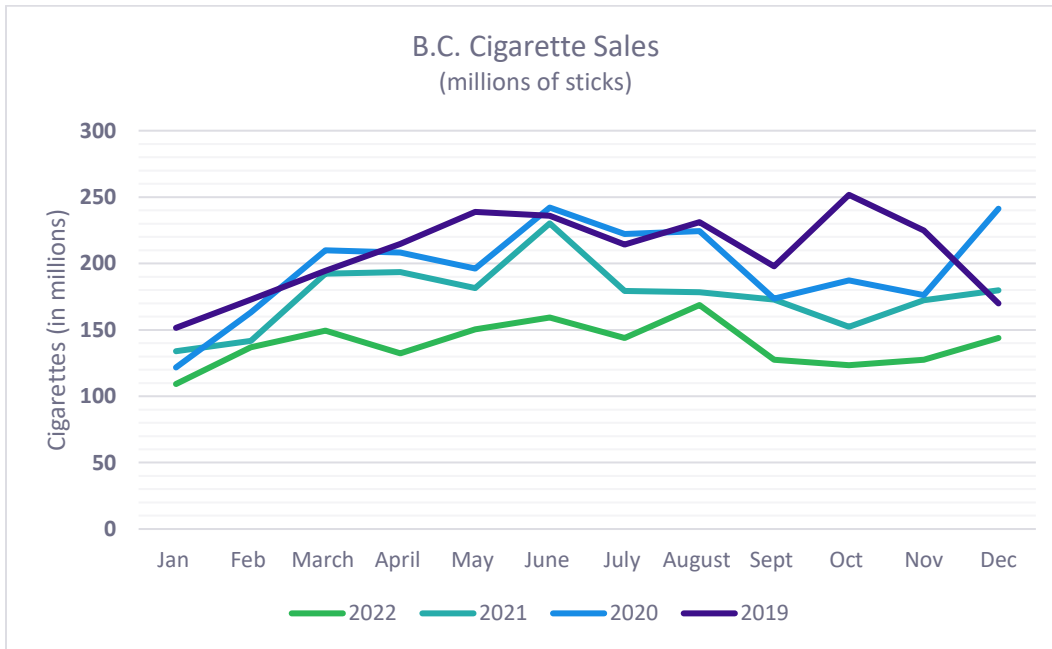
³ The CTMC members are Imperial Tobacco Canada Limited (“ITCAN”), Rothman’s Benson & Hedges (“RBH”) and Japan Tobacco Incorporated (“JTI”). Their sales account for virtually the entire legal sales market in these provinces. This data was obtained under the terms of a Non-Disclosure Agreement (“NDA”) and is released here in aggregated format for the industry.

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market than in either British Columbia or Newfoundland. The incremental change, therefore, is less marked because the contraband market in Ontario was more “mature” with contraband production, distribution and sales networks already well entrenched. Having said that, in absolute terms the decline in legal sales is quite significant as shown in the charts below because of the size of the Ontario population and market relative to the two other provinces.

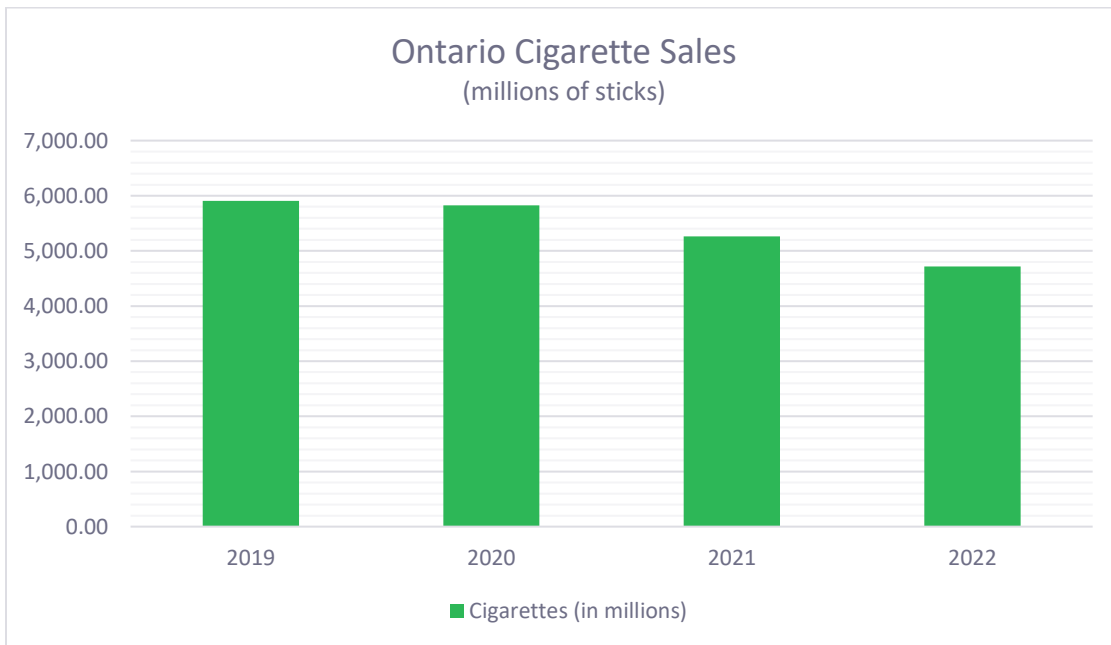
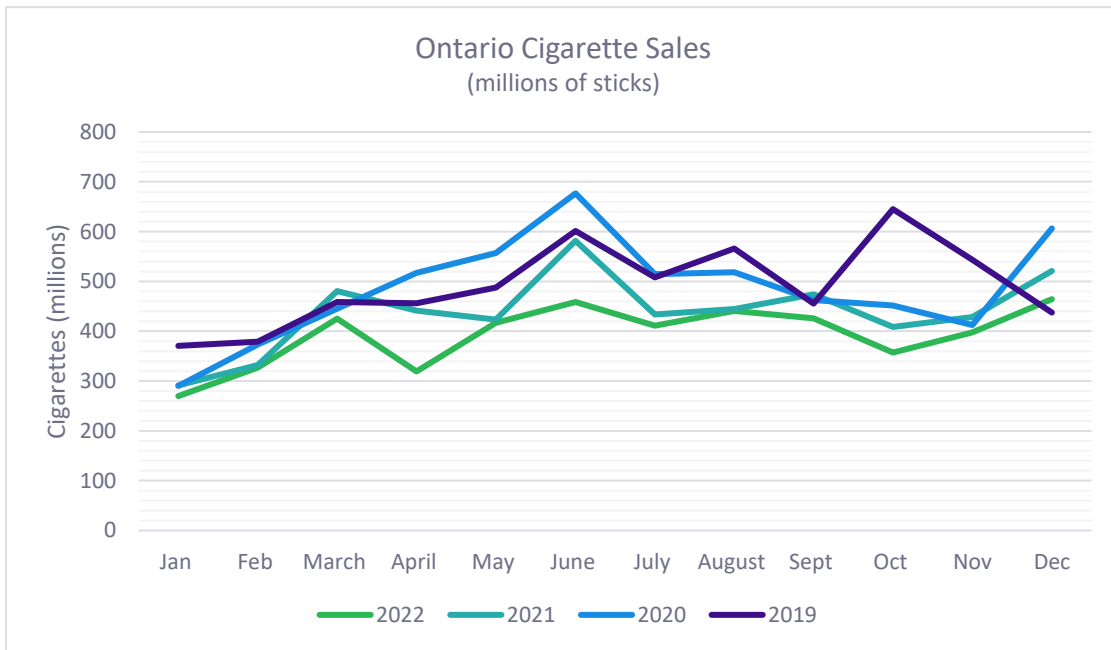
Figure 1



Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

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Figure 2



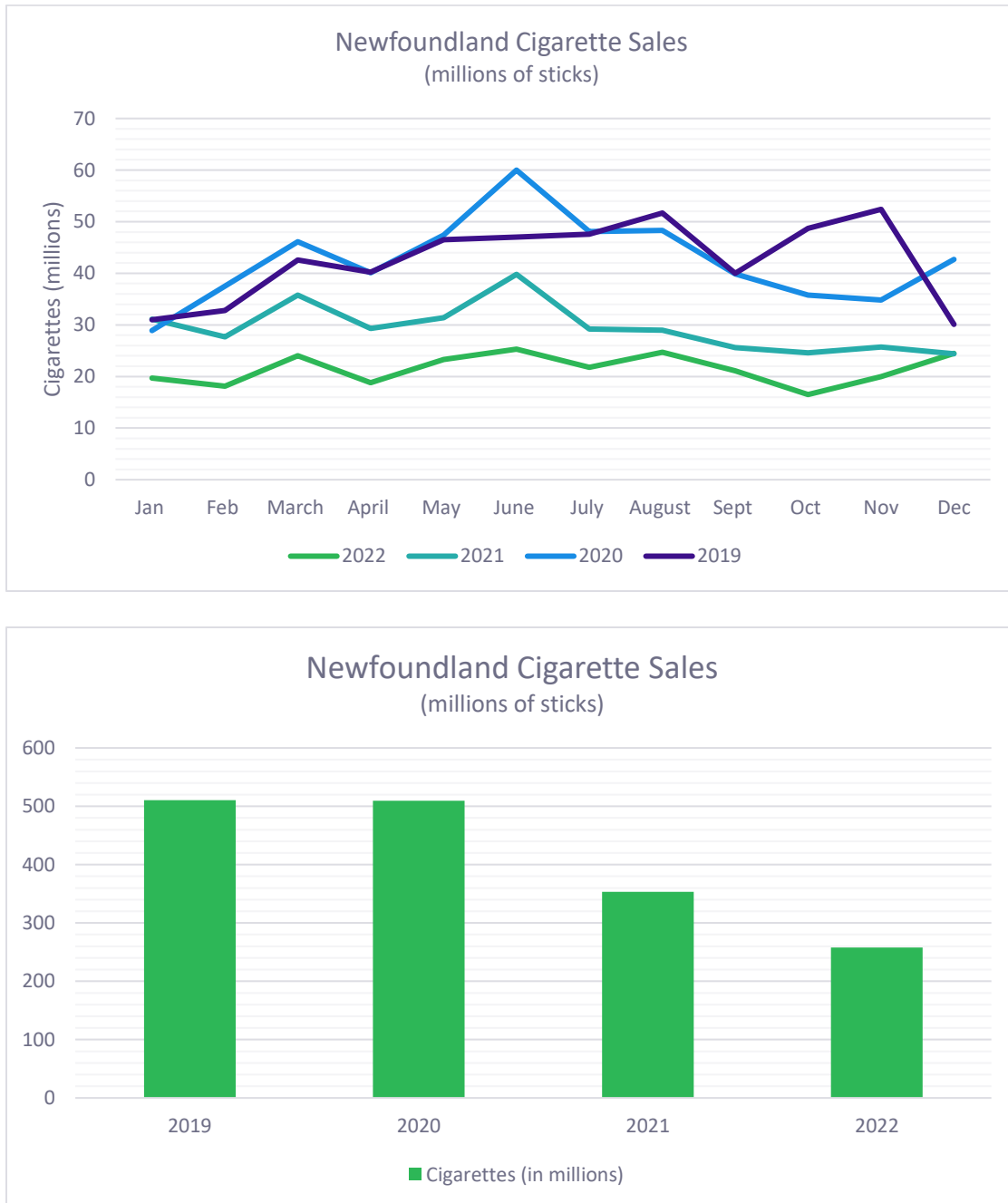
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Two common patterns are notable in each of these three graphs. The first is the fairly consistent tracking of legal sales in 2020 compared to 2019, except for the pronounced spike in June 2020 that temporarily pushed 2020 sales above 2019 levels. This was followed by a decline in the following months to levels consistently lower than 2019 sales levels until December 2020 when they peaked once again following traditional seasonal sales patterns.

The second is the consistent month-to-month drop in sales each month in 2021 compared to 2020, a pattern that is repeated again for 2022 sales compared to sales in 2021.

Figure 3



The 2020 EY study investigated alternative explanations for the uptick in legal sales during the period March-August

2020 and concluded that there was no evidence that anything other than the closure of the on-reserve factories and smoke shops could explain such a notable increase in legal tobacco sales.

Similarly, there is no evidence to explain the dramatic decrease in legal sales since that time, such as significant increases in taxes and retail prices of legal tobacco products, an increase in smoking cessation rates, or a substitution of vaping for combustible tobacco products that can “explain” this decrease. By contrast, as set out in Section V of this report, there is evidence that contraband has been increasing, which would support and substantiate the conclusions reached in this study.

III. Price of Legal Tobacco Products versus Contraband Products

The three tobacco companies comprising the CTMC (JTI, RBH and ITCAN) supply virtually the entire legal tax-paid market in Canada. Meanwhile, contraband cigarettes produced on First Nations reserves account for virtually the entire contraband market in each province and territory across Canada.⁴ When contraband tobacco first emerged in the market, they were packaged in plastic bags and clearly did not appear to be a legally produced and sold product. However, in recent years contraband tobacco products are packaged to look very similar to legally produced and sold cigarettes with brands and logos, exacerbating the problem and perception of their legality.

To the extent this may be true, it means that on the demand side of the market, the most important factor determining the relative market share of contraband tobacco products versus legal products is no longer quality, presentation or brand loyalty, but the retail price paid by the consumer. The larger the price differential, the greater is the financial incentive for a current smoker to switch from purchasing legal products to purchasing contraband products. The opposite is obviously also true: the smaller the price differential between legal tobacco products and contraband products, the less incentive there is for existing smokers to purchase contraband products.

Any differences in production, distribution and retailing costs, markups and profit margins would account for only a small fraction of the difference in retail price between contraband and legal products. Almost all of the price differential is due to the fact that legal tobacco products are subject to significant federal excise duties, provincial tobacco taxes and retail sales taxes, whereas contraband products are not taxed at all. Taxes represent on average approximately 70 percent of the retail price of cigarettes in Canada.

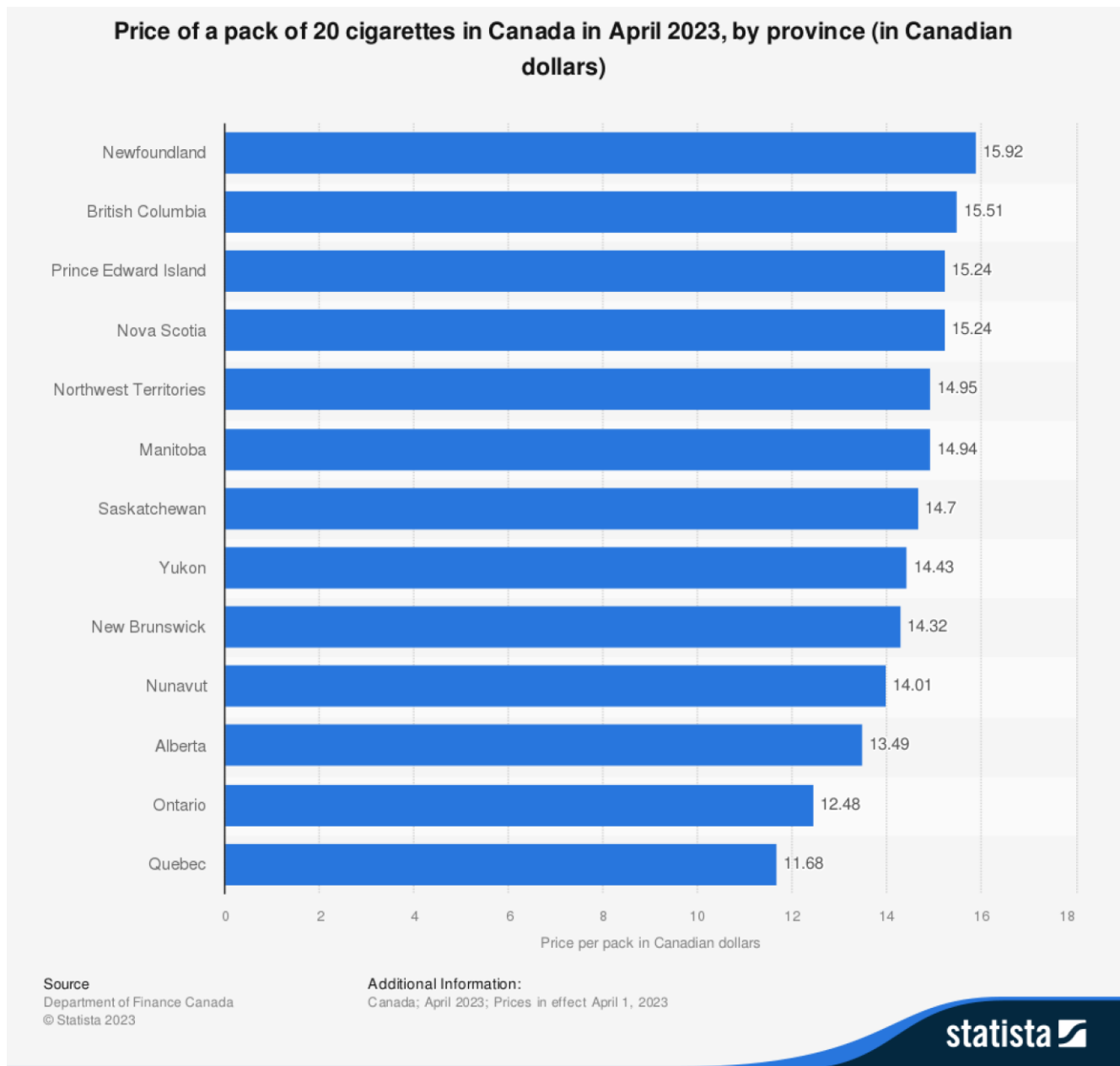
Figure 4 shows the average legal price of a pack of 20 cigarettes in each Canadian province or territory as of April 2023. **A carton of 200 cigarettes costs in the order of \$155 in British Columbia, \$125 in Ontario and \$160 in Newfoundland.** For details on tax rates by province, see Appendix 2 and on retail prices, see Appendix 3.

Figure 4
Retail Price of a Pack of 20 Cigarettes

⁴ Contraband refers to tobacco products that do not comply with federal and provincial legislation governing production, distribution, importation, packaging & labelling, stamping or marking and remittance of applicable duties and taxes. First Nations individuals are exempt from some taxation provisions under section 87 of the federal *Indian Act* wherein "*the personal property of an Indian or a band on a reserve is exempt from taxation.*" Only tobacco products *purchased for personal consumption by status Indians on reserve* are personal property and therefore exempt from federal and provincial sales tax and provincial tobacco tax. See Kathleen Lickers and Peter Griffin, pages 9-10.

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Source: Statista <https://www.statista.com/statistics/1307607/canada-regional-price-of-cigarettes/>

By contrast, a carton of 200 contraband cigarettes can cost as little as \$30-\$40 if purchased at a Smoke Shop located on a First Nations reserve. The same carton costs an average of about \$45-\$50 if purchased off the reserve, either in person through the local contraband “supplier/dealer” network, or purchased over the internet from an online platform with home delivery included in the final price. In both of these cases, it is illegal for non-reserve residents or individuals that are not First Nations to purchase tax-free, First Nations produced tobacco products. . While some online retailers indicate they operate from First Nations reserves, others are likely managed by organized criminal groups off-reserve.

A number of online websites sell and deliver ‘native brand’ contraband cigarettes anywhere in Canada in violation of

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Canadian laws.⁵ Some offer volume discounts for more than one carton purchased. Shipping costs are sometimes also volume based, running initially at about \$25/carton, but decreasing significantly with volume purchases (e.g., shipping 1-4 cartons costs \$25; 5-24 cartons costs \$50; 25-49 cartons costs \$75; etc.). In other words, shipping costs can be as low as \$1.50/carton depending on the per order volume purchased. Other sellers offer a flat rate shipping fee of \$35 with a volume limit of 8 cartons (for a shipping cost of \$4.37/carton). At one website, shipping is free for orders over \$99. Payment is by Interac e-Transfer. Web pages extracted from two of these websites (Native Cigarettes and Native Smokes 4 less) and the relevant links to their sites are shown below:



Welcome to Indigenous Territory.

Aanii,


Thank you for visiting www.nativecigarettes.ca, where you can order your native cigarettes online through our website. Fulfilled and operated by home based business's from First Nation Reserves across Canada, we hope to see your support.

Nibiindigek, Miigwetch.

Source: <https://www.nativecigarettes.ca/>

⁵ For example, under Ontario's *Tobacco Tax Act*, unless otherwise authorized, it is illegal to buy, possess or distribute any quantity of untaxed cigarettes or any other untaxed tobacco products. <https://www.ontario.ca/document/tobacco-tax/contraband-tobacco#:~:text=Under%20the%20Tobacco%20Tax%20Act,any%20other%20untaxed%20tobacco%20products.>

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Check out our supply of high-quality smoking products! All of our cigarette brands come in King Sized and in packs of 20. We ship to anywhere in Canada. We offer both standard and express options with rates starting at \$25. Place your order online, we'll have it shipped directly to you! Cartons, packs, combinations, and more.

PRODUCT CATEGORIES

- Cigarettes
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- Nicotine Pouches
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- Uncategorized













FILTER BY BRAND

Any Brand

FILTER BY PRICE

Price: \$20 -- \$70


FILTER

 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Classics Original</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Classics Silver</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Lights</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Full Flavour</p> <p style="font-size: 0.8em; margin-top: 5px;">\$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>
 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Rolled Gold Lights</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES BB Lights</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Menthol</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$55.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Rolled Gold Full Flavor</p> <p style="font-size: 0.8em; margin-top: 5px;">\$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>
 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES BB Canadian Blend Full Flavor</p> <p style="font-size: 0.8em; margin-top: 5px;">\$50.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES duMont Full</p> <p style="font-size: 0.8em; margin-top: 5px;">\$55.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES duMont Light</p> <p style="font-size: 0.8em; margin-top: 5px;">\$55.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>	 <p style="font-size: 0.8em; margin-top: 5px;">CIGARETTES Canadian Goose Lights</p> <p style="font-size: 0.8em; margin-top: 5px;">★★★★★ \$60.00</p> <p style="background-color: red; color: white; text-align: center; padding: 2px; font-size: 0.8em;">ADD TO CART</p>

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SALE!


CIGARS
Prime Time Plus Grape 10 Pack
~~\$60.00~~ **\$65.00**

ADD TO CART




CIGARETTES
Canadian Goose Full Flavour
\$60.00

ADD TO CART



CIGARETTES
Playfare's
\$55.00


ADD TO CART



SALE!


CIGARS
Prime Time Plus Cherry 10 Pack
~~\$60.00~~ **\$65.00**

ADD TO CART



CIGARETTES
Putters Light
\$50.00


ADD TO CART



OUT OF STOCK


CIGARETTES
Canadian Original 8
\$30.00

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CIGARETTES
Playfare's Lights
\$50.00


ADD TO CART



SALE!


CIGARS
Prime Time Plus Vanilla 10 Pack
~~\$60.00~~ **\$65.00**

ADD TO CART




CIGARETTES
Canadian Ultra Light Cigarettes
\$50.00

ADD TO CART



CIGARETTES
Nexus Full Cigarettes
\$50.00


ADD TO CART



SALE!

CIGARS
Prime Time Plus Peach 10 Pack
~~\$60.00~~ **\$65.00**

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SALE!

OUT OF STOCK

SHIPPING TOBACCO
Copenhagen Wintergreen Long Cut
~~\$35.00~~ **\$29.97**

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3
>



We are an indigenous-owned and operated store that's committed to providing high quality tobacco and cigarette products to our customers.

Contact Us:
orders@nativesmokes4less.com

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CIGARETTES
Canadian Lights
\$50.00

ADD TO CART



CIGARETTES
Rolled Gold Lights

★★★★★
\$50.00

Source: <https://nativesmokes4less.com/shop-now/>

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

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The information on brands and prices from three of these websites is summarized in Table 1 below. It is estimated that the retail price of contraband cigarettes is on average approximately only about 40 percent of the retail price of legal products.

Table 1

Website	Canada Wide Sales	Likely Location	Brand	Price Per Carton (200)
https://www.nativecigarettes.ca	Yes	Ontario (Sudbury)	Canadian	40
https://www.nativecigarettes.ca	Yes	Ontario (Sudbury)	Discount	40
https://www.nativecigarettes.ca	Yes	Ontario (Sudbury)	DK	40
https://www.nativecigarettes.ca	Yes	Ontario (Sudbury)	Putters	40
https://www.nativecigarettes.ca	Yes	Ontario (Sudbury)	Elite	45
https://nativesmokes4less.com	Yes	Canada - Pacific Time	Canadian Light	50
https://nativesmokes4less.com	Yes	Canada - Pacific Time	Rolled Gold Full Flavor	50
https://nativesmokes4less.com	Yes	Canada - Pacific Time	BB Lights	50
https://nativesmokes4less.com	Yes	Canada - Pacific Time	Putters Light	50
https://nativesmokes4less.com	Yes	Canada - Pacific Time	Canadian Goose	60
https://selectsmokes.co/	Yes	Canada - Pacific Time	Canadian Classics	55
https://selectsmokes.co/	Yes	Canada - Pacific Time	Canadian Full	55
https://selectsmokes.co/	Yes	Canada - Pacific Time	DK's Full	55
https://selectsmokes.co/	Yes	Canada - Pacific Time	Putters Light	55
https://selectsmokes.co/	Yes	Canada - Pacific Time	Rolled Gold Full Flavor	59
https://selectsmokes.co/	Yes	Canada - Pacific Time	Discount Full	55
			Average Price	49.93

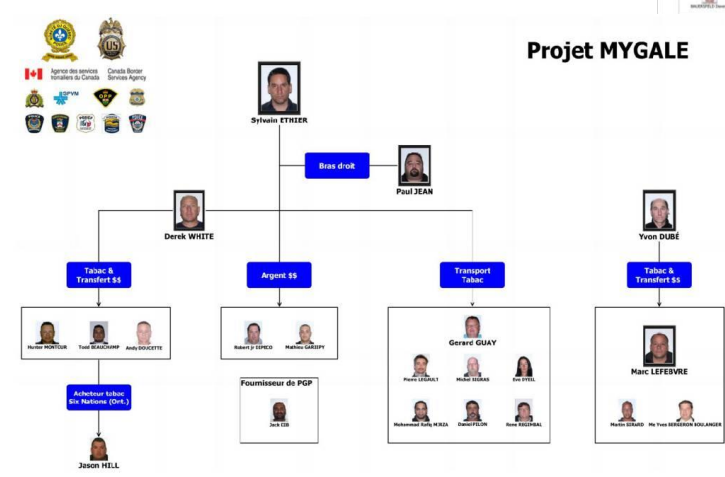
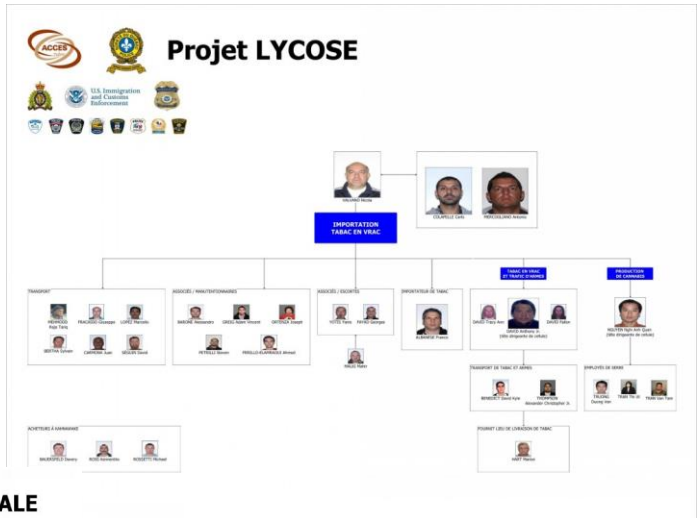
On the supply side of the market, the larger is the tax-based price differential, the greater is the profitability and financial return from contraband production and sales and the greater is the incentive to supply the market with significant amounts of contraband tobacco products.

It should be noted in passing that not only are federal and provincial tobacco taxes not being applied on these online sales, in clear violation of federal and provincial taxing legislation as well as excise stamping and marking requirements, the photos show that the packages also violate Canadian health legislation and various packaging and labelling requirements.

IV. Involvement of Organized Crime Groups

It is clear that non-indigenous organized crime groups (OCGs) are heavily involved in supplying finecut tobacco to unlicensed on-reserve cigarette factories as well as in the distribution and sale of finished tobacco products from reserves to the off-reserve general public. Media reports and press releases from major police operations undertaken across the country reveal the scope and breadth of organized crime and illicit tobacco. These police operations are no longer only conducted by the dedicated provincial police contraband tobacco units in the source provinces of Ontario and Quebec, but across the country as well.

Operation LYCOSE in 2014⁶ revealed that the Italian Mafia was smuggling large quantities of tobacco from North Carolina for manufacture into cigarettes on the Kahnawake reserve. According to police, this was the largest contraband tobacco investigation ever conducted in North America and put an end to a \$30 million tax fraud. This joint operation involved the Sureté du Québec (SQ), RCMP, CBSA and Homeland Security in the US.



In 2016, Operation MYGALE⁷ showed that any power vacuum left by Lycose was effectively replaced by a motorcycle organized crime group. Resulting in over 60 arrests and 800+ KG of cocaine seized, the SQ stated that “This project is the largest operation we’ve had to this day in connection to contraband tobacco, but also in fighting crime across Canada and the United States.” The criminal group was using the profits from the contraband tobacco sales to buy more dangerous drugs such as cocaine,

methamphetamine and fentanyl. Millions of dollars in currency were seized.

⁶ Journal de Montréal, Contrebande de tabac: 28 arrestations dans le cadre du projet Lycose.
<https://www.journaldemontreal.com/2014/04/30/vaste-operation-visant-la-contrebande-de-tabac-2>
<https://www.tvanouvelles.ca/2014/10/31/je-se-penche-sur-loperation-lycose>

⁷ <https://globalnews.ca/news/2607530/quebec-u-s-police-rcmp-bust-drug-illegal-tobacco-ring-with-ties-to-bikers-reserves/>

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In 2020, Project CAIRNES undertaken by the Ontario Provincial Police (OPP) led to the dismantling of a large scale cross-country production and distribution of illicit tobacco run by Traditional Organized Crime out of Toronto.⁸ The distribution ran from Montreal to Toronto to Vancouver where tobacco products were made on reserve in southern Ontario then trafficked to different parts of the country. Once the tobacco products were sold, illicit cannabis was purchased, often in BC, and distributed into central Canada. Over 120 offences were laid with over \$5 million in product seized, including 1,714 pounds of cannabis.



Large-scale police operations have identified numerous organized crime groups involved in the contraband tobacco trade and distribution systems of enterprising criminals far away from Indigenous reserves appear to be a growing trend, with many jurisdictions reporting the largest seizures in their history. While anecdotal, this does show that multiple rings are actively facilitating and selling large volumes of illicit tobacco across the country. Some recent cases include:

- In November 2022, Project Shrek resulted in 3 million cigarettes seized in Manitoba from one person – the largest in the province’s history. Six individuals were charged with various offences and three Winnipeg convenience stores had their retail tobacco licences suspended.⁹
- In November 2022, the RCMP seized 2.7 million cigarettes in Newfoundland.¹⁰
- In August 2022, a 65 year old Ottawa man was arrested with 370,000 cigarettes and 500 kg of shisha tobacco.¹¹
- In February 2023, 1.5 million cigarettes were seized from an Okanagan (BC) man.¹²



Police in Vernon seized nearly 1.5 million contraband cigarettes after a traffic stop was conducted on Sunday, Jan. 8, 2023. (RCMP photo)

⁸ Seven GTA men charged with murder conspiracy in cross-Canada contraband cigarette bust | The Star <https://www.thestar.com/news/gta/2020/06/11/seven-gta-men-charged-with-murder-conspiracy-in-cross-canada-contraband-cigarette-bust.html>

⁹ 6 people, 3 Winnipeg stores face charges after millions of cigarettes seized in smuggling investigation | CBC News <https://www.cbc.ca/news/canada/manitoba/contraband-cigarette-seizure-1.6639730>

¹⁰ RCMP NL conducts traffic stop at Marine Atlantic Terminal in Port aux Basques and seizes 2.7 million unstamped cigarettes | Royal Canadian Mounted Police <https://www.rcmp-grc.gc.ca/en/news/2022/rcmp-nl-conducts-traffic-stop-marine-atlantic-terminal-port-aux-basques-and-seizes-27>

¹¹ Ottawa man facing charges after police seize 370,000 contraband cigarettes <https://ottawa.ctvnews.ca/ottawa-man-facing-charges-after-police-seize-370-000-contraband-cigarettes-1.6027962>

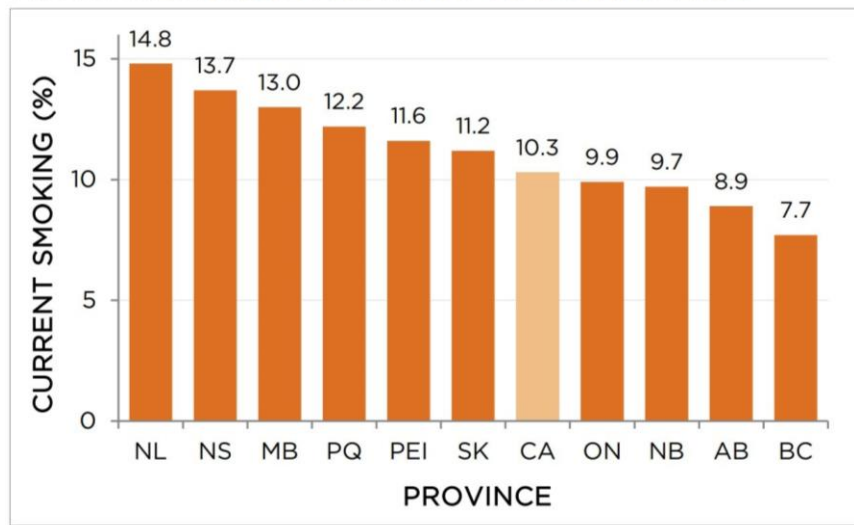
¹² Okanagan a ‘hot spot’ for contraband tobacco - Kelowna Capital News (kelownacapnews.com)

V. Estimating the Size of the Contraband Market using Survey Prevalence Data

The market for contraband tobacco is an integral part of the “underground economy” and so a direct measure of its size is not available. The only way to estimate its true size is through indirect measures using other means. One option is to use available empirical data such as police seizures of contraband and extrapolate a “guestimate” of the “true size” of the contraband market. This method is far too imprecise. A better alternative is to use available measures of overall smoking prevalence (total number of smokers) and consumption (cigarettes consumed per smoker) in Canada to estimate total consumption and subtract from it the known legal sales volumes. The residual should represent contraband sales or be a very good proxy for these sales. This is the method used here.

Figure 5
Smoking Prevalence by Province, 2020
 (includes daily and non-daily smokers)

FIGURE 2.1: SMOKING PREVALENCE* BY PROVINCE, 2020



Source: Figure 2.1, *Tobacco Use in Canada: Patterns and Trends, 2022 Edition*, University of Waterloo.
https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco_use_in_canada_2022_4.pdf

Statistics Canada conducts two smoking prevalence surveys on behalf of Health Canada. The first is the Canadian Tobacco and Nicotine Survey (CTNS). The main objective of the CTNS is to gather information about the prevalence of cigarette smoking, vaping, and cannabis use in Canada.

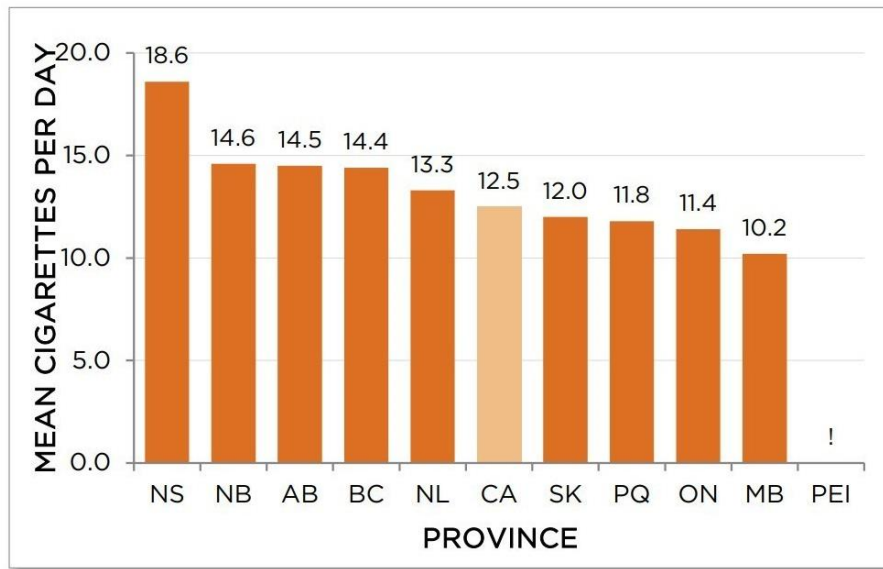
Figure 5 shows smoking prevalence by province in 2020 (including daily and non-daily smokers) as estimated by the CTNS. Figure 6 shows average daily consumption (among daily smokers) as reported in this survey. Unfortunately, at time of writing in July 2023, CTNS results are still only available on an aggregate national basis and not by province for 2021 (the effective survey period was from December 15, 2021 to February 04, 2022) and they are not yet available for 2022 (the effective survey period was from November 30, 2022 to January 31, 2023).¹³

Figure 6
Average Daily Cigarette Consumption by Province, 2020
 (among daily smokers)

¹³ Statistics Canada, Canadian Tobacco and Nicotine Survey.
https://www23.statcan.gc.ca/imdb/p3Instr.pl?Function=getInstrumentList&Item_Id=1445047&UL=AV

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues



! Estimate suppressed due to unacceptable quality

Source: Figure 2.1, *Tobacco Use in Canada: Patterns and Trends, 2022 Edition*, University of Waterloo (using data from the CTNS, 2020). [https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco use in canada 2022 4.pdf](https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco%20use%20in%20canada%202022%204.pdf)

Table 2 summarizes estimated prevalence as calculated by Statistics Canada from the CTNS for years 2015 to 2020 for British Columbia, Ontario and Newfoundland (the survey was not done in 2016).

Table 2
Smoking Prevalence by Province, 2015 – 2020
(includes daily and non-daily smokers)

Year	British Columbia	Ontario	Newfoundland
2020	7.7	9.9	14.8
2019	10.2	11.6	14.5
2017	15.6	12.9	20.1
2015	10.2	11.3	18.5

Source: Table 2.1, *Tobacco Use in Canada: Patterns and Trends, 2022 Edition*, University of Waterloo. [https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco use in canada 2022 4.pdf](https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco%20use%20in%20canada%202022%204.pdf)

Table 3 summarizes the CTNS results for estimated daily per capita consumption of cigarettes for these same years in the three provinces.

Table 3
Average Daily Cigarette Consumption by Province, 2015 – 2020
(among daily smokers)

Year	British Columbia	Ontario	Newfoundland
2020	12.5	11.4	13.3
2019	11.7	11.9	11.1
2017	13.7	12.7	18.6
2015	13.8	13.2	14.0

Source: Table 2.2, *Tobacco Use in Canada: Patterns and Trends, 2022 Edition*, University of Waterloo.
https://uwaterloo.ca/tobacco-use-canada/sites/default/files/uploads/files/tobacco_use_in_canada_2022_4.pdf

The second survey is the Canadian Community Health Survey (CCHS). The central objective of the CCHS is to gather health-related data at the sub-provincial levels of geography and it poses a much broader series of questions than the more narrowly-focused CTNS. The results from the CCHS for smoking prevalence are shown in Table 4 (the CCHS questionnaire does not ask respondents for information on consumption).

Table 4
Smoking Prevalence by Province, 2015 – 2021
(includes daily and occasional smokers)

Year	British Columbia	Ontario	Newfoundland
2021	9.6	11.6	13.4
2020	10.1	11.6	19.0
2019	11.1	13.8	19.5
2018	12.0	15.2	18.2
2017	13.2	15.4	23.4
2016	14.5	16.0	18.9
2015	13.8	17.5	24.4

Source: Statistics Canada, Canadian Community Health Survey (CCHS). [Table 13-10-0096-10 Smokers, by age group](#)
DOI: <https://doi.org/10.25318/1310009601-eng>

Smoking prevalence as calculated from the CCHS is quite consistently higher than prevalence as measured from the CTNS. In some cases, the difference is quite significant. Possible reasons for this discrepancy are outlined in Appendix 4.

When this survey data is used to determine total cigarettes consumed it results in total consumption that is LESS THAN the CTMC legal sales volume. This is obviously an impossible result and calls into serious question the accuracy of the survey data. Absent any other explanation, the inescapable conclusion is that both these official government surveys understate actual smoking prevalence and consumption.

In December 2020, the Canada Revenue Agency released a report entitled “*The Tax Gap for Federal Excise Duty on Cigarettes*” that presented the results of an analysis it conducted for 2014. The CRA used CCHS data to measure total cigarette consumption. Although not specifically disclosed in the report, these prevalence estimates no doubt also initially obtained equally impossible results for total market consumption. The CRA’s solution was to assume that the survey underreported actual prevalence by 35 percent and adjusted the results using an “uplift factor” (details are provided in Appendix 4).

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

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The same methodological approach is used here to adjust the CCHS results upward. Two possible scenarios are assumed and presented below. In Scenario A, the same underreporting assumption of 35 percent and the same uplift factor of 1.54 are used. In Scenario B, a more conservative underreporting assumption of 20 percent is used instead and an uplift factor of 1.25 is derived using the uplift formula.

The results for Scenario A are shown for British Columbia in Table 5A, for Ontario in Table 6A, and for Newfoundland in Table 7A.

Table 5A
Assumed Prevalence and Total Consumption vs. Legal Sales: British Columbia

	Year	Smoker %	Smokers	Cigarettes per Day	Total Cigarettes Consumed (x 1.54 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	11.1	469,600	11.7	3,088,357,272	2,498,300,000	590,057,272	19.1%
CCHS	2020	10.1	444,800	12.5	3,125,276,000	2,365,500,000	759,776,000	24.3%
CCHS	2021	9.6	431,900	12.5	3,034,637,375	2,108,000,000	926,637,375	30.5%
CCHS	2022	9.6 ¹	431,900	12.5	3,034,637,375	1,672,200,000	1,362,437,375	44.9%

¹ Estimate for 2022 prevalence (same assumed value as 2021)

Table 6A
Assumed Prevalence and Total Consumption vs. Legal Sales: Ontario

	Year	Smoker %	Smokers	Cigarettes per Day	Total Cigarettes Consumed (x 1.54 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	13.8	1,728,300	11.9	11,560,581,417	5,909,900,000	5,650,681,417	48.9%
CCHS	2020	11.6	1,472,400	11.4	9,435,050,856	5,825,700,000	3,609,350,856	38.3%
CCHS	2021	11.6	1,479,100	11.4	9,477,984,054	5,261,700,000	4,216,284,054	44.5%
CCHS	2022	11.6 ¹	1,479,100	11.4	9,477,984,054	4,714,700,000	4,763,284,054	50.3%

¹ Estimate for 2022 prevalence (same assumed value as 2021)

Table 7A
Assumed Prevalence and Total Consumption vs. Legal Sales: Newfoundland

	Year	Smoker %	Smokers	Cigarettes per Day	Total Cigarettes Consumed (x 1.54 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	19.1	88,600	11.1	552,802,866	510,600,000	42,202,866	7.6%
CCHS	2020	19	87,400	13.3	653,396,282	509,600,000	143,796,282	22.0%
CCHS	2021	13.4	61,800	13.3	462,012,474	353,600,000	108,412,474	23.5%
CCHS	2022	13.4 ¹	61,800	13.3	462,012,474	257,800,000	204,212,474	44.2%

¹ Estimate for 2022 prevalence (same assumed value as 2021)

The results for the more conservative Scenario B are shown for British Columbia in Table 5B, for Ontario in Table 6B and for Newfoundland in Table 7B.

Table 5B
Assumed Prevalence and Total Consumption vs. Legal Sales: British Columbia

	Year	Smoker %	Smokers	Cigarettes per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	11.1	469,600	11.7	2,506,783,500	2,498,300,000	8,483,500	0.3%
CCHS	2020	10.1	444,800	12.5	2,536,750,000	2,365,500,000	171,250,000	6.8%
CCHS	2021	9.6	431,900	12.5	2,463,179,688	2,108,000,000	355,179,688	14.4%
CCHS	2022	9.6 ¹	431,900	12.5	2,463,179,688	1,672,200,000	790,979,688	32.1%

¹ Estimate for 2022 prevalence (same assumed value as 2021)

Table 6B
Assumed Prevalence and Total Consumption vs. Legal Sales: Ontario

	Year	Smoker %	Smokers	Cigarettes per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	13.8	1,728,300	11.9	9,383,588,812	5,909,900,000	3,473,688,812	37.0%
CCHS	2020	11.6	1,472,400	11.4	7,658,320,500	5,825,700,000	1,832,620,500	23.9%
CCHS	2021	11.6	1,479,100	11.4	7,693,168,875	5,261,700,000	2,431,468,875	31.6%
CCHS	2022	11.6 ¹	1,479,100	11.4	7,693,168,875	4,714,700,000	2,978,468,875	38.7%

¹ Estimate for 2022 prevalence (same assumed value as 2021)

Table 7B
Assumed Prevalence and Total Consumption vs. Legal Sales: Newfoundland

	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	19.5	88,600	11.1	448,703,625	510,600,000	-61,896,375	-13.8%
CCHS	2020	19	87,400	13.3	530,354,125	509,600,000	20,754,125	3.9%
CCHS	2021	13.4	61,800	13.3	375,010,125	353,600,000	21,410,125	5.7%
CCHS	2022	13.4	61,800	13.3	375,010,125	257,800,000	117,210,125	31.3%

These results appear to be quite plausible in all provinces in virtually all years.¹⁴ Estimated contraband sales track upward over time with the downward trajectory in legal sales in an essentially inverse relationship.

The conclusion is that in 2022 contraband cigarettes likely accounted for at least 32.1 percent (and as much as 44.9 percent) of the total market in British Columbia; at least 38.7 percent (and as much as 50.3 percent) in Ontario; and at least 31.1 percent (and as much as 44.2 percent) in Newfoundland. The actual percentage of contraband in each province can quite confidently be stated as being somewhere between these two lower-bound and upper-bound estimates.

¹⁴ The only exception being Newfoundland in 2019 for Scenario B.

VI. Affordability as a Health Policy Objective: A Double-Edged sword?

High rates of tobacco taxation have always been billed by both the federal and provincial governments as a preventive health measure rather than a revenue raising fiscal policy measure. Notwithstanding the validity of those claims, tobacco taxes remain an important source of revenue for both levels of government.¹⁵

Health advocates have not only aggressively lobbied the public and politicians for maintenance of high tax rates, but in more recent years they have also claimed that these high rates must continually be increased so that prices increase at rates higher than the increase in per capita incomes. The objective is to make tobacco products not just more expensive in absolute terms, but less and less “affordable” to smokers relative to their incomes.

A recent study published by the Public Health Agency of Canada has found that “In examining the overall trend [in affordability] for the 10-year period [2009 to 2019] there was an increase in the AI [Affordability Index] (i.e. a decrease in cigarette affordability).¹⁶

The theory is that the more successful is the attainment and maintenance of this policy objective, the less affordable cigarettes become and the lower will be the prevalence of smoking in the population. The study concludes that “Provincial cigarette tax increases have resulted in reduced affordability over time, and they have contributed to reduced smoking prevalence and consumption.”¹⁷

The study report goes on to state, “However, provinces need to ensure that cigarette tax increases are sustained in a manner that exceeds economic growth and wage increases in order to achieve the desired effect of reducing consumption. Provinces can apply an additional indexed (ad valorem) tobacco tax that is tied to the Consumer Price Index, relative wage increases or GDP increases to ensure that affordability does not increase over time. Monitoring affordability over time also contributes valuable data to maximize impact in the design of tobacco taxation structures at the subnational level in Canada.”¹⁸

The study does not acknowledge, much less incorporate into its conclusions or recommendations, the widespread availability of untaxed, low-priced contraband tobacco in all Canadian provinces. There is no question that taxing legal tobacco products at rates that are higher than the rates disposable incomes rise will price them at levels that are less and less affordable to smokers. Whether this will result in higher or lower rates of smoking prevalence as claimed in the study is an empirical question that is far from clear.

A strong case can be made that in addition to encouraging some smokers to quit, it also encourages others to switch to much lower-priced and more affordable contraband products.¹⁹ For a conceptual analysis of the likely impact high rates of taxation are having in the contraband market, see Appendix 5.

¹⁵ This is demonstrated by periodic episodes of “tax competition” between the two levels of government to maintain their respective revenue shares, including a particularly serious one in the early nineteen nineties that immediately resulted in the era of contraband tobacco in Canada.

¹⁶ Melissa Worrell and Les Hagen, *Cigarette affordability in Canadian provinces: a 10-year review*, in Public Health Agency of Canada, Health Promotion and Chronic Disease Prevention in Canada: Research, Policy and Practice, Volume 41, Number 10, October 2021, page 316.

¹⁷ *Ibid.*, page 318.

¹⁸ *Ibid.*, page 318.

¹⁹ In a Legislative Costing Note analysing the impact of a tobacco tax hike in the 2021 Budget, the Parliamentary Budget Office calculated that tax revenues would decrease due to “reduced smoking frequency and incidence, or migration to the contraband market”.

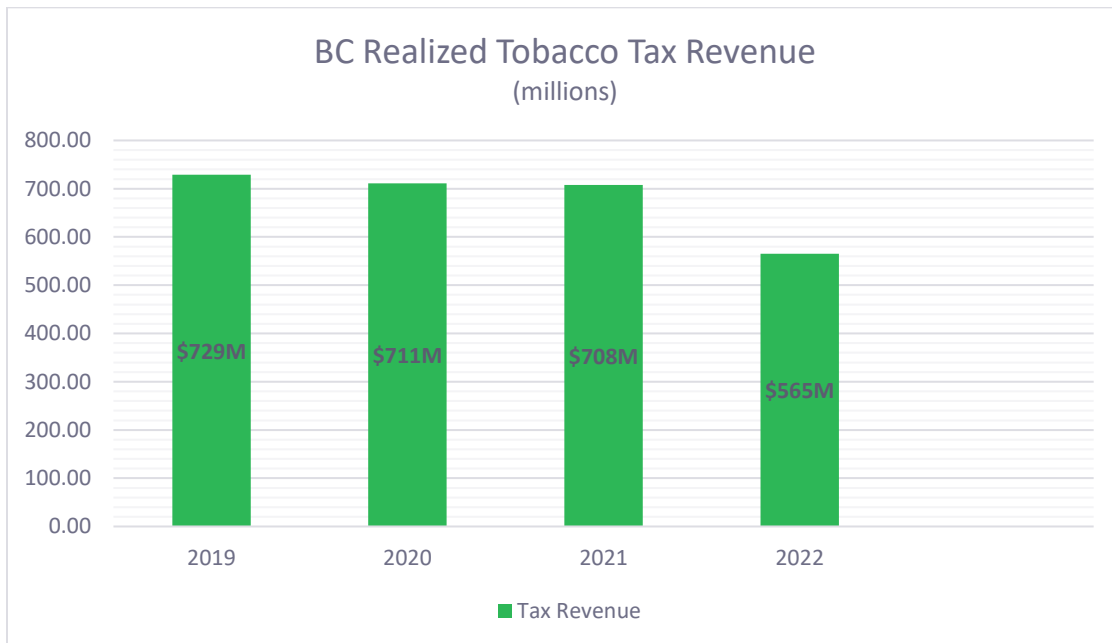
VII. Forecast vs. Actual Provincial Tobacco Tax Revenues: 2019 to 2022

Another potential indicator that contraband tobacco’s share of the total market for tobacco products in these three provinces is growing may be found by comparing the tobacco tax revenues that were forecast for each upcoming fiscal year, as set out in annual provincial budget documents, with the revenue that was actually realized that fiscal year, as reported in the subsequent year’s budget documents.

Such comparisons are shown in Table 8 for British Columbia, Table 9 for Ontario and in Table 10 for Newfoundland and Labrador, as reported in their respective provincial budgets from 2018 to 2023.

Table 8
British Columbia
A Comparison of Forecast and Realized Tobacco Tax Revenues
(\$ millions)

Fiscal Year	Forecast	Realized	Difference
2023-24	\$565		
2022-23	\$760	\$565	- \$195
2021-22	\$780	\$708	- \$72
2020-21	\$755	\$711	- \$44
2019-20	\$780	\$729	- \$51

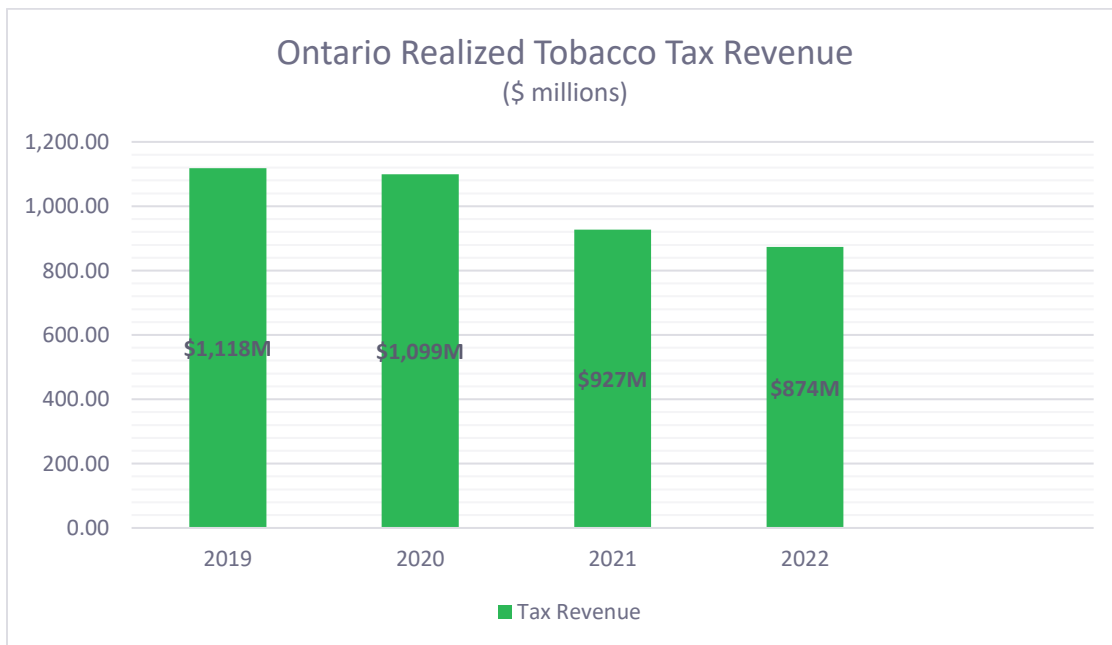


Source: See Appendix 6, British Columbia, Ministry of Finance, Budget and Fiscal Plan and Estimates, various years.

Table 9
Ontario
A Comparison of Forecast and Realized Tobacco Tax Revenues
(\$ millions)

Fiscal Year	Forecast	Realized	Difference
2023-24	\$840		
2022-23	\$953	\$874*	- \$79
2021-22	\$1,060	\$927	- \$133
2020-21	\$1,108	\$1,099	- \$9
2019-20	\$1,213	\$1,118	- \$95

*Interim (represents the 2023 Budget projection for the 2022–23 fiscal year).



Source: See Appendix 6, Ontario, Ministry of Finance, Budget, various years.

*An interim estimate in Budget 2023

Several takeaways are notable from each table:

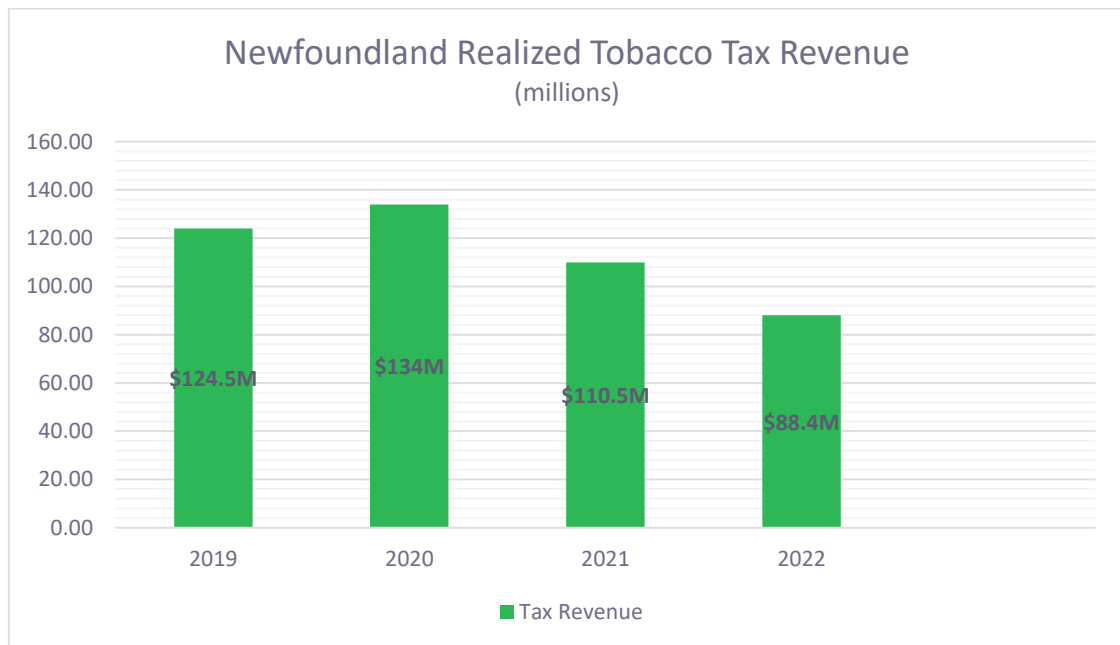
First is the consistent annual decline in tobacco tax revenue collected in the time period 2019-20 to 2022-23 as legal volumes sold subject to the tobacco tax fell.

Second is the exception to this general pattern that occurred in 2020-21, when for part of that year the First Nations reserves were closed because of COVID-19. In British Columbia and Ontario, the shortfall in revenues is smaller than in the previous year and in Newfoundland revenues collected actually exceeded the previous year’s revenue estimate by a considerable margin (almost \$28 million).

Third is the large delta between estimated and realized tax revenues in past two years as the tax revenue collected consistently fell far short of the prior year’s budget estimate.

Table 10
Newfoundland and Labrador
A Comparison of Forecast and Realized Tobacco Tax Revenues
(\$'000)

Fiscal Year	Forecast	Realized	Difference
2023-24	\$81,531		
2022-23	\$108,338	\$88,388	- \$19,950
2021-22	\$142,255	\$110,549	- \$31,700
2020-21	\$106,348	\$134,137	+ \$27,789
2019-20	\$138,805	\$124,508	- \$14,297



Source: See Appendix 6, Newfoundland and Labrador, Department of Finance, Estimates of the Program Expenditure and Revenue of the Consolidated Revenue Fund, various years.

Absent any unexpected economic shocks, such as downturns in the economy, most provincial governments have a relatively good track record at forecasting revenue growth several years in the future based on current levels and past trends. This is particularly true for indirect taxes on commodities, which are subject to less cyclical fluctuation than direct taxes on income and especially for commodities whose demand is relatively inelastic (meaning that the quantity purchased does not change much in response to price changes).

Numerous economic studies have shown that the demand for tobacco products is relatively inelastic. Provincial governments are also well aware of trends in tobacco consumption through their own Health Departments as well as Health Canada’s smoking prevalence surveys and they presumably incorporate these elements in their revenue forecasts. This means that, other things equal, they should accurately estimate annual changes in tobacco revenues relatively easily.

The most logical explanation why these recent official estimates been so inaccurate (and consistently so on the downside) is that contraband tobacco sales have unexpectedly supplanted a growing proportion of legal sales in these three provincial jurisdictions.

VIII. Quantification of Potential Provincial Tax Revenue Loss

Section IV of the report estimated the annual size of the contraband market in terms of the absolute volume of contraband cigarettes sold, as well as by the percentage of the total market (legal plus contraband) that they represented each year.

Section VI provided evidence that actual tobacco tax revenues have been consistently lower than expected revenues as forecast by the provincial finance and revenue authorities in their annual budget projections.

This section of the report provides a quantitative estimate of the potential revenue shortfall these three provinces have likely suffered in the last four fiscal years as a result of contraband sales.

This estimation involves a comparison of revenues that were actually collected each year (call this the “Baseline Scenario”) and alternative scenarios where purchases of at least some of the untaxed contraband would have been replaced by purchases of legal products taxed at the provincial tobacco tax rate (“Counterfactual Scenarios A and B”).

Multiplying the provincial tax tobacco rate by the quantity of all contraband cigarettes estimated to have been sold each year would establish the upper feasible bound for the tobacco tax revenue loss, but this would likely be a maximum feasible estimate of the revenue loss and would be an unrealistically high estimate because a good portion of these untaxed contraband purchases would not be purchased by smokers at the much higher taxed price. Smokers of contraband would instead attempt to cut back considerably on their purchases rather than purchase the same quantities of cigarettes at the higher legal price.

For this reason, both the two counterfactual scenarios A and B instead assume consumers of contraband cigarettes manage to reduce their consumption by one half through some combination of reduced smoking prevalence and reduced consumption rather than purchasing the same quantities of tax-paid cigarettes. In other words, the likely provincial revenue loss each year is calculated on the basis of the tobacco tax rate times one half the quantity of contraband cigarettes estimated to have been sold that year. The results are summarized in Table 11A (for Scenario A, as summarized in Tables 5A, 6A and 7A) and Table 11B (for Scenario B, as summarized in Tables 5B, 6B and 7B).

Over the four fiscal years studied here, the tobacco tax loss in British Columbia is conservatively estimated to be at least \$215 million and possibly as high as \$591 million; at least \$990 million in Ontario and possibly as high as \$1.7 billion; and at least \$25 million in Newfoundland and possibly as high as \$81 million. This does not include the losses in other taxes, including sales tax and business and personal income taxes associated with this reduction in legal sales, or federal tax revenue losses.

The federal and provincial governments have acknowledged for many years that contraband tobacco is a serious problem, but apart from periodic commitments to study the problem there is little evidence that any of them have actually implemented effective new policy measures or concrete enforcement actions.²⁰

As an illustration, Appendix 7 sets out a chronology of pronouncements on the problem made by the government of Ontario (the province where most of the contraband cigarettes originate), in its Fall Economic Statements from 2015 to 2022 and its 2023 Ontario Budget.

²⁰ The government of Quebec has been the most proactive in the area of tobacco enforcement and interdiction and as a result, while high, the proportion of contraband there has stabilized and likely actually fallen in recent years.

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Table 11A

Upper-Bound Estimate of Tobacco Tax Revenue Loss by Province: 2019 – 2022

Year	British Columbia	Ontario	Newfoundland
2019	\$95,884,307	\$521,981,695	\$6,857,965
2020	\$123,463,600	\$333,413,785	\$23,366,895
2021	\$150,578,573	\$389,479,239	\$17,617,027
2022	\$221,396,073	\$440,008,364	\$33,184,527
TOTAL	\$591,322,553	\$1,684,883,083	\$81,026,414

Table 11B

Lower-Bound Estimate of Tobacco Tax Revenue Loss by Province: 2019 – 2022

Year	British Columbia	Ontario	Newfoundland
2019	\$1,378,569	\$320,882,000	N/A
2020	\$27,828,125	\$169,288,318	\$3,372,545
2021	\$57,716,700	\$224,606,937	\$3,479,145
2022	\$128,534,200	\$275,136,062	\$19,046,645
TOTAL	\$215,457,593	\$989,913,317	\$25,898,335

For its part, the federal government announced a public consultation on a proposed fuel, alcohol, tobacco, and cannabis (FACT) sales tax framework in the 2022 Federal Budget. It proposes to enter into FACT agreements with interested Indigenous governments who would implement a FACT sales tax within their reserves or settlement lands. Even if implemented, the FACT sales tax is only proposed to be imposed at the 5 percent GST rate. This would do essentially nothing to close the existing retail price gap with legally sold cigarettes. Even if it raised slightly the price of contraband cigarettes, it would have virtually no impact in reducing the demand for and the quantity sold of contraband. For details, see Appendix 8.

Tables 12A and 12B present estimates of the gross revenue realized from the sale of contraband cigarettes in these three provinces in 2019, 2020, 2021 and 2022. The gross revenue is derived by multiplying estimated contraband sales under each assumed scenario by an average price of \$40/carton of 200 cigarettes.

Table 12A

Scenario A: Estimated Gross Revenue from Contraband Production and Sale by Province: 2019 – 2022

Year	British Columbia	Ontario	Newfoundland
2019	\$144,571,454	\$1,130,136,283	\$8,440,573
2020	\$125,395,200	\$721,870,171	\$28,759,256
2021	\$185,327,475	\$843,256,810	\$21,682,495
2022	\$272,487,475	\$952,656,810	\$40,842,495
TOTAL	\$727,781,604	\$3,647,920,074	\$99,724,819

Table 12B

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

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Scenario B: Estimated Gross Revenue from Contraband Production and Sale by Province: 2019 – 2022

Year	British Columbia	Ontario	Newfoundland
2019	\$28,256,700	\$694,737,762	N/A
2020	\$7,690,000	\$366,524,100	\$4,150,825
2021	\$71,035,938	\$486,293,775	\$4,282,025
2022	\$158,195,938	\$595,693,775	\$23,442,025
TOTAL	\$265,178,576	\$2,143,249,412	\$31,874,875

Some of this gross revenue is used to cover contraband production, distribution and sale costs. The rest is realized profit. Where that profit goes and what it finances is beyond the scope of this study, but the production and sale of contraband cigarettes has now clearly become a major criminal enterprise in each of these three provinces, not just in Ontario.

The nature and extent of involvement by organized crime groups in the production and sale of contraband tobacco products is beyond the scope of this report. However, there is considerable anecdotal evidence of their involvement and certainly some portion of the revenue estimated here is financing their other criminal activities.²¹

²¹ See for example, Christian Leuprecht, *Smoking Gun: Strategic Containment of Contraband Tobacco and Cigarette Trafficking in Canada*, Part 3: Organized Crime and Contraband, pages 22-27.

IX. Conclusions

The evidence and analysis presented in this report suggest that in recent years the market for legal and contraband cigarettes has been evolving in ways that are disturbing. Only a small part of the steep declines in legal sales can be explained by a possible reduction in smoking prevalence. There is considerable evidence that these sales are for the most part simply being supplanted by a significant increase in the sale of untaxed and unregulated contraband products from First Nations reserves.

Gauging the exact size of the underground economy is by definition difficult, **but judging from the evidence examined in the three provinces here, contraband is now as much of a problem in British Columbia and Newfoundland as it has been historically in the provinces of Ontario and Quebec.**

It is conservatively estimated here that in 2022 contraband cigarettes likely accounted for at least 32.1 percent of the total market in British Columbia (and perhaps as much as 44.9 percent), at least 38.7 percent of the market in Ontario (and perhaps as much as 50.3 percent) and at least 31.1 percent of the market in Newfoundland (and perhaps as much as 44.2 percent). There is no reason to believe that the revenue loss is any less on a per capita basis in the other provinces not included in this study.

The perceived quality of these factory-made contraband products as well as the means of marketing them to consumers have improved in recent years. These perceived improvements in quality and greater accessibility, when combined with the already huge difference in price and affordability, mean that **absent effective government enforcement action, contraband sales are likely to continue to account for a growing percentage of the market for tobacco products, replacing production and sales by legal producers and retailers and at the same time undermining the achievement of federal and provincial health policy objectives.**

Where the profits from contraband cigarettes go and what they finance is beyond the scope of this study, but **the production and sale of contraband has now clearly become a major criminal enterprise in each of these three provinces, not just in Ontario, and certainly some portion of the gross revenue estimated here is financing their criminal activities.**

Accurate measurement of contraband is difficult, in part because **the federal government's two survey measures of smoking prevalence and consumption appear to significantly understate actual consumption once contraband is taken into account**, as it has been in this report. This also means that **the effectiveness of higher tax rates on cigarettes in reducing overall consumption has likely been overestimated.** Although tax increases have depressed legal sales, they have certainly also expanded contraband sales. The evidence presented here, both conceptual (see Appendix 5) and empirical, strongly suggests that latter impact is likely much greater than the former.

Absent more robust direct measures of smoking prevalence and consumption, it will be difficult for the federal government to accurately track the progress of Canada's Tobacco Strategy and the objective of achieving a 5 percent level of smoking prevalence by 2035.²² Public confidence in any stated claim that a 5 percent prevalence level has in fact been achieved may also be diminished unless the survey sampling frames are improved and/or the sample size is increased. Most importantly, absent more effective interdiction of contraband cigarettes, it even calls into question whether the goal will be achievable.

²² See Health Canada, Canada's Tobacco Strategy. <https://www.canada.ca/en/health-canada/services/publications/healthy-living/canada-tobacco-strategy.html>

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Appendix 1

Legal Monthly Cigarette Sales 2019 – 2022

Table A1: British Columbia (millions of sticks)

YEAR	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL
2022	109.2	137.0	149.4	132.3	150.3	159.3	143.9	168.7	127.4	123.5	127.4	143.8	1,672.2
2021	133.9	141.7	192.2	193.5	181.5	230.2	179.4	178.3	172.9	152.3	172.3	179.8	2,108.0
2020	121.7	163.1	210.0	208.1	196.1	242.1	222.1	224.3	173.4	187.2	176.1	241.3	2,365.5
2019	151.5	172.9	194.6	214.7	238.9	236.0	214.3	231.2	197.8	251.7	224.8	169.9	2,498.3

Table A2: Ontario (millions of sticks)

YEAR	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL
2022	269.8	327.3	425.4	319.5	416.9	458.7	411.0	440.5	426.3	357.1	397.8	464.4	4,714.7
2021	291.3	331.9	480.9	441.7	423.7	581.5	433.8	444.7	474.4	408.4	428.6	520.8	5,261.7
2020	290.2	373.5	445.2	517.1	557.2	676.8	514.4	518.2	462.7	451.6	412.5	606.3	5,825.7
2019	370.7	378.9	458.6	456.0	943.7	601.6	508.5	566.3	455.5	645.2	543.3	437.6	5,909.9

Table A3: Newfoundland & Labrador (millions of sticks)

YEAR	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL
2022	19.7	18.1	24.0	18.8	23.3	25.3	21.8	24.7	21.1	16.5	20.0	24.5	257.8
2021	31.1	27.7	35.8	29.3	31.4	39.8	29.2	29.0	25.6	24.6	25.7	24.4	353.6
2020	28.9	37.5	46.1	40.1	47.4	60.0	48.1	48.3	39.9	35.8	34.8	42.7	509.6
2019	31.0	32.8	42.6	40.2	46.5	47.0	47.6	51.7	40.0	48.7	52.4	30.1	510.6

Appendix 2

Tobacco Tax Rates

Federal excise duty

\$0.79162/5 cigarettes = \$3.9581/pack (effective April 1, 2023)

Excise duty on cigarettes

Product	Rate effective April 1, 2023	Rate effective April 1, 2022 to March 31, 2023	Rate effective April 20, 2021 to March 31, 2022	Rate effective April 1, 2021 to April 19, 2021	Rate effective April 1, 2020 to March 31, 2021	Rate effective April 1, 2019 to March 31, 2020
Cigarettes ¹	\$0.79162	\$0.74470	\$0.72725	\$0.62725	\$0.62104	\$0.60946

¹ Rates are per 5 cigarettes or fraction of 5 cigarettes contained in any package

https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edrates/excise-duty-rates.html#_Toc527013627

British Columbia tobacco tax

\$0.325/cigarette = \$8.125/pack of 25 (effective July 1, 2021; effective July 1, 2022 the 7% PST also applies)

<https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/tobacco-tax>

Alberta tobacco tax

\$0.275/cigarette = \$6.875/pack of 25 (effective October 25, 2019)

<https://open.alberta.ca/dataset/1c4f5206-2c25-415a-a805-15d563516f0b/resource/b6f04cf8-5b6d-4466-af2d-232d2a0e8633/download/special-notice-tta-vol-3-no-17-tobacco-tax-rate-increase.pdf>

Saskatchewan tobacco tax

\$0.29/cigarette = \$7.25/pack of 25 (effective March 24, 2022)

<https://www.saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tobacco-tax#:~:text=Licensed%20importers%2C%20primarily%20tobacco%20wholesale,taxable%20value%20of%20a%20cigar.>

Manitoba tobacco tax

\$0.30/cigarette = \$7.50/pack of 25 (effective June 30, 2019)

<https://www.gov.mb.ca/finance/taxation/taxes/tobacco.html>

Ontario tobacco tax

\$0.18475/cigarette = \$4.6187/pack of 25 (effective March 29, 2018)

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<https://www.fin.gov.on.ca/en/tax/tt/>

Quebec tobacco tax

\$0.189/cigarette = \$4.725/pack of 25 (effective February 9, 2023)

<https://www.revenuquebec.ca/en/press-room/tax-news/details/2023-02-08/tobacco-tax-rate-increase/#:~:text=As%20part%20of%20the%20strategy,a.m.%20on%20February%209%2C%202023>

New Brunswick tobacco tax

\$0.2552/cigarette = \$6.38/pack of 25 (effective February 1, 2017)

<https://www2.gnb.ca/content/gnb/en/departments/finance/taxes/wholesalers.html>

Nova Scotia tobacco tax

\$0.2952/cigarette = \$7.38/pack of 25

<https://beta.novascotia.ca/sites/default/files/documents/1-1191/tobacco-tax-program-overview-en.pdf>

Prince Edward Island tobacco tax

\$0.2952/cigarette = \$7.38/pack of 25 (effective May 7, 2022)

https://www.princeedwardisland.ca/sites/default/files/publications/ttn_138may-2022_rate_increase.pdf

Newfoundland and Labrador tobacco tax

General Taxation:

\$0.325/cigarette = \$8.13/pack of 25 (effective June 1, 2021)

Labrador Border Zones:

\$0.1875/cigarette = \$4.69/pack of 25 (A reduced rate of tax applies to cigarettes and tobacco other than cigarettes and cigars in Labrador City, Wabush and southern Labrador from the border of the province of Quebec to and including the community of Red Bay. The reduced rates are provided by way of a rebate to the retailer.

<https://www.gov.nl.ca/fin/tax-programs-incentives/personal/tobacco/>

Appendix 3

Retail Prices and Taxes on Cigarettes by Province and Territory

Taxes on cigarettes in Canadian jurisdictions



Based on a national average wholesale product cost of \$3.80 for a package of 20 cigarettes, consistent with the average wholesale prices provided to Health Canada, and an estimated retail market up of 10%.

GST: Federal Goods and Services Tax; PST: Provincial Sales Tax as applied to tobacco; HST: Harmonized provincial and federal sales taxes.

Source: Provincial finance and revenue ministry websites.

Estimated prices in effect April 1, 2023

Updated: March 3, 2023

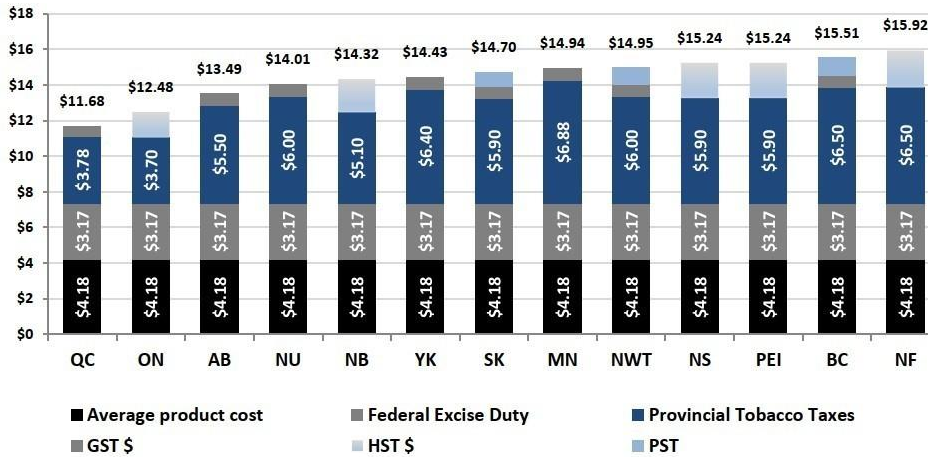
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Price of a hypothetical ‘average’ pack of cigarettes in Canadian provinces and components of this cost, April 1, 2023



Taxes on a carton of 200 cigarettes in Canadian, April 1, 2023

Per 200 cigarettes	Excise Taxes			Sales taxes applied to tobacco				Total
	Federal Excise Tax	Prov. Excise	Total Excise taxes	GST	PST	HST	Total	
British Columbia	\$31.66	\$65.00	\$96.66	5%	7%		5%	\$15.51
Alberta	\$31.66	\$55.00	\$86.66	5%			5%	\$13.49
Saskatchewan	\$31.66	\$59.00	\$90.66	5%	6%		11%	\$14.70
Manitoba	\$31.66	\$60.00	\$91.66	5%	7%		12%	\$14.95
Ontario	\$31.66	\$36.95	\$68.61			13%	13%	\$12.48
Quebec	\$31.66	\$37.80	\$69.46	5%			5%	\$11.68
New Brunswick	\$31.66	\$51.04	\$82.70			15%	15%	\$14.32
Nova Scotia	\$31.66	\$59.04	\$90.70			15%	15%	\$15.24
Prince Edward Island	\$31.66	\$59.04	\$90.70			15%	15%	\$15.24
Newfoundland	\$31.66	\$65.00	\$96.66			15%	15%	\$15.92
Northwest Territories	\$31.66	\$68.80	\$100.46	5%			5%	\$14.94
Nunavut	\$31.66	\$60.00	\$91.66	5%			5%	\$14.01
Yukon	\$31.66	\$64.00	\$95.66	5%			5%	\$14.43

Updated April 1, 2023

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Source: Physicians for a Smoke-Free Canada, https://www.smoke-free.ca/pdf_1/taxrates.pdf

Appendix 4

Issues with Statistics Canada's Smoking Prevalence Survey Data

Statistics Canada conducts two smoking prevalence surveys on behalf of Health Canada. The first is the Canadian Tobacco and Nicotine Survey (CTNS). The main objective of the CTNS is to gather information about the prevalence of cigarette smoking, vaping, and cannabis use in Canada.

The second survey is the Canadian Community Health Survey (CCHS). The central objective of the CCHS is to gather health-related data at the sub-provincial levels of geography and it poses a much broader series of questions than the more narrowly-focussed CTNS.

Smoking prevalence as calculated from the CCHS is quite consistently higher than prevalence as measured from the CTNS. In some cases, the difference is quite significant.

There are several reasons that may explain this including the fact that the CCHS survey sample is much larger than that of the CTNS. As the Physicians for a Smoke-Free Canada pointed out in 2021:

The CTNS was put in place in late 2019, following a decision to terminate the biennial Canadian Tobacco, Alcohol and Drug Survey (CTADS) after 2017. The first wave of the CTNS was conducted in October to December 2019, with the second wave repeated in December 2020 to January 2021. The first results of the CNTS 2020 were released by Statistics Canada on March 17, 2021.

This survey asked questions of 8,112 Canadians, although only 41% of those who were asked to participate agreed to do so. Four times as many Canadians participated in CTADS, and the Canadian Community Health Survey gathers information from more than 10 times as many people.

The small sample size of the CTNS severely limits the usefulness of the survey to assess differences between provinces or over time. A survey of this size does not provide for monitoring of the impact of regulatory change. For example, Nova Scotia's ban on flavoured vaping products had been in effect for more than 8 months before the survey was taken, but the sample size for Nova Scotia (404) was too small to produce enough vapers to meet Statistics Canada's quality standards for release.²³

A downward bias may also be expected in surveys that ask respondents questions about habits that could reflect negatively on them, including questions about the frequency of alcohol and tobacco usage and consumption²⁴. In the case of tobacco products, this downward bias clearly may be even greater for those respondents who purchase untaxed contraband products rather than legal products.

In order to determine the size of the total market for cigarettes (legal plus contraband) in these three provinces for years 2019 – 2022 (i.e., total provincial annual consumption based on the survey data), the CCHS and the CTNS prevalence data and the CCHS consumption data are used. Since the CCHS prevalence data for 2022 and the CTNS prevalence data for 2021 and 2022 are not yet available at time of writing, it is assumed for simplicity that they have the same value as in the prior year.

The CTMC legal sales volume each year is then subtracted from the resulting annual cigarette consumption as determined by each survey. As a validation check for the accuracy of the CTMC sales data, the expected provincial tobacco tax revenue (tax rate times quantity sold) is compared to the actual tobacco tax revenue collected, as

²³ Physicians for a Smoke-Free Canada, Wednesday, Six Insights from the Canadian Tobacco and Nicotine Survey, 14 July 2021. <https://smoke-free-canada.blogspot.com/2021/07/six-insights-from-canadian-tobacco-and.html>

²⁴ See Thierry Gagné, Estimation of smoking prevalence in Canada: Implications of survey characteristics in the CCHS and CTUMS/CTADS, Canadian Journal of Public Health / Revue Canadienne de Santé Publique, Vol. 108, No. 3 (2017).

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reported in official provincial budget and public accounts documents.

In theory, the resulting residual “unexplained” quantity of cigarettes should be a good proxy for contraband sales in each province. In practice, this turns out not to be the case, as will be explained below. The results of all these calculations are summarized in Table 13 for British Columbia, Table 14 for Ontario and Table 15 for Newfoundland.

The most striking (and most surprising) finding is that for most years in British Columbia and Newfoundland, total annual cigarette consumption, as calculated by multiplying prevalence times average cigarettes smoked is LESS than legal sales, as reported by CTMC manufacturers. This is obviously an impossible result in reality and it calls into serious question the accuracy of either the CTMC data or the survey data.

The CTMC data provide results that pass the validation test mentioned above since the expected tax revenue, so calculated, tracks actual revenue collected each year in all three provinces quite closely, as is shown by the column in the tables labelled “Accuracy – Actual/Expected” revenue. Any discrepancies could be due to the fact that CTMC data is based on annual calendar years whereas revenue collection is reported on a fiscal year basis. Also CTMC data is based on the time of wholesale shipments whereas provincial tobacco revenues are point and time of sale based.

Table 13
Assumed Prevalence and Total Consumption vs. Legal Sales: British Columbia

CCHS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CCHS	2019	11.1	469,600	11.7	2,005,426,800	2,365,500,000	-360,073,200
CCHS	2020	10.1	444,800	12.5	2,029,400,000	2,498,300,000	-468,900,000
CCHS	2021	9.6	431,900	12.5	1,970,543,750	2,108,000,000	-137,456,250
CCHS	2022 ¹	9.6	431,900	12.5	1,970,543,750	1,672,200,000	298,343,750

CTNS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CTNS	2019	10.2	426,545	11.7	1,821,562,363	2,365,500,000	-543,937,636
CTNS	2020	7.7	322,000	12.5	1,469,125,000	2,498,300,000	-1,029,175,000
CTNS	2021 ¹	7.7	322,000	12.5	1,469,125,000	2,108,000,000	-638,875,000
CTNS	2022 ¹	7.7	322,000	12.5	1,469,125,000	1,672,200,000	-203,075,000

¹ Estimate for prevalence (same assumed value as prior year)

Year	CTMC Legal Sales	Prov Taxes Per Carton	Expected Revenue	Actual Revenue (Budget)	Accuracy – Actual/Expected
2019	2,365,500,000	65.00	768,787,500	720,000,000	93.65
2020	2,498,300,000	65.00	811,947,500	720,000,000	88.68
2021	2,108,000,000	65.00	685,100,000	740,000,000	108.01
2022	1,672,200,000	65.00	543,465,000	565,000,000	103.96

The goodness-of-fit for Newfoundland is poorer than the other two provinces, but this is quite possibly because Newfoundland has a high and a low tax rate region for tobacco products and only the high rate is applied here to the CTMC sales data. The low tax rate applies to regions in Labrador that border on Quebec. The policy intent is probably to stem interprovincial inflows of lower-taxed legal Quebec cigarettes into the higher-taxed Newfoundland jurisdiction (for rates, see Appendix 2). The existence of this two-tiered tax structure in Newfoundland may create some overall tax revenue loss within the province to the extent that lower-taxed cigarettes might be purchased by Newfoundlanders from outside the lower-taxed Labrador jurisdiction, although statistics do not appear to be publicly available to test this hypothesis.

The inescapable conclusion is that both these surveys understate actual smoking prevalence and consumption. While

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it is possible that both the prevalence estimates and the cigarettes smoked per day estimates are understated, the likelihood is that the prevalence number is the more inaccurate of the two. The cigarettes per day per capita consumption estimates are very consistent across the three provinces. They are also based entirely on stated consumption by “daily smokers” and not “non-daily smokers”, which quite conceivably already incorporates an upward bias. In order for them to even account for only all the cigarettes known to have been consumed in the legal portion of the total market, they would have to increase considerably. For example, in 2019 the cigarettes per day estimate would need to be 13.8 instead of 11.7 in BC and would have to be 15.8 instead of 11.1 in Newfoundland. Even this would still not account for any of the contraband being consumed in those provinces.

**Table 14
Assumed Prevalence and Total Consumption vs. Legal Sales: Ontario**

CCHS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CCHS	2019	13.8	1,728,300	11.9	7,506,871,050	5,909,900,000	1,596,971,050
CCHS	2020	11.6	1,472,400	11.4	6,126,656,400	5,825,700,000	300,956,400
CCHS	2021	11.6	1,479,100	11.4	6,154,535,100	5,261,700,000	892,835,100
CCHS	2022 ¹	11.6	1,479,100	11.4	6,154,535,100	4,714,700,000	1,439,835,100

CTNS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CTNS	2019	11.6	1,431,838	11.9	6,219,190,020	5,909,900,000	309,290,020
CTNS	2020	9.9	1,222,000	11.4	5,084,742,000	5,825,700,000	-740,958,000
CTNS	2021 ¹	9.9	1,222,000	11.4	5,084,742,000	5,261,700,000	-176,958,000
CTNS	2022 ¹	9.9	1,222,000	11.4	5,084,742,000	4,714,700,000	370,042,000

¹ Estimate for prevalence (same assumed value as prior year)

Year	CTMC Legal Sales	Prov Taxes Per Carton	Expected Revenue	Actual Revenue (Budget)	Accuracy – Actual/ Expected
2019	5,909,900,000	36.95	1,091,854,025	1,118,000,000	102.39
2020	5,825,700,000	36.95	1,076,298,075	1,099,000,000	102.11
2021	5,261,700,000	36.95	972,099,075	927,000,000	95.36
2022	4,714,700,000	36.95	871,040,825	874,000,000	100.34

Table 15
Assumed Prevalence and Total Consumption vs. Legal Sales: Newfoundland

	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CCHS	2019	19.5	88,600	11.1	358,962,900	510,600,000	-151,637,100
CCHS	2020	19	87,400	13.3	424,283,300	509,600,000	-85,316,700
CCHS	2021	13.4	61,800	13.3	300,008,100	353,600,000	-53,591,900
CCHS	2022 ¹	13.4	61,800	13.3	300,008,100	257,800,000	42,208,100

	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed	CTMC Legal Sales	Difference
CTNS	2019	14.5	63,682	11.1	258,007,623	510,600,000	-252,592,377
CTNS	2020	14.8	65,000	13.3	315,542,500	509,600,000	-194,057,500
CTNS	2021 ¹	14.8	65,000	13.3	315,542,500	353,600,000	-38,057,500
CTNS	2022 ¹	14.8	65,000	13.3	315,542,500	257,800,000	57,742,500

¹ Estimate for prevalence (same assumed value as prior year)

Year	CTMC Legal Sales	Prov Taxes Per Carton	Expected Revenue	Actual Revenue (Budget)	Accuracy – Actual/ Expected
2019	510,600,000	65.00	165,945,000	124,000,000	74.72
2020	509,600,000	65.00	165,620,000	134,000,000	80.91
2021	353,600,000	65.00	114,920,000	110,000,000	95.72
2022	257,800,000	65.00	83,785,000	88,000,000	105.03

NFL Tax Differential

NFL - Cigarettes – 32.5 cents per cigarette
Labrador - Cigarettes – 18.75 cents per cigarette

NFL Population 522,501
Lab Portion 27,197
% 5.205158

<https://www.gov.nl.ca/fin/tax-programs-incentives/personal/tobacco/>

Only when using the CCHS survey results, and only for the single year 2022, is there a positive residual quantity sold in all three provinces that could represent contraband sales. Results obtained by this method in Ontario come closest to being credible in that the residual each year is consistently positive and the percentage is lowest in 2020 (5.2 percent) when the on-reserve factories and smoke shops were closed for several months due to the COVID-19 lockdown and highest in 2022 (30.5 percent), but this residual still clearly and significantly understates estimates of the volume of contraband.

Why do prevalence and consumption appear to be consistently underestimated in these surveys? Part of the reason may be found in the way the survey information is collected. For the CCHS, for example, Statistics Canada states:

Data is collected from survey respondents either through an electronic questionnaire (EQ) directly online or assisted by a Statistics Canada interviewer through CATI (computer assisted telephone interviewing) or CAPI (computer assisted personal interviewing). A letter is mailed to the selected dwelling, which contains a code that gives access to the online questionnaire. It also informs the householder about the survey and asks that a household member access the questionnaire online with the given access code to answer some preliminary questions including a listing of all people that reside in that dwelling. From this information, a household member aged 18 or older is then randomly selected to participate in the survey. An email containing a second access code is sent to the selected respondent so that they may answer their portion online.

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The information collected during the 2023 CCHS will be linked to the personal tax records (T1, T1FF or T4) of respondents, and tax records of all household members. Household information (address, postal code, and telephone number), respondent's information (social insurance number, surname, name, date of birth/age, sex) and information on other members of the household (surname, name, age, sex and relationship to respondent) are key variables for the linkage.

A Statistics Canada interviewer may follow up by calling, emailing, texting, or visiting the respondent if a completed online questionnaire is not received within a certain period of time.

Respondents are notified of the planned linkage before and during the survey. Any respondents who object to the linkage of their data have their objections recorded, and no linkage to their tax data takes place. Income information obtained from income tax records will also be provided to federal, provincial and territorial share partners only with respondent consent.²⁵

Related to the issue of the way the information is collected is the likely composition of the survey sample and response rate in relation to that of the total population.

The Canadian Public Health Association (CPHA) points out that the CHSS shows smoking prevalence is correlated with individuals of lower socio-economic status (SES):

Results from the 2017 CCHS showed that those in the first (lowest) household income quintile had a smoking prevalence in excess of 20% while those in the fifth (highest) quintile had a prevalence of less than 15%.

It also states “Data from the United States also show that about 73% of those who experience homelessness smoke; however, recent data for Canada is limited.”²⁶

To the extent that low-income and socially-marginalized socioeconomic groups may be underrepresented in the CCHS, the resulting smoking prevalence rate would almost certainly be underestimated, particularly by consumers of low-priced contraband products.

Similarly, for the CTNS, “Data are collected directly from survey respondents either through an electronic questionnaire (EQ) or through CATI (computer- assisted telephone interviewing).” In addition, “The target population for the survey is non-institutionalized persons aged 15 years or older living in Canada's ten provinces, who are not members of collectives or living on reserves.”²⁷

Absent direct measures of contraband sales and a reliable measure of smoking prevalence in each province, the next best way of estimating contraband is by adjusting the survey prevalence estimates appropriately in a way that compensates for underreporting to obtain results that better reflect reality.

In December 2020, the Canada Revenue Agency released a report entitled “The Tax Gap for Federal Excise Duty on Cigarettes” that presented the results of a tax gap analysis it conducted for 2014.²⁸ To measure total cigarette consumption, the CRA used CCHS data. Although not specifically disclosed in the report, these prevalence estimates no doubt also initially obtained nonsensical results for total market consumption.

The CRA’s solution to this problem is described in the report as follows, “Since survey data is often subject to under-

²⁵ Statistics Canada, Canadian Community Health Survey - Annual Component (CCHS).

<https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=3226>

²⁶ Canadian Public Health Association, Tobacco and Vaping Use in Canada: Moving Forward, May 31, 2021. <https://www.cpha.ca/tobacco-and-vaping-use-canada-moving-forward>

²⁷ Statistics Canada, Canadian Tobacco and Nicotine Survey (CTNS). <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1492763>

²⁸ Canada Revenue Agency, *Tax Gap for Federal Excise Duty on Cigarettes*, December 2020. <https://www.canada.ca/content/dam/cra-arc/corp-info/excise-tax-gap-en.pdf>

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reporting, an uplift factor was used to correct for this bias. This report uses the 35% underreporting rate estimated by Guindon et al. (2017), corresponding to an uplift factor of 1.54.²⁹

Using the CRA’s methodology, if actual consumption is underreported by 35 percent, then actual consumption, appropriately adjusted, is:

Actual total consumption = Reported consumption x the uplift factor, where the uplift factor is:

$$\text{Uplift factor} = \frac{1}{1 - \text{Underreporting rate}} = \frac{1}{1 - 0.35} = 1.54$$

The same methodological approach is used here to adjust the CCHS results upward, but a more conservative underreporting assumption of 20 percent is used instead of 35 percent used by the CRA. Applying the uplift formula, an uplift factor of 1.25 is derived. The results of the recalculations are shown for British Columbia in Table 16, for Ontario Table 17, and for Newfoundland in Table 18.

Table 16
Assumed Prevalence and Total Consumption vs. Legal Sales: British Columbia

CCHS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	11.1	469,600	11.7	2,506,783,500	2,365,500,000	141,283,500	5.6%
CCHS	2020	10.1	444,800	12.5	2,536,750,000	2,498,300,000	38,450,000	1.5%
CCHS	2021	9.6	431,900	12.5	2,463,179,688	2,108,000,000	355,179,688	14.4%
CCHS	2022	9.6	431,900	12.5	2,463,179,688	1,672,200,000	790,979,688	32.1%

Table 17
Assumed Prevalence and Total Consumption vs. Legal Sales: Ontario

CCHS	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	13.8	1,728,300	11.9	9,383,588,812	5,909,900,000	3,473,688,812	37.0%
CCHS	2020	11.6	1,472,400	11.4	7,658,320,500	5,825,700,000	1,832,620,500	23.9%
CCHS	2021	11.6	1,479,100	11.4	7,693,168,875	5,261,700,000	2,431,468,875	31.6%
CCHS	2022	11.6	1,479,100	11.4	7,693,168,875	2,978,468,875	2,978,468,875	38.7%

²⁹ Ibid., page 15.

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Table 18
Assumed Prevalence and Total Consumption vs. Legal Sales: Newfoundland

	Year	Smoker %	Smokers	Cigarettes Per Day	Total Cigarettes Consumed (x 1.25 uplift factor)	CTMC Legal Sales	Difference	% Contraband
CCHS	2019	19.5	88,600	11.1	448,703,625	510,600,000	-61,896,375	-13.8%
CCHS	2020	19	87,400	13.3	530,354,125	509,600,000	20,754,125	3.9%
CCHS	2021	13.4	61,800	13.3	375,010,125	353,600,000	21,410,125	5.7%
CCHS	2022	13.4	61,800	13.3	375,010,125	257,800,000	117,210,125	31.3%

These results appear to be quite plausible in all provinces in virtually all years³⁰. They all show a downward dip in 2020 when the First Nations cigarette factories and smoke shops were closed for part of the year and they all track upward quite closely with the downward trajectory in legal sales.

The conclusion is that in 2022 contraband cigarettes likely accounted for at least 32.1 percent of the total market in British Columbia, 38.7 percent in Ontario and 31.1 percent in Newfoundland.

Using the same 1.54 uplift factor as was used by the CRA would obviously result in even higher estimates of contraband as a percentage of the total market. The results are shown in Tables 5A, 6A and 7A in Section V, page 20, for British Columbia, Ontario and Newfoundland respectively.

³⁰ The only exception being Newfoundland in 2019.

Details of Reported CCHS Smoking Prevalence in British Columbia, Ontario and Newfoundland: 2015 to 2021

Geography	British Columbia					
Sex	Both sexes					
Indicators	Current smoker, daily or occasional					
Characteristics	Number of persons			Percent		
Age group	2019	2020	2021	2019	2020	2021
	Number			Percent		
Total, 12 years and over	469,600	444,800	431,900	11.1	10.1	9.6
12 to 17 years	8,900 ^F	F	F	3.1 ^E	F	F
18 to 34 years	126,800	140,900 ^E	95,700 ^E	11.5	12.1 ^E	8.2 ^E
35 to 49 years	137,500	112,600	127,200	14.6	11.4	12.8
50 to 64 years	135,900	129,600	130,400	13.6	12.4	12.3
65 years and over	60,500	56,100	76,600	6.8	6.0	7.9

Symbol legend:

^E use with caution

^F too unreliable to be published

Geography	British Columbia							
Sex	Both sexes							
Indicators	Current smoker, daily or occasional							
Characteristics	Number of persons				Percent			
Age group	2015	2016	2017	2018	2015	2016	2017	2018
	Number				Percent			
Total, 12 years and over	549,100	587,700	539,700	499,200	13.8	14.5	13.2	12.0
12 to 17 years	4,600 ^E	6,200 ^E	5,400 ^E	4,500 ^E	1.6 ^E	2.2 ^E	1.9 ^E	1.6 ^E
18 to 34 years	202,900	206,200	171,900	170,900	19.4	19.5	16.2	15.8
35 to 49 years	121,800	152,700	130,600	130,500	13.4	16.7	14.1	14.0
50 to 64 years	167,800	147,900	164,500	127,400	17.1	14.9	16.5	12.8
65 years and over	51,900	74,600	67,400	65,900	6.8	9.3	8.1	7.6

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Geography	Ontario					
Sex	Both sexes					
Indicators	Current smoker, daily or occasional					
Characteristics	Number of persons			Percent		
Age group	2019	2020	2021	2019	2020	2021
	Number			Percent		
Total, 12 years and over	1,728,300	1,472,400	1,479,100	13.8	11.6	11.6
12 to 17 years	20,500 ^E	F	5,900 ^E	2.2 ^E	F	0.6 ^E
18 to 34 years	534,900	462,400	391,200	15.5	13.3	11.3
35 to 49 years	456,100	373,200	399,700	16.4	13.3	14.2
50 to 64 years	506,100	438,600	456,700	17.1	14.9	15.4
65 years and over	210,700	184,200	225,500	8.7	7.4	8.8

Symbol legend:

^E use with caution

^F too unreliable to be published

Geography	Ontario							
Sex	Both sexes							
Indicators	Current smoker, daily or occasional							
Characteristics	Number of persons				Percent			
Age group	2015	2016	2017	2018	2015	2016	2017	2018
	Number				Percent			
Total, 12 years and over	2,053,100	1,906,600	1,856,500	1,867,600	17.5	16.0	15.4	15.2
12 to 17 years	42,100 ^E	18,700 ^E	25,600 ^E	32,000 ^E	4.6 ^E	2.1 ^E	2.8 ^E	3.5 ^E
18 to 34 years	708,700	609,700	550,900	602,300	22.4	19.1	17.0	18.0
35 to 49 years	476,800	513,700	486,600	485,400	17.5	18.9	17.8	17.6
50 to 64 years	632,200	584,700	580,400	536,300	22.0	20.1	19.7	18.1
65 years and over	193,300	179,800	213,000	211,700	9.2	8.3	9.4	9.1

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Geography	Newfoundland and Labrador					
Sex	Both sexes					
Indicators	Current smoker, daily or occasional					
Characteristics	Number of persons			Percent		
Age group	2019	2020	2021	2019	2020	2021
	Number			Percent		
Total, 12 years and over	88,600	87,400	61,800	19.5	19.0	13.4
12 to 17 years	F	F	F	F	F	F
18 to 34 years	21,100 ^E	23,600 ^E	15,100 ^E	21.9 ^E	24.7 ^E	16.0 ^E
35 to 49 years	27,500	21,200 ^E	16,400	27.9	22.0 ^E	17.5
50 to 64 years	28,100	30,400 ^E	17,100	23.1	24.5 ^E	13.8
65 years and over	11,600	11,600	12,300	10.8	10.3	10.6

Symbol legend:

^E use with caution

^F too unreliable to be published

Geography	Newfoundland and Labrador							
Sex	Both sexes							
Indicators	Current smoker, daily or occasional							
Characteristics	Number of persons				Percent			
Age group	2015	2016	2017	2018	2015	2016	2017	2018
	Number				Percent			
Total, 12 years and over	111,500	86,500	107,500	83,600	24.4	18.9	23.4	18.2
12 to 17 years	F	F	F	F	F	F	F	F
18 to 34 years	27,900	24,400	24,800	20,100 ^E	27.5	24.2	24.6	20.3 ^E
35 to 49 years	38,900	23,700	33,300	32,100	36.6	22.7	32.4	31.9
50 to 64 years	30,900	27,000	38,700	21,100	24.6	21.6	30.9	17.0
65 years and over	11,200 ^E	10,900	9,800 ^E	9,500 ^E	12.1 ^E	11.3	9.7 ^E	9.2 ^E

Source: Statistics Canada, Canadian Community Health Survey (CCHS). [Table 13-10-0096-10 Smokers, by age group](https://doi.org/10.25318/1310009601-eng)

DOI: <https://doi.org/10.25318/1310009601-eng>

Appendix 5

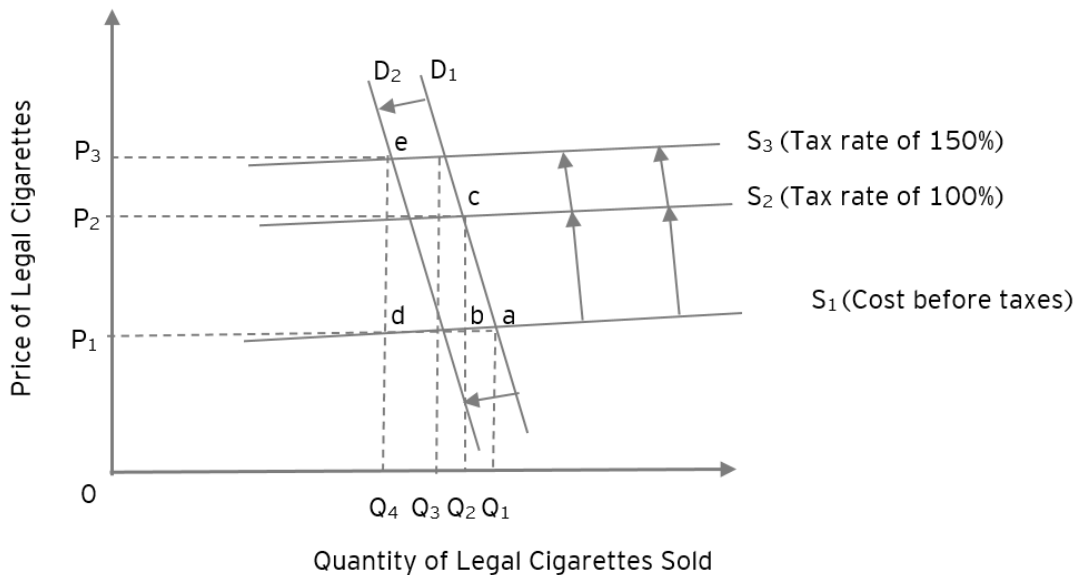
A Conceptual Analysis of the Impact of Tobacco Taxes on Contraband Sales

In economic terms, legal and contraband cigarettes are “close substitutes”. This means that the “cross-price elasticity of demand” between legal and contraband cigarettes is strongly positive, so as the price of legal cigarettes goes up and demand for them goes down, the demand for contraband goes up.

A simple conceptual overview of the economics of the contraband tobacco market will explain why this is so and a graphical representation will show what is happening in the marketplace. Given minimal differences in perceived product characteristics and quality, legal FMCs and contraband FMCs may be seen as close substitutes. Through a broad range of prices, the demand for FMCs has been observed in empirical studies to be relatively “inelastic” (meaning quantity demanded falls only marginally in response to a given tax-inclusive price increase). However, as many health professionals point out and also recommend in representations to government for higher tobacco taxes, at progressively higher price levels demand will become less inelastic as FMCs become less and less affordable (meaning that there is a higher percentage reduction in demand in response to a given percentage price increase). This phenomenon is shown graphically in Figure 7.

Figure 7

The Market for Tax-Paid Legal Cigarettes



If FMCs were untaxed, a total of Q_1 cigarettes would be sold at price P_1 as shown at the point of intersection of the consumers’ aggregate demand curve D_1 and the producers’ aggregate supply curve S_1 . Private producers/sellers would earn revenues equal to the rectangular area P_1aQ_10 . If the government applies an excise tax on the production and sale of cigarettes at 100 percent of the pre-tax price, the supply curve S_1 would shift upward by the amount of the tax to S_2 , the price would double to P_2 and the quantity sold would drop to Q_2 – i.e., there is a relatively small drop in consumption in relation to the significant price increase. This is because even at this now elevated price, the demand for cigarettes is still quite inelastic. Private sellers’ revenue would fall marginally by abQ_2Q_1 to P_1bQ_20 and the government would collect quite significant tax revenues of P_2cbP_1 . The total expenditure by smokers is now shared equally by the government and industry.

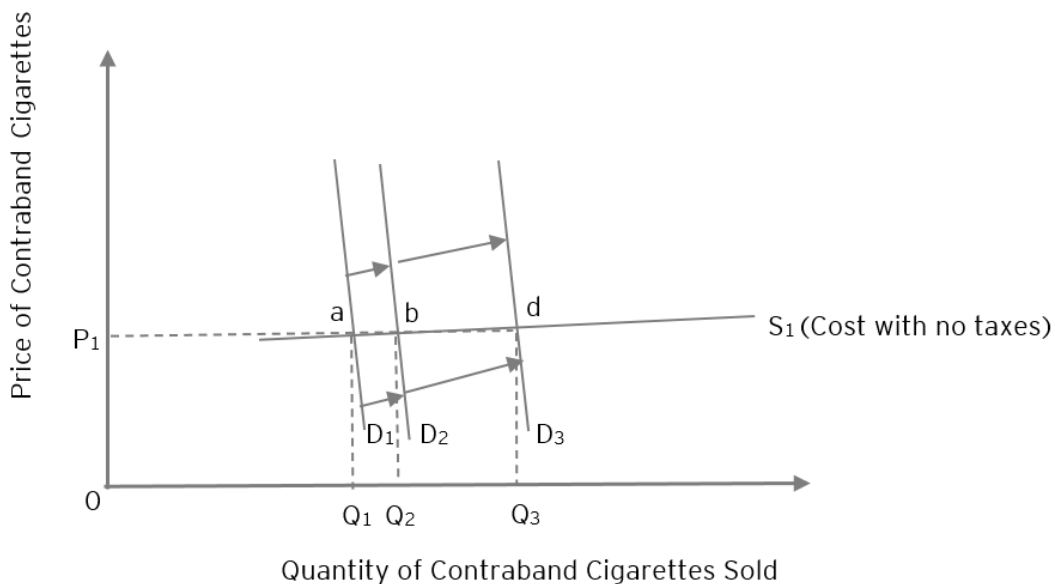
If the government raises the tax rate again, this time to 150 percent of the pre-tax price, the supply curve will again shift upward by the amount of the tax, this time from S_2 to S_3 . The price of cigarettes increases to P_3 . Demand at that price is less inelastic, meaning that more smokers are finding the price of cigarettes is becoming unaffordable, so they reduce their consumption from Q_2 to Q_3 .³¹

The drop in legal consumption at this price level is due in part to smokers who decide to quit, so a decline in smoking prevalence is achieved as both the health lobby and the government anticipate. However, there can be no doubt based on observed increases in contraband sales that a good number of them simply decide to switch from consuming tax-paid legal products to tax-free contraband products. Because contraband cigarettes are close substitutes for legal cigarettes, at this new price level many of these smokers will now start buying contraband cigarettes in place of their legal cigarette purchases. This is represented by an inward shift in the demand curve, from D_1 to D_2 .

Revenue to private producers and sellers now falls once again as a result of these two effects. This time the revenue decline is much more considerable as measured by the area bdQ_3Q_2 . Total revenue to private producers and sellers is now P_1dQ_3O . The government's tax revenue take now increases to just over 70 percent of smokers' total expenditures, represented by the area P_3edP_1 .

The contraband market meanwhile is represented in Figure 8.

Figure 8
The Market for Tax-Free Contraband Cigarettes



Producers and sellers of contraband have an industry aggregate supply curve S_1 that is not subject to taxation. Therefore, their costs of production do not change with tax increases and their aggregate supply curve does not shift up in response to tobacco tax increases. They may decide to increase the prices they charge to consumers slightly to take advantage of the higher “price gap” with legal cigarettes caused by the tax increase, and thereby pad their profit margins, but whether this will happen depends on the degree of competition or collusion in the oligopolistic contraband market.

At the relatively low prices they charge, demand is very inelastic. The demand curve will shift outward modestly from D_1 to D_2 in response to modest government tax increases resulting in additional contraband revenue equal to the area

³¹ The price elasticity of demand varies between different pairs of points along a linear demand curve. The higher the price and the lower the quantity demanded, the higher the absolute value of the price elasticity of demand.

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

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abQ_2Q_1 . With additional tax increases applied to higher and higher legal prices, the demand curve shifts outward considerably more, from D_2 to D_3 , as more smokers abandon the now too expensive tax-paid legal market and switch over to the close substitute contraband products. Contraband revenues jump this time by the area bdQ_3Q_2 .

This simple conceptual analysis is consistent with, and explains very well, what is observed to be happening in the real-world marketplace.

Appendix 6

Provincial Forecast versus Actual Tobacco Tax Revenue (All tobacco products including cigarettes)

British Columbia

2022/23 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.8 2022/23 Revenue by Source

(\$ millions)	Year-to-Date to December 31				Full Year			
	2022/23			Actual 2021/22	2022/23			Actual 2021/22
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxation								
Personal income	9,544	12,750	3,206	10,671	12,848	17,712	4,864	13,704
Corporate income	3,595	6,372	2,777	3,482	5,501	10,519	5,018	5,053
Employer health	1,695	2,045	350	1,575	2,257	2,675	418	2,443
Sales	7,052	7,586	534	6,621	9,009	9,693	684	8,731
Fuel	781	798	17	798	1,051	1,061	10	1,022
Carbon	1,634	1,542	(92)	1,441	2,311	2,211	(100)	2,011
Tobacco	609	444	(165)	588	760	565	(195)	708
Property	2,350	2,336	(14)	2,245	3,173	3,253	80	3,012
Property transfer	1,994	1,950	(44)	2,573	2,500	2,250	(250)	3,327
Insurance premium	497	592	95	482	660	775	115	706
	29,751	36,415	6,664	30,476	40,070	50,714	10,644	40,717
Natural resource								
Natural gas royalties	673	1,662	989	484	911	2,206	1,295	920
Forests	833	1,445	612	1,474	1,121	1,855	734	1,893
Other natural resource revenues ¹	1,007	1,519	512	1,169	1,355	2,003	648	1,658
	2,513	4,626	2,113	3,127	3,387	6,064	2,677	4,471
Other revenue								
Post-secondary education fees	1,849	1,834	(15)	1,750	2,679	2,641	(38)	2,536
Fees and licenses ²	1,562	1,590	28	1,480	2,207	2,358	151	2,048
Investment earnings	941	1,041	100	920	1,298	1,290	(8)	1,306
Miscellaneous ³	2,551	3,185	634	2,628	3,807	3,835	28	3,910
	6,903	7,650	747	6,778	9,991	10,124	133	9,800
Contributions from the federal government								
Health and social transfers	6,272	6,525	253	6,529	8,363	8,613	250	8,541
COVID-19 related funding	19	148	129	213	40	176	136	301
Other federal government contributions ⁴	1,818	1,565	(253)	1,631	2,937	3,696	759	3,138
	8,109	8,238	129	8,373	11,340	12,485	1,145	11,980
Commercial Crown corporation net income								
BC Hydro	350	342	(8)	306	712	712	-	668
Liquor Distribution Branch	939	960	21	960	1,166	1,179	13	1,189
BC Lottery Corporation ⁵	1,043	1,207	164	900	1,415	1,574	159	1,211
ICBC	334	186	(148)	1,692	327	(298)	(625)	2,216
Other ⁶	114	142	28	104	144	146	2	140
	2,780	2,837	57	3,962	3,764	3,313	(451)	5,424
Total revenue	50,056	59,766	9,710	52,716	68,552	82,700	14,148	72,392

¹ Columbia River Treaty, other energy and minerals, water rental and other resources.

² Healthcare-related, motor vehicle, and other fees.

³ Includes reimbursements for health care and other services provided to external agencies, and other recoveries.

⁴ Includes contributions for health, education, community development, housing and social service programs, and transportation projects.

⁵ Net of payments to the federal government and payments to the BC First Nations Gaming Revenue Sharing Limited Partnership in accordance with section 14.3 of the *Gaming Control Act (B.C.)*.

⁶ Includes Columbia Power Corporation, BC Railway Company, Columbia Basin power projects, and post-secondary institutions' self-supported subsidiaries.

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues

2021/22 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.7 2021/22 Revenue by Source

(\$ millions)	Year-to-Date to December 31				Full Year			
	2021/22			Actual 2020/21	2021/22			Actual 2020/21
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxation								
Personal income	8,308	10,671	2,363	8,142	11,170	13,680	2,510	11,118
Corporate income	2,789	3,482	693	3,408	3,409	5,064	1,655	4,805
Employer health	1,451	1,575	124	1,369	1,923	2,130	207	2,156
Sales ¹	6,325	6,621	296	5,743	7,872	8,441	569	7,694
Fuel	757	798	41	693	983	1,039	56	936
Carbon	1,400	1,441	41	1,156	1,985	2,048	63	1,683
Tobacco	622	588	(34)	577	780	740	(40)	711
Property	2,208	2,245	37	1,709	2,970	3,020	50	2,313
Property transfer	1,599	2,573	974	1,493	1,975	3,250	1,275	2,098
Insurance premium	536	482	(54)	495	715	640	(75)	652
	25,995	30,476	4,481	24,785	33,782	40,052	6,270	34,166
Natural resource								
Natural gas royalties	210	484	274	93	286	749	463	196
Forests	894	1,474	580	705	1,204	1,847	643	1,304
Other natural resource revenues ²	785	1,169	384	655	1,042	1,527	485	903
	1,889	3,127	1,238	1,453	2,532	4,123	1,591	2,403
Other revenue								
Post-secondary education fees	1,664	1,750	86	1,604	2,508	2,539	31	2,418
Fees and licenses ³	1,502	1,480	(22)	1,373	2,129	2,185	56	1,911
Investment earnings	858	920	62	930	1,174	1,369	195	1,264
Miscellaneous ⁴	2,415	2,628	213	2,353	3,409	3,457	48	3,136
	6,439	6,778	339	6,260	9,220	9,550	330	8,729
Contributions from the federal government								
Health and social transfers	5,954	6,529	575	5,799	7,939	8,534	595	7,743
COVID-19 related funding	155	213	58	1,783	175	322	147	2,603
Other federal government contributions ⁵	1,555	1,631	76	1,148	2,416	2,626	210	2,548
	7,664	8,373	709	8,730	10,530	11,482	952	12,894
Commercial Crown corporation net income								
BC Hydro	304	306	2	309	712	681	(31)	688
Liquor Distribution Branch	897	960	63	929	1,099	1,153	54	1,161
BC Lottery Corporation ⁶	516	900	384	301	771	1,129	358	420
ICBC ⁷	165	1,692	1,527	1,265	154	1,904	1,750	1,528
Other ⁸	48	104	56	127	129	146	17	167
	1,930	3,962	2,032	2,931	2,865	5,013	2,148	3,964
Total revenue	43,917	52,716	8,799	44,159	58,929	70,220	11,291	62,156

¹ Includes provincial sales tax and HST/PST housing transition tax related to prior years.
² Columbia River Treaty, other energy and minerals, water rental and other resources.
³ Healthcare-related, motor vehicle, and other fees.
⁴ Includes reimbursements for health care and other services provided to external agencies, and other recoveries.
⁵ Includes contributions for health, education, community development, housing and social service programs, and transportation projects.
⁶ Net of payments to the federal government and 2021/22 is also net of payments under the gaming revenue sharing agreement with First Nations.
⁷ Does not include non-controlling interest.
⁸ Includes Columbia Power Corporation, BC Railway Company, Columbia Basin power projects, and post-secondary institutions' self-supported subsidiaries.

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues

2020/21 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.6 2020/21 Revenue by Source

(\$ millions)	Year-to-Date to December 31				Full Year			
	2020/21		Variance	Actual 2019/20	2020/21		Variance	Actual 2019/20
Budget	Actual	Budget			Forecast			
Taxation								
Personal income	8,731	8,142	(589)	8,091	11,771	11,118	(653)	10,657
Corporate income	3,119	3,408	289	3,043	4,739	4,807	68	5,011
Employer health	1,452	1,369	(83)	1,394	1,924	1,840	(84)	1,897
Sales ¹	6,240	5,743	(497)	5,866	7,905	7,446	(459)	7,374
Fuel	802	693	(109)	783	1,024	933	(91)	1,008
Carbon	1,396	1,156	(240)	1,201	1,954	1,640	(314)	1,682
Tobacco	607	577	(30)	590	755	720	(35)	729
Property	2,249	1,709	(540)	2,033	3,026	2,324	(702)	2,608
Property transfer	1,245	1,493	248	1,235	1,586	2,000	414	1,609
Insurance premium	495	495	-	489	660	705	45	691
	26,336	24,785	(1,551)	24,705	35,344	33,533	(1,811)	33,266
Natural resources								
Natural gas royalties	152	93	(59)	80	207	191	(16)	118
Forests	608	705	97	707	867	1,121	254	988
Other natural resources ²	804	655	(149)	922	1,075	903	(172)	1,162
	1,564	1,453	(111)	1,709	2,149	2,215	66	2,268
Other revenue								
Medical Services Plan premiums	-	-	-	1,065	-	(4)	(4)	1,063
Post-secondary education fees	1,747	1,604	(143)	1,661	2,578	2,485	(93)	2,451
Other fees and licenses ³	1,545	1,373	(172)	1,532	2,089	1,961	(128)	2,058
Investment earnings	935	929	(6)	897	1,247	1,205	(42)	1,263
Miscellaneous ⁴	2,763	2,354	(409)	2,625	3,798	3,151	(647)	3,838
	6,990	6,260	(730)	7,780	9,712	8,798	(914)	10,673
Contributions from the federal government								
Health and social transfers	5,762	5,799	37	5,570	7,683	8,285	602	7,494
COVID-19 related funding	-	1,783	1,783	-	-	2,616	2,616	-
Other federal government contributions ⁵	1,447	1,553	106	1,257	2,280	2,459	179	2,041
	7,209	9,135	1,926	6,827	9,963	13,360	3,397	9,535
Commercial Crown corporation net income								
BC Hydro	301	309	8	293	712	691	(21)	705
Liquor Distribution Branch	905	929	24	879	1,134	1,151	17	1,107
BC Lottery Corporation ⁶	1,010	301	(709)	1,062	1,363	383	(980)	1,336
ICBC ⁷	125	1,265	1,140	20	86	709	623	(376)
Other ⁸	92	127	35	126	122	127	5	146
	2,433	2,931	498	2,382	3,417	3,061	(356)	2,918
Total revenue	44,532	44,564	32	43,403	60,585	60,967	382	58,660

¹ Includes provincial sales tax and social services tax/hotel room tax related to prior years.

² Columbia River Treaty, other energy and minerals, water rental and other resources.

³ Healthcare-related, motor vehicle, and other fees.

⁴ Includes reimbursements for health care and other services provided to external agencies, and other recoveries.

⁵ Includes contributions for health, education, community development, housing and social service programs, and transportation projects.

⁶ Net of payments to the federal government.

⁷ Year-to-date results do not include the COVID-19 rebate (estimated \$600 million), which is included in the full-year forecast.

⁸ Includes Columbia Power Corporation, BC Railway Company, Columbia Basin power projects, and post-secondary institutions' self-supported subsidiaries.

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues

2019/20 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.6 2019/20 Revenue by Source

(\$ millions)	Year-to-Date to December 31				Full Year			
	2019/20		Variance	Actual 2018/19	2019/20		Variance	Actual 2018/19
Budget	Actual	Budget			Forecast			
Taxation								
Personal income	8,192	8,091	(101)	8,539	11,055	11,022	(33)	11,364
Corporate income	2,725	3,043	318	2,905	4,192	5,008	816	5,180
Employer health	1,394	1,394	-	-	1,854	1,854	-	464
Sales ¹	5,870	5,866	(4)	5,681	7,586	7,569	(17)	7,369
Fuel	805	783	(22)	785	1,021	1,015	(6)	1,015
Carbon	1,213	1,201	(12)	1,038	1,713	1,690	(23)	1,465
Tobacco	626	590	(36)	609	780	736	(44)	781
Property	2,054	2,033	(21)	1,837	2,996	2,917	(79)	2,617
Property transfer	1,508	1,235	(273)	1,539	1,910	1,545	(365)	1,826
Insurance premium	469	469	-	458	625	645	20	633
Total taxation	24,856	24,705	(151)	23,391	33,732	34,001	269	32,714
Natural resources								
Natural gas royalties	205	80	(125)	102	275	153	(122)	199
Forests	800	707	(93)	1,023	1,155	991	(164)	1,406
Other natural resources ²	897	922	25	1,060	1,193	1,182	(11)	1,503
Total natural resources	1,902	1,709	(193)	2,185	2,623	2,326	(297)	3,108
Other revenue								
Medical Services Plan premiums	1,014	1,065	51	1,017	1,015	1,065	50	1,360
Other fees and licences ³	3,123	3,193	70	3,070	4,372	4,495	123	4,233
Investment earnings	918	897	(21)	918	1,196	1,242	46	1,243
Miscellaneous ⁴	2,447	2,625	178	2,464	3,375	3,582	207	3,413
Total other revenue	7,502	7,780	278	7,469	9,958	10,384	426	10,249
Contributions from the federal government								
Health and social transfers	5,553	5,570	17	5,329	7,404	7,427	23	7,090
Other federal government contributions ⁵	1,365	1,257	(108)	1,208	2,019	1,991	(28)	1,962
Total contributions from the federal government	6,918	6,827	(91)	6,537	9,423	9,418	(5)	9,052
Commercial Crown corporation net income								
BC Hydro	300	293	(7)	(700)	712	707	(5)	(428)
Adjustment for regulatory accounts ⁶	-	-	-	950	-	-	-	950
Liquor Distribution Branch	891	879	(12)	881	1,120	1,092	(28)	1,104
BC Lottery Corporation (net of payments to the federal government)	1,057	1,062	5	1,093	1,396	1,366	(30)	1,405
ICBC	18	20	2	(860)	(50)	(91)	(41)	(1,153)
Other ⁷	104	126	24	99	133	123	(10)	127
Total commercial Crown corporation net income	2,370	2,382	12	1,463	3,311	3,197	(114)	2,005
Total revenue	43,548	43,403	(145)	41,045	59,047	59,326	279	57,128

¹ Includes provincial sales tax and social services tax/hotel room tax related to prior years.

² Columbia River Treaty, other energy and minerals, water rental and other resources.

³ Post-secondary, healthcare-related, motor vehicle, and other fees.

⁴ Includes reimbursements for health care and other services provided to external agencies, and other recoveries.

⁵ Includes contributions for health, education, community development, housing and social service programs, and transportation projects.

⁶ BC Hydro's net loss for 2018/19 includes a write-off of a regulatory account. At the summary level, the Province recognized \$950 million adjustment in fiscal 2017/18 with respect to BC Hydro's deferred regulatory accounts.

⁷ Includes Columbia Power Corporation, BC Railway Company, Columbia Basin power projects, and post-secondary institutions' self-supported subsidiaries.

2020 Budget:

https://www.bcbudget.gov.bc.ca/2020/pdf/2020_budget_and_fiscal_plan.pdf

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues

2018/19 UPDATED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

Table 4.7 2018/19 Revenue by Source

(\$ millions)	Year-to-Date to December 31				Full Year			
	2018/19		Variance	Actual 2017/18	2018/19		Variance	Actual 2017/18
Budget	Actual	Budget			Forecast			
Taxation								
Personal income	7,305	8,539	1,234	6,382	9,836	11,348	1,512	8,923
Corporate income	2,465	2,905	440	2,276	4,096	5,132	1,036	4,165
Employer health	-	-	-	-	463	464	1	-
Sales ¹	5,756	5,681	(75)	5,519	7,428	7,318	(110)	7,131
Fuel	789	785	(4)	785	1,003	1,014	11	1,010
Carbon	1,064	1,038	(26)	891	1,488	1,460	(28)	1,255
Tobacco	657	609	(48)	567	822	780	(42)	727
Property	1,848	1,837	(11)	1,757	2,626	2,601	(25)	2,367
Property transfer	1,759	1,539	(220)	1,714	2,235	1,910	(325)	2,141
Insurance premium	446	458	12	433	595	610	15	602
	22,089	23,391	1,302	20,324	30,592	32,637	2,045	28,321
Natural resources								
Natural gas royalties	172	102	(70)	103	229	164	(65)	161
Forests	704	1,023	319	682	992	1,389	397	1,065
Other natural resources ²	891	1,060	169	1,150	1,192	1,417	225	1,469
	1,767	2,185	418	1,935	2,413	2,970	557	2,695
Other revenue								
Medical Services Plan premiums	1,021	1,017	(4)	1,940	1,361	1,355	(6)	2,266
Other fees and licenses ³	2,895	3,070	175	2,843	4,002	4,210	208	3,983
Investment earnings	876	918	42	911	1,179	1,173	(6)	1,101
Miscellaneous ⁴	2,198	2,464	266	2,490	3,152	3,258	106	3,543
	6,990	7,469	479	8,184	9,694	9,996	302	10,893
Contributions from the federal government								
Health and social transfers	5,191	5,329	138	5,017	6,921	7,106	185	6,848
Other federal government contributions ⁵	1,328	1,208	(120)	1,258	2,009	1,956	(53)	2,207
	6,519	6,537	18	6,275	8,930	9,062	132	9,055
Commercial Crown corporation net income								
BC Hydro ⁶	318	(700)	(1,018)	362	712	(424)	(1,136)	683
Adjustment for regulatory accounts ⁶	-	950	950	-	-	950	950	(950)
Liquor Distribution Branch	884	881	(3)	899	1,106	1,101	(5)	1,119
BC Lotteries (net of payments to the federal government)	974	1,094	120	1,056	1,300	1,396	96	1,391
ICBC	(590)	(860)	(270)	(935)	(684)	(1,180)	(496)	(1,327)
Transportation Investment Corporation	-	-	-	(29)	-	-	-	(29)
Other ⁷	97	98	1	97	130	128	(2)	169
	1,683	1,463	(220)	1,450	2,564	1,971	(593)	1,056
Total revenue	39,048	41,045	1,997	38,168	54,193	56,636	2,443	52,020

¹ Includes provincial sales tax and social services tax/hotel room tax related to prior years.

² Columbia River Treaty, other energy and minerals, water rental and other resources.

³ Post-secondary, healthcare-related, motor vehicle, and other fees.

⁴ Includes reimbursements for health care and other services provided to external agencies, and other recoveries.

⁵ Includes contributions for health, education, community development, housing and social service programs, and transportation projects.

⁶ BC Hydro's forecast loss for 2018/19 includes a write-off of a regulatory account. At the summary level, the Province recognized a \$950 million adjustment in fiscal 2017/18 with respect to BC Hydro's deferred regulatory accounts.

⁷ Includes Columbia Power Corporation, BC Railway Company, Columbia Basin Trust power projects, and post-secondary institutions' self-supported subsidiaries.

2019 Budget:

https://www.bcbudget.gov.bc.ca/2019/pdf/2019_budget_and_fiscal_plan.pdf

Ontario

Chapter 3: Ontario's Fiscal Plan and Outlook

Details of Ontario's Finances

Table 3.10

Total Revenue

(\$ Millions)

	Actual 2020–21	Actual 2021–22	Interim ¹ 2022–23	Plan 2023–24
Taxation Revenue				
Personal Income Tax	40,333	46,750	52,841	55,982
Sales Taxes	26,576	30,357	35,860	35,350
Corporations Tax	17,775	25,227	27,928	24,668
Education Property Tax	6,040	5,713	5,804	5,725
Employer Health Tax	6,537	7,223	7,828	8,215
Ontario Health Premium	4,330	4,414	4,663	4,896
Gasoline Tax	1,898	2,202	2,030	2,222
Land Transfer Tax	3,698	5,827	4,150	3,529
Tobacco Tax	1,099	927	874	840
Fuel Tax	686	771	586	635
Beer, Wine and Spirits Taxes	624	624	626	617
Electricity Payments in Lieu of Taxes	563	666	547	538
Ontario Portion of the Federal Cannabis Excise Duty	106	215	253	269
Other Taxes	619	759	665	735
	110,884	131,675	144,657	144,222
Government of Canada				
Canada Health Transfer	16,206	16,731	17,524	19,218
Canada Social Transfer	5,815	6,003	6,178	6,384
Equalization	–	–	–	421
Infrastructure Programs	769	562	863	1,206
Labour Market Programs	1,323	1,476	1,180	931
Social Housing Agreement	338	305	263	218
Other Federal Payments	9,014	5,091	4,728	5,996
Direct Transfers to Broader Public Sector Organizations	459	439	522	470
	33,924	30,607	31,259	34,844
Income from Government Business Enterprises				
Liquor Control Board of Ontario	2,539	2,543	2,441	2,452
Ontario Power Generation Inc./Hydro One Ltd.	2,044	2,151	1,460	1,126
Ontario Lottery and Gaming Corporation	359	1,561	2,384	2,574
Ontario Cannabis Store	67	186	225	194
	5,009	6,441	6,510	6,345

continued...

¹ Interim (represents the 2023 Budget projection for the 2022–23 fiscal year).

2023 Budget:

<https://budget.ontario.ca/2023/pdf/2023-ontario-budget-en.pdf>

Chapter 3: Ontario's Fiscal Plan and Outlook

Details of Ontario's Finances

Table 3.11
Revenue

(\$ Millions)

	Actual 2019–20	Actual 2020–21	Interim ¹ 2021–22	Plan 2022–23
Taxation Revenue				
Personal Income Tax	37,743	40,333	42,330	44,584
Sales Taxes	28,619	26,576	30,358	32,287
Corporations Tax	15,414	17,775	22,173	19,736
Education Property Tax	6,179	6,040	5,679	5,652
Employer Health Tax	6,731	6,537	7,177	7,842
Ontario Health Premium	4,059	4,330	4,509	4,722
Gasoline Tax	2,783	1,898	2,305	2,088
Land Transfer Tax	3,067	3,698	5,685	5,686
Tobacco Tax	1,118	1,099	991	953
Fuel Tax	807	686	781	703
Beer, Wine and Spirits Taxes	582	624	634	635
Electricity Payments in Lieu of Taxes	505	563	583	511
Ontario Portion of the Federal Cannabis Excise Duty	48	106	185	215
Other Taxes	623	619	763	800
	108,278	110,884	124,153	126,414
Government of Canada				
Canada Health Transfer	15,640	16,206	16,729	17,560
Canada Social Transfer	5,650	5,815	6,002	6,191
Equalization	–	–	–	–
Infrastructure Programs	400	626	706	1,239
Labour Market Programs	1,054	1,323	1,523	1,128
Social Housing Agreement	484	338	299	263
Other Federal Payments	1,756	9,157	4,000	4,139
Direct Transfers to Broader Public Sector Organizations	414	459	487	479
	25,398	33,924	29,747	30,999
Income from Government Business Enterprises				
Liquor Control Board of Ontario	2,402	2,539	2,551	2,583
Ontario Power Generation Inc./Hydro One Ltd.	1,167	2,044	1,452	1,186
Ontario Lottery and Gaming Corporation	2,309	359	1,436	2,330
Ontario Cannabis Store	19	67	174	180
	5,897	5,009	5,613	6,279

continued...

Chapter 3: Ontario's Fiscal Plan and Outlook

Details of Ontario's Finances

Table 3.11
Revenue

(\$ Millions)

	Actual 2018–19	Actual 2019–20	Interim ¹ 2020–21	Plan 2021–22
Taxation Revenue				
Personal Income Tax	35,381	37,743	35,876	36,351
Sales Taxes	27,804	28,619	26,042	27,632
Corporations Tax	16,606	15,414	11,435	14,389
Education Property Tax	6,171	6,179	6,000	5,754
Employer Health Tax	6,544	6,731	6,480	6,445
Ontario Health Premium	3,819	4,059	3,958	4,141
Gasoline Tax	2,709	2,783	2,120	2,421
Land Transfer Tax	2,761	3,067	3,481	3,890
Tobacco Tax	1,241	1,118	1,103	1,060
Fuel Tax	774	807	711	814
Beer, Wine and Spirits Taxes	607	582	615	618
Electricity Payments in Lieu of Taxes	435	505	557	454
Ontario Portion of the Federal Cannabis Excise Duty	19	48	140	245
Other Taxes	653	623	581	605
	105,524	108,278	99,099	104,819
Government of Canada				
Canada Health Transfer	14,852	15,640	16,208	16,737
Canada Social Transfer	5,451	5,650	5,815	6,005
Equalization	963	–	–	–
Infrastructure Programs	605	400	1,025	1,086
Labour Market Programs	1,015	1,054	1,521	1,316
Social Housing Agreement	394	484	331	299
Other Federal Payments	1,420	1,756	8,450	1,577
Direct Transfers to Broader Public-Sector Organizations	390	414	395	424
	25,090	25,398	33,745	27,444
Income from Government Business Enterprises				
Liquor Control Board of Ontario	2,276	2,402	2,452	2,435
Ontario Power Generation Inc./Hydro One Ltd.	772	1,167	1,034	670
Ontario Lottery and Gaming Corporation	2,464	2,309	300	1,266
Ontario Cannabis Store	(42)	19	70	170
	5,470	5,897	3,856	4,541

continued...

Chapter 3: Ontario's Fiscal Plan and Outlook

Details of Ontario's Finances

Table 3.12
Revenue

(\$ Millions)

	Actual 2017-18	Actual 2018-19	Actual 2019-20	Current Outlook ¹ 2020-21
Taxation Revenue				
Personal Income Tax	32,900	35,381	37,743	36,901
Sales Taxes	25,923	27,804	28,619	24,879
Corporations Tax	15,612	16,606	15,414	9,941
Education Property Tax	5,883	6,171	6,179	6,060
Employer Health Tax	6,205	6,544	6,731	6,346
Ontario Health Premium	3,672	3,819	4,059	4,007
Gasoline Tax	2,701	2,709	2,783	2,379
Land Transfer Tax	3,174	2,761	3,067	3,384
Tobacco Tax	1,244	1,241	1,118	1,108
Fuel Tax	760	774	807	672
Beer, Wine and Spirits Taxes	603	607	582	593
Electricity Payments in Lieu of Taxes	494	435	505	486
Ontario Portion of the Federal Cannabis Excise Duty	–	19	48	145
Other Taxes	552	653	623	561
	99,723	105,524	108,278	97,462
Government of Canada				
Canada Health Transfer	14,359	14,852	15,640	16,252
Canada Social Transfer	5,314	5,451	5,650	5,832
Equalization	1,424	963	–	–
Infrastructure Programs	1,065	605	400	1,013
Labour Market Programs	969	1,015	1,054	1,091
Social Housing Agreement	419	394	484	331
Other Federal Payments	996	1,420	1,756	8,434
Direct Transfers to Broader Public-Sector Organizations	314	390	414	407
	24,860	25,090	25,398	33,360
Income from Government Business Enterprises				
Liquor Control Board of Ontario	2,207	2,276	2,402	2,377
Ontario Power Generation Inc./Hydro One Ltd.	1,464	772	1,167	893
Ontario Lottery and Gaming Corporation	2,487	2,464	2,309	200
Ontario Cannabis Store	(6)	(42)	19	80
	6,152	5,470	5,897	3,550

continued...

Chapter 3: Ontario's Fiscal Plan and Outlook

DETAILS ON ONTARIO'S FINANCES

Table 3.11
REVENUE

(\$ Millions)

	Actual 2016-17	Actual 2017-18	Interim ¹ 2018-19	Plan 2019-20
Taxation Revenue				
Personal Income Tax	30,671	32,900	34,986	36,600
Sales Tax	24,750	25,925	27,919	28,076
Corporations Tax	14,872	15,612	15,196	15,171
Education Property Tax	5,868	5,883	6,005	6,085
Employer Health Tax	5,908	6,205	6,588	6,837
Ontario Health Premium	3,575	3,672	3,806	4,021
Gasoline Tax	2,626	2,701	2,733	2,766
Land Transfer Tax	2,728	3,174	2,679	2,877
Tobacco Tax	1,230	1,244	1,267	1,213
Fuel Tax	742	760	762	776
Beer, Wine and Spirits Taxes	589	601	612	618
Ontario Portion of the Federal Cannabis Excise Duty	–	–	17	70
Electricity Payments in Lieu of Taxes	334	494	350	488
Other Taxes	453	552	632	540
	94,346	99,723	103,552	106,138
Government of Canada				
Canada Health Transfer	13,910	14,359	14,852	15,646
Canada Social Transfer	5,146	5,314	5,451	5,653
Equalization	2,304	1,424	963	–
Infrastructure Programs	732	1,065	779	1,043
Labour Market Programs	965	969	997	1,036
Social Housing Agreement	441	419	386	359
Other Federal Payments	761	996	1,261	1,386
Direct Transfers to Broader Public-Sector Organizations	285	314	322	330
	24,544	24,860	25,011	25,453
Income from Government Business Enterprises				
Ontario Lottery and Gaming Corporation	2,358	2,487	2,311	2,414
Liquor Control Board of Ontario	2,349	2,207	2,261	2,339
Ontario Cannabis Store	–	(6)	(25)	10
Ontario Power Generation Inc./Hydro One Ltd. ²	860	1,464	318	1,058
	5,567	6,152	4,865	5,821

continued...

Newfoundland and Labrador

STATEMENT II
**NEWFOUNDLAND AND LABRADOR
 CONSOLIDATED REVENUE FUND
 PROVINCIAL AND FEDERAL REVENUES
 2023-24 and 2022-23 Revised**

	2023-24 Estimates	2022-23 Revised
	(\$000)	(\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,692,620	1,855,451
Sales Tax	1,451,076	1,532,066
Gasoline Tax	84,589	100,944
Carbon Tax	35,026	116,820
Payroll Tax	199,577	195,358
Tobacco Tax	81,531	88,388
Vaping Tax	6,137	6,199
Cannabis Tax	10,110	9,192
Sugar Sweetened Beverage Tax	12,250	6,125
Corporate Income Tax	642,729	1,330,945
Offshore Royalties	1,091,023	1,215,780
Mining Tax and Royalties	129,192	181,282
Insurance Companies Tax	114,669	109,815
Corporate Capital Tax	44,403	41,996
Forest Management Tax	1,557	1,557
TOTAL: PROVINCIAL TAX SOURCES	5,596,489	6,791,918
OTHER PROVINCIAL SOURCES:		
Newfoundland and Labrador Liquor Corporation	207,545	208,000
Lottery Revenues	152,029	145,000
Nalcor Dividend	502,074	338,277
Vehicle and Driver Licenses	65,455	68,300
Registry of Deeds, Companies and Securities	35,512	40,637
Fines and Forfeitures	12,624	12,034
Inland Fish and Game Licenses	4,616	4,616
Water Power Rentals	20,583	22,583
Registry of Personal Property	4,800	4,800
Crown Lands	3,776	3,776
Forestry Royalties and Fees	2,144	2,086
Mining Permits and Fees	4,737	6,300
Offshore Revenue Fund	-	36,137
Other	18,745	18,209
TOTAL: OTHER PROVINCIAL SOURCES	1,034,640	910,755
TOTAL: PROVINCIAL SOURCES	6,631,129	7,702,673
GOVERNMENT OF CANADA:		
Equalization	(26,667)	(20,000)
Atlantic Accord	141,250	100,713
Health Transfers	690,755	639,006
Social Transfers	220,529	215,688
Net Profit Interests	435,568	191,585
Statutory Subsidies	9,710	9,710
TOTAL: GOVERNMENT OF CANADA	1,471,145	1,136,702
TOTAL: PROVINCIAL AND FEDERAL REVENUES	8,102,274	8,839,375

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2023 Budget:

<https://www.gov.nl.ca/budget/2023/wp-content/uploads/sites/7/2023/03/Estimates-2023.pdf>

Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador:

Impact on Legal Sales and Provincial Tobacco Tax Revenues

STATEMENT II
NEWFOUNDLAND AND LABRADOR
CONSOLIDATED REVENUE FUND
PROVINCIAL AND FEDERAL REVENUES
2022-23 and 2021-22 Revised

	2022-23 Estimates	2021-22 Revised
	(\$000)	(\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,519,779	1,456,652
Sales Tax	1,426,710	1,304,216
Gasoline Tax	141,648	150,780
Carbon Tax	117,013	86,414
Payroll Tax	177,255	170,755
Tobacco Tax	108,338	110,549
Vaping Tax	4,568	4,614
Cannabis Tax	8,938	7,839
Sugar Sweetened Beverage Tax	5,075	-
Corporate Income Tax	659,472	581,431
Offshore Royalties	899,426	1,105,464
Mining Tax and Royalties	179,833	156,576
Insurance Companies Tax	106,114	103,422
Corporate Capital Tax	42,335	45,447
Forest Management Tax	1,669	1,669
TOTAL: PROVINCIAL TAX SOURCES	5,398,173	5,285,828
OTHER PROVINCIAL SOURCES		
Newfoundland and Labrador Liquor Corporation	214,000	210,000
Lottery Revenues	133,799	123,113
Vehicle and Driver Licenses	65,455	92,400
Registry of Deeds, Companies and Securities	35,912	39,237
Fines and Forfeitures	18,552	17,796
Inland Fish and Game Licenses	4,616	4,616
Water Power Rentals	22,694	7,192
Registry of Personal Property	5,000	5,000
Crown Lands	3,649	3,649
Forestry Royalties and Fees	2,108	2,015
Mining Permits and Fees	4,948	7,464
Offshore Revenue Fund	-	111,655
Other	65,550	16,527
TOTAL: OTHER PROVINCIAL SOURCES	576,283	640,664
TOTAL: PROVINCIAL SOURCES	5,974,456	5,926,492
GOVERNMENT OF CANADA:		
Atlantic Accord	88,191	100,556
Health Transfers	595,459	640,909
Social Transfers	210,220	210,226
Statutory Subsidies	9,710	9,710
TOTAL: GOVERNMENT OF CANADA	903,580	961,401
TOTAL: PROVINCIAL AND FEDERAL REVENUES	6,878,036	6,887,893

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2022 Budget:

<https://www.gov.nl.ca/budget/2022/wp-content/uploads/sites/6/2022/04/Estimates-2022.pdf>

**STATEMENT II
NEWFOUNDLAND AND LABRADOR
CONSOLIDATED REVENUE FUND
PROVINCIAL AND FEDERAL REVENUES
2021-22 and 2020-21 Revised**

	2021-22 Estimates (\$000)	2020-21 Revised (\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,481,356	1,352,226
Sales Tax	1,204,757	1,144,457
Gasoline Tax	167,334	152,666
Carbon Tax	113,585	52,196
Payroll Tax	168,183	156,370
Tobacco Tax	142,255	134,137
Vaping Tax	2,900	502
Cannabis Tax	7,084	4,513
Sugar Sweetened Beverage Tax	-	-
Corporate Income Tax	375,291	323,663
Offshore Royalties	1,087,301	567,179
Mining Tax and Royalties	111,303	97,892
Insurance Companies Tax	98,526	97,337
Corporate Capital Tax	38,629	44,252
Forest Management Tax	1,700	-
TOTAL: PROVINCIAL TAX SOURCES	5,000,204	4,127,390
OTHER PROVINCIAL SOURCES		
Newfoundland and Labrador Liquor Corporation	210,000	195,000
Lottery Revenues	127,000	99,501
Vehicle and Driver Licenses	93,000	92,197
Registry of Deeds, Companies and Securities	31,133	32,928
Fines and Forfeitures	12,537	10,572
Inland Fish and Game Licenses	4,730	2,605
Water Power Rentals	12,064	8,216
Registry of Personal Property	5,000	4,883
Crown Lands	4,197	3,427
Forestry Royalties and Fees	1,884	2,192
Mining Permits and Fees	6,564	4,948
Offshore Revenue Fund	-	92
Other	16,094	14,484
TOTAL: OTHER PROVINCIAL SOURCES	524,203	471,045
TOTAL: PROVINCIAL SOURCES	5,524,407	4,598,435
GOVERNMENT OF CANADA:		
Atlantic Accord	98,686	102,415
Health Transfers	639,245	577,694
Social Transfers	209,630	207,286
Statutory Subsidies	9,710	9,710
TOTAL: GOVERNMENT OF CANADA	957,271	897,105
TOTAL: PROVINCIAL AND FEDERAL REVENUES	6,481,678	5,495,540

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2021 Budget:

<https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf>

**STATEMENT II
NEWFOUNDLAND AND LABRADOR
CONSOLIDATED REVENUE FUND
PROVINCIAL AND FEDERAL REVENUES
2020-21 and 2019-20 Actuals**

	2020-21 Estimates (\$000)	2019-20 Actuals (\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,410,210	1,472,921
Sales Tax	1,119,718	1,181,149
Gasoline Tax	130,190	177,274
Carbon Tax	59,531	54,794
Payroll Tax	151,790	174,985
Tobacco Tax	106,348	124,508
Vaping Tax	313	-
Cannabis Tax	4,169	3,146
Corporate Income Tax	323,900	189,837
Offshore Royalties	540,793	1,008,996
Mining Tax and Royalties	112,604	63,060
Insurance Companies Tax	98,949	98,848
Corporate Capital Tax	35,336	26,083
Forest Management Tax	-	-
TOTAL: PROVINCIAL TAX SOURCES	4,093,851	4,575,601
OTHER PROVINCIAL SOURCES		
Newfoundland and Labrador Liquor Corporation	187,000	168,500
Lottery Revenues	83,550	119,840
Vehicle and Driver Licenses	91,000	91,993
Registry of Deeds, Companies and Securities	28,465	70,892
Fines and Forfeitures	12,399	11,998
Inland Fish and Game Licenses	4,730	4,561
Water Power Rentals	7,756	8,315
Registry of Personal Property	4,500	4,940
Crown Lands	3,639	3,689
Forestry Royalties and Fees	1,978	1,871
Mining Permits and Fees	6,314	6,226
Offshore Revenue Fund	-	6
Other	15,634	11,591
TOTAL: OTHER PROVINCIAL SOURCES	446,965	504,422
TOTAL: PROVINCIAL SOURCES	4,540,816	5,080,023
GOVERNMENT OF CANADA:		
Atlantic Accord	103,448	124,629
Health Transfers	572,281	568,357
Social Transfers	205,340	202,823
Statutory Subsidies	9,710	9,710
TOTAL: GOVERNMENT OF CANADA	890,779	905,519
TOTAL: PROVINCIAL AND FEDERAL REVENUES	5,431,595	5,985,542

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2020 Budget:

<https://www.gov.nl.ca/budget/2020/wp-content/uploads/sites/3/2020/09/Estimates-2020.pdf>

STATEMENT II
NEWFOUNDLAND AND LABRADOR
CONSOLIDATED REVENUE FUND
PROVINCIAL AND FEDERAL REVENUES
2019-20 and 2018-19 Revised

	2019-20 Estimates (\$000)	2018-19 Revised (\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,456,802	1,418,997
Sales Tax	1,157,127	1,197,545
Gasoline Tax	185,527	218,480
Carbon Tax	66,533	8,024
Payroll Tax	175,175	169,687
Tobacco Tax	138,805	140,207
Cannabis Tax	5,486	37
Corporate Income Tax	270,341	249,694
Offshore Royalties	1,099,949	1,061,474
Mining Tax and Royalties	74,166	67,984
Insurance Companies Tax	96,006	94,260
Corporate Capital Tax	44,290	42,111
Forest Management Tax	1	1
TOTAL: PROVINCIAL TAX SOURCES	4,770,208	4,668,501
OTHER PROVINCIAL SOURCES		
Newfoundland and Labrador Liquor Corporation	189,500	183,600
Lottery Revenues	136,566	134,400
Vehicle and Driver Licenses	92,298	92,400
Registry of Deeds, Companies and Securities	31,465	30,867
Fines and Forfeitures	12,329	13,714
Inland Fish and Game Licenses	4,730	4,036
Water Power Rentals	8,051	7,951
Registry of Personal Property	5,000	4,825
Crown Lands	3,933	3,761
Forestry Royalties and Fees	2,274	2,168
Mining Permits and Fees	6,935	7,032
Offshore Revenue Fund	-	1,565
Other	55,168	195,029
TOTAL: OTHER PROVINCIAL SOURCES	548,249	681,348
TOTAL: PROVINCIAL SOURCES	5,318,457	5,349,849
GOVERNMENT OF CANADA:		
Atlantic Accord	134,860	-
Health Transfers	565,081	550,768
Social Transfers	204,150	202,148
Statutory Subsidies	9,710	9,710
TOTAL: GOVERNMENT OF CANADA	913,801	762,626
TOTAL: PROVINCIAL AND FEDERAL REVENUES	6,232,258	6,112,475

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2019 Budget:

<https://www.gov.nl.ca/budget/2019/wp-content/uploads/sites/2/2019/04/estimates.pdf>

Appendix 7

Ontario 2015 Fall Economic Statement

First Nation Partnerships

Ontario continues to support two First Nation tobacco pilot projects with the Mohawk Council of Akwesasne and the Chippewas of the Thames First Nation. Discussions with these two communities remain focused on exploring self-regulation of tobacco on-reserve, with the goal of reaching mutually beneficial agreements for self-regulation of tobacco on-reserve and revenue sharing. In addition, the government continues to welcome similar dialogue with other First Nation communities on tobacco.

Two expert co-facilitators were retained to lead the formal review of the First Nations Cigarette Allocation System. They have actively engaged with First Nation communities, the tobacco industry and public health experts, and will provide the government with a final report by the end of 2015, outlining options for modernizing the allocation system or alternative approaches that can be explored.

The government plans to seek First Nations' advice and guidance on modernizing the Ontario Gas Card Program, beginning in the winter of 2016.

Measures to Address Contraband Tobacco

The Province has been working closely with tobacco growers and the industry to support its oversight of raw leaf tobacco, resulting in over 300 registrants. This represents an 18 per cent increase in the number of registrants compared to the previous oversight administration, which licensed only producers and dealers.

In June, the government enacted legislative amendments announced in the 2015 Budget that strengthen enforcement of the Tobacco Tax Act. These amendments include providing tobacco investigation staff with peace officer status, enacting fines and penalties for interfering with inspections, and enhancing information-sharing.

To further enhance its raw leaf tobacco oversight regime, the Province is proposing amendments to the Tobacco Tax Act and regulations to:

- ▶ Require tracking labels to be affixed to bales and boxes of raw leaf tobacco. This requirement will be in effect for the 2016 growing season;
- ▶ Include fines and penalties related to non-compliance with raw leaf tobacco tracking provisions, and increase fines and penalties to address non-compliance with raw leaf tobacco registration requirements; and
- ▶ Strengthen raw leaf tobacco record-keeping, information-sharing and reporting requirements.

Going Forward

The Province is continuing to build on its commitments by:

- ▶ Working with the OPP to finalize the establishment of a dedicated contraband tobacco enforcement team that will focus on addressing the link between contraband tobacco and organized crime.
- ▶ Moving ahead to better coordinate the effectiveness of tobacco retail inspections. In the coming months, Ontario will partner with specific public health units to undertake several pilot projects where tobacco inspection officers will be cross-designated under both the *Tobacco Tax Act* and *Smoke-Free Ontario Act*. This will allow tobacco inspection officials to more effectively identify and seize illegal tobacco products if found in retail locations across the province.
- ▶ Exploring the possibility of regulating additional tobacco product components, such as acetate tow, a key component of cigarette filters. Reducing the availability of these key components would help restrict the supply of contraband tobacco in Ontario. The government is engaging with key partners and stakeholders on this issue.

<https://collections.ola.org/ser/193259/2015.pdf>

Ontario 2016 Fall Economic Statement

Contraband Tobacco

Ontario has successfully delivered on a number of key initiatives.

The government has:

- ▶ Launched cross-designation pilot projects with four public health units to help make tobacco retailer inspections in these locations more streamlined and efficient;
- ▶ Implemented raw leaf tobacco baling or packaging and labelling requirements after consultations with industry and stakeholders; and
- ▶ Continued to work with law enforcement agencies, such as the Ontario Provincial Police's Contraband Tobacco Enforcement Team and other organizations, to address organized crime's role in contraband tobacco in the province.

The Province will also be moving forward with:

- ▶ Enhancing the Tobacco Retail Dealer's Permit program, to ensure that all tobacco retailers in Ontario are properly registered, and engaging retailers and retail associations in this process; and
- ▶ Proposing additional amendments to the Tobacco Tax Act and regulations to further enhance its raw leaf tobacco oversight by expanding regulation-making powers and strengthening compliance and enforcement provisions

Ontario 2017 Fall Economic Statement

Unregulated Tobacco

To reduce the availability of unregulated tobacco and ensure compliance with tobacco laws in Ontario, the government will move forward with:

- ▶ Regulating cigarette filter components, such as acetate tow, effective January 1, 2018;
- ▶ Strengthening partnerships with the Ontario Provincial Police's Contraband Tobacco Enforcement Team and local police services; and
- ▶ Proposing amendments to provide additional grounds for issuing, suspending and cancelling registrations issued under the *Tobacco Tax Act*.

The government will continue to work with communities and enforcement agencies to address unregulated tobacco, as this issue undermines the Province's health objectives and compromises public safety through links to organized crime.

A Strong and Fair Ontario — 2017 Ontario Economic Outlook and Fiscal Review, Background Papers, page 166.

<https://collections.ola.org/ser/193259/2017.pdf>

Ontario 2018 Fall Economic Statement

Illegal Tobacco

The availability of illegal, untaxed tobacco undermines Ontario's tax system, creates an unfair business advantage, and compromises the health and public safety of Ontario families. EY Canada's line-by-line review estimates illegal tobacco

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accounts for \$750 million in lost Provincial revenue annually. That is why the Ministry of Finance will launch a public awareness campaign that informs the public about how to identify illegal tobacco, and the consequences and risks of participating in the illegal market. The ministry is also undertaking a comprehensive review of tobacco tax regulation and enforcement with a view to reducing the size of the illegal tobacco market through new partnerships with law enforcement and First Nations. The Contraband Tobacco Enforcement Team within the Ontario Provincial Police, which focuses on links between organized crime and illegal tobacco, has hired additional staff over the summer and will soon have doubled in size. The ministry will also launch a tobacco enforcement grants program to create incentives for local and regional police to take on more investigations into illegal tobacco.

Sudden and sharp increases to tobacco taxation rates over recent years have played a role in pushing individuals into the illegal market. In an effort to stem this flow, Provincial Tobacco Tax rates will remain at their current levels in 2019.³²

Ontario 2019 Fall Economic Statement

Addressing Unregulated Tobacco

Building on the government's review of tobacco tax regulation and enforcement announced in 2018, the Ministry of Finance will consult public health stakeholders, industry and retail associations, as well as First Nation partners, on unregulated tobacco. This means working closely on common goals: protecting youth, promoting community safety, and creating opportunities for economic development and diversification. These consultations present an opportunity to explore the link between government policy, the regulation of tobacco and vaping products, and the impact of these on smoking cessation and youth addiction to nicotine.

Real progress in resolving challenges requires the involvement not only of the provincial government, but the federal government and First Nations. Ontario is committed to consulting with First Nations and working with industry, public health stakeholders, and retail associations, to determine how unregulated tobacco can be addressed to improve the lives of the people of Ontario. The government will also continue to engage interested First Nation communities and organizations on tobacco regulation on-reserve.³³

There was no Fall Economic Statement in 2020 due to COVID-19 and there was no mention of any tobacco tax policy or enforcement initiatives in the 2021 Fall Economic Statement

³² *A Plan for the People — 2018 Ontario Economic Outlook and Fiscal Review, Background Papers*, pages 81-82.
<https://collections.ola.org/ser/193259/2018.pdf>

³³ *A Plan to Build Ontario Together — 2019 Ontario Economic Outlook and Fiscal Review, Background Papers*, page 123.
<https://budget.ontario.ca/2019/fallstatement/pdf/2019-fallstatement.pdf>

Ontario 2022 Fall Economic Statement

Addressing Unregulated Tobacco

The government continues to take action to support efforts to address unregulated tobacco, including:

- ▶ Strengthening First Nation partnerships by focusing on economic development, business regulation and community safety;
- ▶ Collaborating with federal partners on strengthening border enforcement and combatting tobacco smuggling;
- ▶ Working closely with cigar wholesalers to strengthen guidance regarding on-reserve sales; and
- ▶ Modernizing the raw leaf tobacco oversight program through the adoption of advanced technologies.

Moving forward, the government is proceeding with a review of the *Tobacco Tax Act*. A review of the Act and its regulations is intended to advance the government's overall burden reduction goals and improve administration. The government will continue to engage with First Nation partners, industry and public health organizations on this initiative.³⁴

Ontario 2022 Budget

Making Progress on Modernizing Ontario's Tobacco Tax Administration

As outlined in the *2022 Budget*, the government is moving ahead with a review and modernization of the *Tobacco Tax Act* to ease administrative burden while also strengthening oversight. As an initial step, technical amendments will be introduced to remove redundant and outdated requirements in the legislation to provide greater clarity and reduce burden for registrants.

Moving forward, the review will identify additional opportunities to further reduce administrative burden, align the legislation to the changing tobacco marketplace and best practices in other jurisdictions, and modernize compliance by enhancing digitization. The government will engage First Nations, industry and trade associations including those representing convenience stores, law enforcement and public health stakeholders to inform proposed legislative changes.

Building on the recommendations of the engagement with First Nations on unregulated tobacco in 2021, led by two independent Indigenous facilitators, the government is strengthening its partnerships with First Nations by focusing on community safety, economic development and business regulation.³⁵

³⁴ 2022 Ontario Economic Outlook and Fiscal Review — Ontario's Plan to Build: A Progress Update, Background Papers, Annex: Details of Tax Measures and Other Legislative Initiatives, page 151. <https://budget.ontario.ca/2022/fallstatement/pdf/2022-fall-statement-en.pdf>

³⁵ 2023 Ontario Budget: Building a Strong Ontario, Annex: Details of Tax Measures and Other Legislative Initiatives, page 184. <https://budget.ontario.ca/2023/pdf/2023-ontario-budget-en.pdf>

Appendix 8

Department of Finance, Consulting with Canadians

Engagement on Framework Development for Fuel, Alcohol, Cannabis and Tobacco Sales Tax Arrangements with Interested Indigenous Governments

Budget 2022 announced the Government of Canada's intention to engage with interested Indigenous governments and organizations on a framework for the negotiation of agreements that would support interested Indigenous governments to implement a fuel, alcohol, cannabis and tobacco (FACT) sales tax within their reserves or settlement lands. Input received throughout the engagement process will be used to gauge interest and inform the initial development of a FACT sales tax framework.

The Department of Finance is seeking views and advice on the design elements of a proposed framework, including technical advice to inform the development of specific elements of the FACT sales tax framework, and how the framework can be aligned with the interests of Indigenous governments.

There are multiple ways to participate in the engagement process:

- Written feedback and comments can be provided to the Department of Finance, Tax Policy Branch by writing to FACT-CACT@fin.gc.ca.
- The Department of Finance will organize virtual regional engagement sessions with all interested Indigenous governments and organizations beginning Summer-Fall 2022. Invitations will be distributed in advance, and information on upcoming engagement opportunities can be requested by writing to FACT-CACT@fin.gc.ca.
- Interested Indigenous governments and organizations will have additional opportunities to share their views as the framework is developed and implemented.

To help guide regional sessions, a [Discussion Paper](#) is available. Design aspects under consideration include:

- The application and administration of a FACT sales tax framework;
- The coordination with existing federal goods and services tax (GST);
- The possibility to tax only one product instead of all four, and whether vaping products should be added;
- The methodology used to calculate the tax collected (e.g., actual sales or formula based approach); and
- The design of a Revenue Sharing Mechanism (RSM).

This Discussion Paper is not meant to restrict the input received during the engagement process and should be used at the discretion of the reader.

To ensure that input is received in time to inform the design of the framework, the Government encourages interested Indigenous governments, organizations and others to share their questions, meeting requests, and written submissions by June 16, 2023.

In submitting your feedback, please provide your contact information for follow-up by departmental officials, including:

- full name and title;
- name of the organization;
- telephone number; and

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- email address.

What's next?

Feedback and interest will be considered alongside the analysis of departmental officials to help inform decisions and path forward on a possible FACT sales tax framework.

X. Related links

[Budget 2022 - Advancing Tax Jurisdiction for Indigenous Governments](#)

[Engagement on a Fuel, Alcohol, Cannabis and Tobacco Sales Tax Framework](#)

Appendix 8 – Continued

Engagement on a Fuel, Alcohol, Cannabis and Tobacco Sales Tax Framework Consultation Paper

1. Introduction

The Government of Canada views tax agreements and arrangements with interested Indigenous governments as an important part of renewed nation-to-nation fiscal relationships. Over the last two decades, Indigenous governments have entered into over 60 tax agreements with the Government of Canada. These arrangements take the form of First Nations Sales Taxes (FNST), First Nations Goods and Services Taxes (FNGST), and First Nation Personal Incomes Taxes. These partnerships enable Indigenous governments to generate revenues within their lands to support community priorities.

In Budget 2022, the Government of Canada announced its plans to engage with interested Indigenous governments and organizations on a fuel, alcohol, tobacco, and cannabis (FACT) sales tax framework that would support interested Indigenous governments to implement a FACT sales tax within their reserves or settlement lands. The development of a FACT sales tax framework is envisioned as providing a ‘stepping-stone’ for interested Indigenous governments to generate supplementary revenues through the exercise of tax jurisdiction on sales of FACT products within their reserve or settlement lands, rather than on the entire Goods and Services Tax (GST) base, as is the case with FNGST arrangements. ([Background on these agreements](#))

We Want Your Input

The Department of Finance is interested in your thoughts, perspectives and comments. Please provide your feedback on this Discussion Paper to the Tax Policy Branch-Indigenous Tax Policy Section by participating in the virtual engagement sessions that will be organized by the Department of Finance in your region or by contacting the FACT Engagement Team at: FACT-CACT@fin.gc.ca.

2. Discussion Paper – Key Elements of a Fact Framework

This Discussion Paper has been developed to solicit feedback, and to generate views and comments from Indigenous governments and organizations. This Discussion Paper is not intended to restrict the input received, but rather it aims to contextualize the typical elements of tax frameworks and gauge interest and perspectives to inform the development of a FACT sales tax framework, including vaping products.

Overview

Taxation is a characteristic feature of governments and the exercise of tax powers enhances self-government, and can ultimately support self-determination and the social and economic wellbeing of Indigenous communities. With the proposed FACT framework, interested self-governing Indigenous groups and First Nations operating pursuant to the *Indian Act* could levy a sales tax with respect to the sale of fuel^{[Footnote1](#)}, alcoholic beverages^{[Footnote2](#)}, cannabis^{[Footnote3](#)} and/or tobacco^{[Footnote4](#)} (FACT) products, including vaping products, occurring within their reserve or settlement lands.

A FACT sales tax would be levied under an Indigenous government’s law rather than federal or provincial law, and would only apply if an Indigenous government chooses to implement it.

It is envisioned that a FACT sales tax would apply to all persons, including those registered pursuant to the *Indian Act*, who purchase the select products within a taxing Indigenous government’s reserve or settlement lands. It would be limited to these lands and not affect the application of the *Indian Act* tax exemption for other federal or provincial taxes.

It is anticipated that a FACT sales tax would be fully harmonized and coordinated with the federal GST, including the same rate (currently 5%), on the applicable products and replace the federal GST, when it would otherwise apply. A FACT sales tax could be collected and administered by the Canada Revenue Agency (CRA), on behalf of the taxing Indigenous government, under the terms of a tax administration agreement negotiated with the Government of Canada.

The remainder of this Discussion Paper will expand on the concepts introduced in the Overview section.

Application of a FACT Tax

Similar to FNST and FNGST frameworks, it is anticipated that participating Indigenous governments would apply a FACT sales tax through their own tax law and a negotiated tax administration agreement with the Government of Canada. This approach would respect an Indigenous government's autonomy in choosing whether or not to levy a FACT sales tax and allow for the coordination of taxes between governments under a negotiated tax administration agreement.

It is envisioned that a FACT sales tax would be levied at point of sale by retailers on FACT products on reserve or settlement lands and Canada would vacate its GST room in order for Indigenous government to levy their tax. It is also envisioned that the framework could provide flexibility with respect to the FACT products an Indigenous government would choose to tax. For example, interested Indigenous governments could choose to levy a FACT tax on only one product (e.g., tobacco) or a subset of the FACT products.

Similar to current FNST and FNGST agreements, it is envisioned that the CRA would be responsible for the collection, administration and enforcement of FACT taxes free of charge on behalf of Indigenous governments under the terms of a negotiated tax administration agreement. This would allow for FACT sales taxes to be administered in a similar manner as the current federal GST on these lands and would also avoid costs and management burden for Indigenous governments while maintaining compliance ease for taxpayers and businesses.

Further discussions to be held with interested Indigenous groups on the overall design and administration of a FACT sales tax.

Examples

1. A gas station is located on the reserve of an Indigenous government levying a FACT sales tax on fuel and tobacco products. John, a First Nations individual registered pursuant to the *Indian Act*, purchases \$70 of gas and \$30 of tobacco products. While he is normally exempt from federal and provincial/territorial taxes on reserve because of the *Indian Act* tax exemption, the 5% FACT tax applies on these sales. The retailer would be required to charge and collect the FACT sales tax, in this case \$5, and remit it to the CRA in the normal course of filing their Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return. Remittances would then be transferred to the Indigenous government in accordance with the negotiated tax administration agreement with Canada.
2. A cannabis retailer is located on the settlement lands of an Indigenous government levying a FACT sales tax on cannabis products. Marie, a non-citizen/non-member of the Indigenous government, purchases \$30 of cannabis products. Instead of paying the federal GST, the 5% FACT sales tax applies, in this case \$1.50, and the retailer remits the FACT tax collected to the CRA in the normal course of filing their GST/HST Return. Remittances would then be transferred to the Indigenous government in accordance with the negotiated tax administration agreement with Canada.

Tax Administration Agreements

It is envisioned that negotiated government-to-government tax administration agreements would set out the details of how a FACT sales tax would be collected and administered, including the option for a party to terminate the agreement with appropriate notice and the determination of remittances to Indigenous governments. It is envisioned

that these agreements would consider the amount of GST revenue that Canada would agree to forego as part of a revenue sharing mechanism.

Similar to FNST and FNGST frameworks, it is anticipated that the remittances to Indigenous governments under these agreements would be based on final sales that take place on the reserve or settlement lands of a taxing Indigenous government. That is, as GST/HST registrants remain eligible to recover the FNST/FNGST/GST/HST paid or payable on purchases and expenses related to commercial activities by claiming input tax credits (ITCs), a final sales approach would account for sales of the FACT products that are not to final consumers, particularly in the case of fuel products (e.g., business fuel costs).

For instance, final sales factors could be as follows:

- Sales of tobacco, cannabis and vaping products included at 100% (normally not eligible to recover as ITC).
- Sales of fuel products could vary depending on the type of fuel. For example, gasoline could be approximately 50% of the final sale, whereas diesel could be approximately 25%. Propane could have a higher percentage.
- Sales of alcohol products could be included at 95%.

Example

A gas station located on the reserve of an Indigenous government levying a FACT sales tax charged and remitted the following to the CRA:

- \$30,000 in FACT sales tax on tobacco products;
- \$200,000 in FACT sales tax on gasoline; and
- \$40,000 in FACT sales tax on diesel.

= Gross total of \$270,000 of FACT sales tax remitted to CRA

In recognition that only FACT sales tax collected on final consumers is net governmental revenue (i.e., sales to businesses may be claimed as ITCs), the following final sales factors, for example, would be factored into the calculation of net FACT sales tax for purposes of remitting to a taxing Indigenous government:

- 100% * \$30,000 for tobacco products;
- 50% * \$200,000 for gasoline; and
- 25% * \$40,000 for diesel.

= Net total of \$140,000 of FACT sales tax remitted to the Indigenous government

Further discussions to be held with Indigenous governments with respect to the calculation of a final sales approach.

Design of the Revenue-Sharing Mechanism

The Department of Finance wants to discuss the design of a revenue-sharing mechanism that would apply in certain circumstances, such as where the bulk of the FACT sales tax is generated from sales to persons other than the members of the Indigenous government who would normally otherwise be liable to pay the federal GST.

Further discussions to be held to seek feedback from Indigenous governments on the overall design of the revenue-sharing mechanism.

Nature of Tax Revenues

It is envisioned that FACT sales tax revenues remitted to Indigenous governments would be based on the negotiated tax administration agreements with each respective Indigenous government. Such remittances would not be considered grants, contributions or 'Indian moneys' as defined under the *Indian Act*, and therefore, would not have conventional Government of Canada terms and conditions. The Indigenous government would be free to allocate FACT sales tax revenues to their own community priorities.

Further discussions to be held with Indigenous governments on details of remittances (such as timing, re-estimation, final estimates).

3. How to Participate

The Department of Finance is planning to engage with Indigenous governments and organizations on the initial design

elements of the proposed framework over a seven month period, beginning August 2022. Interested Indigenous governments and organizations will have additional opportunities to share their views as the framework is developed and implemented.

There are multiple ways to participate in the engagement process:

- The Department of Finance will organize virtual regional engagement sessions with all interested Indigenous governments and organizations beginning in Summer-Fall 2022. Invitations will be distributed in advance, and information on upcoming engagement opportunities can be requested by writing to the email address listed below.
- Provide written submissions directly to: FACT-CACT@fin.gc.ca

Input received throughout the engagement process will be used to gauge interest and inform the initial development of a FACT sales tax framework. The Department of Finance is seeking views and comments on the design elements of a proposed framework, including how the framework can be aligned with the interests of Indigenous governments. This Discussion Paper is not intended to restrict the input received during the engagement process.

To ensure that input is received in time to inform the early design of the framework, the Department of Finance encourages interested Indigenous governments and organizations to share their input and written submissions by June 16, 2023.

4. Contact Us

Indigenous Tax Policy Section

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Footnotes

¹ Gasoline and motive fuels (e.g. diesel, propane). Based upon FNST in *Budget Implementation Act, 2000*.

² Includes beer and wine containing more than 0.5% alcohol by volume. Based upon FNST in *Budget Implementation Act, 2000*.

³ As defined in the *Excise Act, 2001* and in accordance with the *Cannabis Act*.

⁴ Manufactured tobacco, packaged raw leaf tobacco or cigars. Based upon *Excise Act, 2001*.

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