

Taxation of Vaping Products

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Budget 2022 introduced a new excise duty on vaping products that went into effect on October 1, 2022. The new excise duty rate is of \$1.00 per 2 millilitres (mL), or fraction thereof, for containers with less than 10 mL of vaping liquid. For containers containing more than 10 mL, the rate is \$5.00 for the first 10 mL and \$1.00 for every additional 10 mL, or fraction thereof.

5-Year Cost

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Total cost	-241	-503	-529	-561	-599	-2,432

Detailed 5-Year Cost

	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Static cost	-243	-525	-583	-647	-719	-2,718
Behavioural response	3	22	54	86	121	286
Total cost including behavioural response	-241	-503	-529	-561	-599	-2,432

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).

Estimation and Projection Method

The quantity of millilitres of vaping liquid consumed as well as the value of sales in each province are taken from a Euromonitor International study provided by Health Canada (HC). These are then projected using growth assumptions on the vaping market from the same study. Prices for each subcategory of vaping products are grown using CPI from the PBO's economic model. To account for behavioural responses to the introduction of the excise duty on vaping products, an own-price elasticity of -2.2 is applied to most vaping products with the exception of bottles of e-liquid where an own-price elasticity of -1.3 is used. A cross-price elasticity of 0.4 is used for the substitution behaviour towards cigarettes.^{1,2} Revenue changes from excise duties and GST/HST in both the vaping market and cigarette market in response to the new excise duty were incorporated in this estimate.

1. Behavioural responses are taken from Cotti et al. (July 2022) except for bottles of e-liquids where the own-price elasticity is revised downwards.

2. Both the number of cigarettes consumed and the values of cigarette sales in Canada are taken from PBO's Fiscal model.

Sources of Uncertainty

The methodology used in estimating the size and value of the vaping products market in Canada is a source of uncertainty as certain products may be overestimated and others underestimated. Furthermore, the behavioural responses used in the estimate are based on taxation of vaping products in the United States, therefore the responses in Canada may differ as consumers in Canada face a different regulatory landscape as well as having different consumption habits.

Prepared by

Louis Perrault <Louis.Perrault@parl.gc.ca>

Data Sources

Variable	Source
Canadian vaping market size, value and growth projections	Euromonitor International Report (August 2022)
Canadian cigarette market size and value projections	PBO Fiscal Model
Consumer Price Index projections	PBO Economic Model ³

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3. C. D. Cotti, C. J., Courtemanche, J. C. Maclean, E. T. Nesson, M. F. Pesko and N. Tefft. July 2022. "The Effects of E-Cigarette Taxes on E-Cigarette Prices and Tobacco Product Sales: Evidence from Retail Panel Data." NBER Working Paper no 26724.