

Cost Estimate of Election Campaign Proposal

Publication date: 2019-09-25

Short title: Taxing sugary drinks

Description: Introducing a new tax on sugary drinks of 10% before other sales taxes.

Operating line(s): Excise taxes

Data sources:	<u>Variable</u>	<u>Source</u>
	Household spending on sugary drinks	Survey of Household Spending, Statistics Canada
	Population Growth	Statistics Canada
	Consumer Price Index (CPI)	Statistics Canada, PBO

Estimation and projection method: Total spending on sugary drinks was calculated using the average annual household spending on sugary drinks by province. Total spending was projected as a function of population growth, CPI for non-alcoholic beverages and historical trend for the consumption of sugary drinks by province. CPI for non-alcoholic beverages was projected using PBO's projection of total CPI. Total spending is also adjusted to reflect the behavioral response to taxation. As per the literature, it was assumed that a 10% increase in price will reduce the consumption by approximately 10%. It was also assumed that 100% of the increase will be passed on to consumers.

Tax revenues are calculated as 10% of the projected total spending before tax and by adding the resulting change in GST revenues.

Uncertainty assessment: The estimate has moderate uncertainty. The historical tax base is determined using survey data which has inherent uncertainty. Tax revenues are directly proportional to the future consumption of sugary beverages which is hard to forecast with precision. A behavioral response was modeled using the available literature. While the research shows that a decrease in consumption is to be expected, there is uncertainty around the amplitude of the reaction to this type of tax.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-164	-391	-391	-393	-396	-399	-403	-408	-413	-419

Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Costs by operating line	Excise tax revenues	Excise taxes	-166	-396	-396	-398	-401	-405	-409	-414	-419	-425
	GST revenues	GST	2	5	5	5	5	6	6	6	6	6
Total cost			-164	-391	-391	-393	-396	-399	-403	-408	-413	-419

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost