

# Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-21	
Short title:	Medical cannabis tax elimination	
Description:	Eliminating federal excise duties and sales taxes (GST and HST) on legal cannabis for medical purposes.	
Operating line(s):	Other excise taxes/duties Goods and services tax	
Data sources:	<u>Variable</u>	<u>Source</u>
	Current consumption	Health Canada
	Current prices, potency	CanvasRx
	Future consumption, prices, potency	Marijuana Policy Group <sup>i</sup> ; Health Canada
	Population growth	Statistics Canada (Table 17-10-0057-01)
	Price inflation	PBO Economic Model
	Pharmaceutical price elasticity	Contoyannis et al. (2005) <sup>ii</sup>
Estimation and projection method:	<p>Medical cannabis is taxed at various rates and on different consumption bases (volume, potency, and/or sales value), depending on the product type (dried, non-dried, etc.). PBO determined base consumption for dried medical cannabis using historical volume data from Health Canada and average product potency and price data from CanvasRx. We adjusted the baseline to account for population growth, CPI price inflation, and price elasticity of demand. PBO estimated consumption of non-dried medical cannabis products as a percentage of dried consumption, converging by 2023-24 to the ratio observed in the more mature, saturated Colorado market in 2017. We projected sales of all medical cannabis products by multiplying consumption by prices, which were assumed to converge by 2028-29 to medical prices in Colorado in 2017.</p> <p>To determine foregone tax revenues, PBO multiplied each medical cannabis consumption base by its associated effective excise or sales tax rate. While some administrative cost savings are expected, we expect these to be immaterial.</p>	
Uncertainty assessment:	<p>The estimate has moderate uncertainty. Historical consumption data from Health Canada are of a high quality, but projected data are uncertain, especially in the later years of the projection, as they are based current market conditions in Colorado that may not reflect the future evolution of the Canadian market. Medical cannabis tax revenues, especially in the early years of the projection, may be uneven due to supply shortages, but are otherwise not very sensitive to uncertainty in the economic outlook. We do not expect a</p>	

behavioural response with a fiscal impact, which assumes that users paying tax on the recreational market will not migrate to the tax-free medical market. PBO did not consider possible interactions with other policies, taxes, and tax expenditures, notably the Medical Expense Tax Credit.

## 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	7	30	31	32	33	31	30	29	28	26

## 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
Cost	Federally-collected federal excise taxes	Other excise taxes/duties	2	9	9	10	10	10	10	11	11	11
Cost	Goods and services tax	Goods and services tax	5	21	22	22	22	21	20	18	17	15
Total cost			7	30	31	32	33	31	30	29	28	26

### 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

The campaign proposal takes effect 1 January 2020.

The cost estimate does not include provincial excise duties or the provincial portion of the HST. These tax measures do not affect the federal budgetary balance. For 2019-20, PBO estimates these taxes raised \$43 million and \$21 million, respectively, for provincial governments.

Numbers may not add due to rounding.

<sup>i</sup> Marijuana Policy Group (2018). Market Size and Demand for Marijuana in Colorado – 2017 Market Update. Retrieved from <https://www.colorado.gov/pacific/sites/default/files/MED%20Demand%20and%20Market%20%20Study%20%20082018.pdf>

<sup>ii</sup> Contoyannis, P., J. Hurley, P. Grootendorst, S.-H. Jeon, R. Tamblyn (2005). Estimating the price elasticity of expenditure for prescription drugs in the presence of non-linear price schedules: an illustration from Quebec, Canada. In *Health Economics*, 14(9), 909-923.