



## **TOBACCO TAX STRATEGY (FROM THE 2013 ONTARIO BUDGET)**

### ***Smoke-Free Ontario and Combating Illegal Tobacco***

The government remains committed to the Smoke-Free Ontario Strategy aimed at promoting and protecting the health of Ontarians from tobacco use. Ontario is on track to have the lowest smoking rates in Canada and is determined to reduce the supply of low-cost, illegal tobacco available to young people.

Like many other places, Ontario faces significant challenges in addressing the issue of illegal tobacco. The exact size of the illegal market varies but it is generally acknowledged to be substantial. Building on the Smoke-Free Ontario Strategy and Bill 186, *Supporting Smoke-Free Ontario by Reducing Contraband Tobacco Act, 2011*, the government remains committed to protecting youth from illegal products, improving community safety and ensuring appropriate taxes, where applicable, are paid.

Ontario introduced a number of important compliance activities over the past year to curtail the availability of illegal tobacco. The government is moving forward with implementing the oversight of raw leaf tobacco that will require growers, importers, exporters, certain transporters, processors and dealers to be registered, effective January 1, 2014. Also effective January 1, 2014, in general, only cigarettes and fine-cut tobacco marked with a single integrated stamp (replacing the federal stamp) will be allowed for retail sale. The Ministry of Finance and the Alcohol and Gaming Commission of Ontario have signed an information-sharing agreement whereby retailers selling illegal tobacco could have their gaming registrations (lottery permits) suspended or revoked.

The government is also actively considering a number of other compliance initiatives including amendments to the *Tobacco Tax Act* to reduce illegal tobacco in Ontario. These include:

- increased fines for those convicted of offences related to illegal tobacco;
- forfeiture of items seized as evidence of a contravention of the *Tobacco Tax Act*; and
- strengthening other provisions to improve the effectiveness of the statute in meeting the government's commitments.

The Ministry of Finance continues to work closely with various law enforcement agencies to combat illegal tobacco. Since 2008, more than 223 million illegal cigarettes, 2.5 million untaxed cigars and 74 million grams of untaxed fine-cut or other tobacco products have been seized by ministry investigators and inspectors.

The government is concerned with the proposed move of the Cornwall border station to the U.S.

side and its potential impact on community safety in general and on tobacco smuggling specifically. The Minister of Community Safety and Correctional Services has written to her federal counterpart, requesting that the government not move the border crossing to the U.S. side.

The government's enhanced enforcement measures are expected to generate an additional \$350 million over the next four years.

## **TOBACCO ENFORCEMENT (FROM THE 2012 ONTARIO BUDGET)**

Tobacco use continues to be the leading cause of preventable disease and premature death in Ontario. The government's Smoke-Free Ontario Strategy has made the province a leader in tobacco control. Ontario remains committed to reducing smoking among youth and other vulnerable persons, and to achieving the lowest smoking rate in Canada.

As part of this commitment, the government intends to take the necessary steps to increase fines on those convicted of selling tobacco to youth and to impose stronger sanctions for repeat offenders of Ontario's tobacco-related laws. These sanctions would include prohibiting a retailer from selling tobacco products or lottery tickets and would be implemented by the fall.

The availability of cheap, illegal tobacco makes it easier for non-smokers, especially youth, to start smoking, and removes an incentive for smokers to quit, undermining the government's policies to reduce smoking.

The government will work with key partners to further educate the public about health and social problems associated with tobacco and will undertake research to help measure the impact of its tobacco strategies on smoking levels in the province.

Ontario has also committed to doubling enforcement efforts to address the supply of cheap, illegal tobacco. As part of this commitment, the government will focus on the implementation of additional regulatory, enforcement and other provisions in Bill 186, which was enacted in 2011.

With the goal of enhancing oversight over the distribution of raw leaf tobacco in the province, Bill 186 provides for the regulation of raw leaf tobacco under the *Tobacco Tax Act*, effective October 1, 2012. In this context, raw leaf tobacco includes flue-cured tobacco as well as black and burley tobacco, and it also includes fully or partially processed tobacco. Tobacco growers, dealers, processors, importers, exporters and certain transporters will be required to register and report with the Ministry of Finance in order that this key component in the manufacture of tobacco products can be tracked throughout the supply chain. As the regulations are drafted, the Ministry of Finance will consult with key stakeholders including First Nations leadership.

Ontario also proposes to introduce amendments to the *Tobacco Tax Act* in the fall to provide additional enforcement and compliance tools. As part of this process, the government is actively exploring a number of measures, including:

- increased fines for those convicted of offences related to illegal tobacco;
- enabling law enforcement officers to ticket those found with smaller amounts of untaxed, illegal tobacco;
- impounding vehicles used to transport illegal tobacco;
- providing for the use of court-authorized tracking devices;
- forfeiture of items seized as evidence of a contravention of the *Tobacco Tax Act*;
- authorizing a vehicle to be stopped, detained and searched if there are reasonable and probable grounds to believe that it contains raw leaf tobacco and, if there has been a contravention, to seize that tobacco;
- strengthening the registration system for retail dealers;
- replacing Ontario's yellow tear tape with the federal stamp;
- adopting best practices that have proven to be effective in other provinces; and
- strengthening other provisions to improve the effectiveness of the statute in meeting the government's commitments.

Consultation and discussions with stakeholders and key partners, including First Nations communities and organizations, will take place as part of this process.

Ontario will continue its ongoing dialogue with First Nations communities and organizations, band councils, and on-reserve tobacco manufacturers with the goal of expanding its understanding of tobacco issues on reserves. The government will also work with First Nations to explore ways to modernize the system for allocating untaxed tobacco products as well as options related to First Nations self-regulation of tobacco on reserve.

The availability of cheap, illegal tobacco is a significantly complex issue and requires the active involvement of governments of neighbouring provinces; the federal government; First Nations leadership; and numerous policing and enforcement agencies including the Ontario Provincial Police, Royal Canadian Mounted Police, First Nations policing services, municipal public health units and municipal police services. The ministry will continue to actively build relationships with other ministries, governments, First Nations leadership, and various enforcement agencies to work together on common goals and share best practices.

Ontario is working collaboratively with the federal government and other provinces to enhance tobacco enforcement. To effectively address illegal tobacco, joint tobacco enforcement and administration agreements are needed between Ontario, other provinces and jurisdictions, and various federal agencies. Ontario is particularly concerned about the impact of the proposed relocation of the Canada–U.S. border crossing currently located in Cornwall.

Over the next three years, the implementation of Bill 186 measures as well as the proposed measures to address illegal tobacco would raise revenues of \$375 million. By 2014–15,

additional annual revenue would be \$175 million, with additional annual enforcement costs of \$34million.

**Source: 2012 Ontario Budget: Chapter IV: Tax and Pension Systems, March 2012**

