



ENHANCING COMPLIANCE WITH CANADA'S TOBACCO TAX LEGISLATION

Canada Revenue Agency

August 27, 2006

ENVIRONMENT

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- ✦ High taxation has increased the incentive for non-compliance
 - ✦ Legitimate production levels are decreasing while consumption remains stable
 - ✦ Incidents of theft, smuggling and counterfeit are increasing
 - ✦ Illicit sales of raw leaf tobacco, illicit manufacturing and underreporting of tobacco production is on the rise
 - ✦ Discussions with the Department of Finance led to the Budget announcements in 2005 and the Tobacco Compliance Strategy

TOBACCO TAXATION IN CANADA

✦ **Federal duty is imposed under the Excise Act, 2001**

- ◆ Administered by Canada Revenue Agency
- ◆ **Duty is imposed at the time of packaging or importation**
- ◆ Payable by the tobacco licensee (manufacturer) or the importer
- ◆ A tobacco stamp indicates the duty paid status

✦ **Provincial tobacco taxes are imposed under various provincial legislation at the sales level**

- ◆ Rates vary widely from province to province
- ◆ Federal stamp is modified to reflect provincial tax paid status

Federal Tobacco Duty Rates

Cigarettes	\$ 16.41 / carton	\$ 0.08205 per cigarette
Tobacco Sticks	\$ 12.10 / carton	\$ 0.0605 per stick
Manufactured Tobacco	\$ 11.18 / 200 grams	\$ 0.0559 per gram
Raw Leaf	\$1.572 per kg	\$ 0.001572 per gram

FEDERAL BUDGET 2005

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- ✦ “Taxing tobacco products at a high and sustainable level is an important element of the Government’s health strategy to discourage smoking among Canadians.”
 - ✦ “Enhancements to tobacco tax compliance and enforcement programs will ensure that the tobacco tax system continues to support the Government’s health goals.”

TOBACCO STAMPING REGIME

PURPOSES

- ✦ **Make counterfeit products easier to identify**
- ✦ **Provide an effective enforcement tool for both federal and provincial authorities**
- ✦ **Strengthen controls over manufacturing and distribution of secure stamps / tear tape**
- ✦ **Facilitate determination of under-reporting of tobacco production**

TOBACCO STAMPING REGIME

OPTIONS IDENTIFIED

- ✦ Implement covert and overt identifiers on stamps and/or tear tape
- ✦ Register or license manufacturers of tear tapes/stamps
- ✦ Implement controls on security provider

TOBACCO STAMPING REGIME

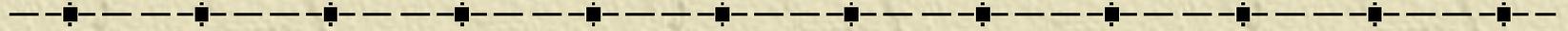
✦ Current recommendation

- ✦ Covert & overt features
- ✦ Single provider
- ✦ Orders through CRA

VARIANCES

- ✦ Imperial Tobacco of Canada announced it would manufacture in Mexico
- ✦ Full implementation is now expected by winter 2008

NEXT STEPS



- ✦ Slog forward on the Statement of Work
- ✦ Develop the Request for Procurement and post in Spring 2007
- ✦ Develop enforcement strategies, programs and MOU with our enforcement partners
- ✦ Legislative and regulatory amendments have been identified

ENHANCED AUDITS

Implemented

- ✦ Increased resources and the frequency of audit and regulatory review visits
- ✦ tobacco audit programs revised
- ✦ Increase use of administrative monetary penalties and civil actions

EXPECTED OUTCOMES

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- ✦ **Increased deterrent effect on counterfeit and smuggling**
 - ✦ **A reduction in unlicensed and unreported production**
 - ✦ **More forceful court actions using a stamp with enhanced integrity**
 - ✦ **Decrease in the supply of raw leaf tobacco to illicit production**
 - ✦ **Increased government revenues**
 - ✦ **Increased compliance with tobacco legislation**

TOBACCO GROWERS

Proposal

- ✦ **Implement an outreach program to educate, assist and promote compliance with Excise Act, 2001**
 - ◆ **Mail-outs**
 - ◆ **Perform on-going outreach visits to verify books & records**
 - ◆ **Morph into compliance visits**

TOBACCO GROWERS

Impacts

- ✦ **Decrease supply to illicit production**
- ✦ **Potential negative reactions from growers**
 - ◆ not monitored in the past
 - ◆ now subject to compliance visits
 - ◆ required to maintain books & records
- ✦ **Illicit manufacturers will be more exposed to enforcement actions**

TRACKING RAW LEAF & PARTIALLY MANUFACTURED TOBACCO

- ✦ The movement of PMT in particular represents a risk - as little further processing is required to churn out tobacco products
- ✦ A system to track partially manufactured tobacco is being developed
- ✦ Expected to be operational by the early 2007
- ✦ Based on a successful scheme to track exports

EXPECTED OUTCOMES

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- ✦ Provide picture of raw leaf and PMT movements around (and out of) Canada
 - ✦ Additional audit tool for duty officers
 - Shipments from one location will be more easily cross checked against receipt at declared destination

TRACKING RAW LEAF & PMT

Impacts

- ✦ Assessments on manufacturers based on raw materials
- ✦ Improve risk modeling



Questions?

THANK YOU – MERCI

