



Canadian indirect tax news

Proposed federal taxation of cannabis products

November 24, 2017

On Friday, November 10, 2017, the Department of Finance Canada announced a consultation on the proposed excise duty framework for cannabis products. The federal government will generally be responsible for establishing the conditions and licensing the cultivation and manufacture of cannabis products while provinces will be responsible for regulating the distribution and retail sales within their jurisdiction. A federally licensed entity will be responsible for packaging and labelling standards.

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The new duty framework will be part of the existing Excise Act, 2001 that currently applies to tobacco, wine and spirits. The duty will apply to all cannabis products available for legal purchase, which include fresh and dried cannabis, oils, seeds or seeds for home cultivation and cannabis products sold for medical purposes.

The federal government proposed that the combined rate of tax for cannabis flowering materials in a final packed should not exceed \$1.00 per gram or 10 per cent of the producer's sale price, or whichever is higher. The proposed federal excise duty rate would be 50 cents per gram or 5 per cent of the producer's sale of that product. These taxes are not paid directly by consumers, but are paid by the manufacturers. Cannabis products will also be subject to the goods and services tax/harmonized sales tax (GST/HST). The GST/HST legislation will be amended to ensure that all sales of cannabis products are taxable (including seeds and seedlings). Amendments will be introduced to ensure that the sales of edible products are subject to tax and are not considered zero-rated basic groceries.

The Canada Revenue Agency (CRA) will be responsible for the administration of the new cannabis duty framework. All Health Canada-licensed cultivators and manufacturers will be required to obtain a cannabis license from the CRA. As with the current stamping program for tobacco, a stamp will also need to be affixed to a cannabis product. Cannabis licensees will be required to submit monthly duty and information returns.

The new framework is intended to be in place no later than July 2018.

The proposed federal taxation of cannabis products represents a significant undertaking for businesses preparing for the upcoming change, not only the cultivation/manufacture, but also to the distribution and legal sale of product at the provincial level.

Written comments on the new cannabis duty framework should be forwarded to Finance Canada by December 7, 2017 to fin.cannabis-taxation-cannabis.fin@canada.ca.

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