



10<sup>th</sup> Annual Nutrition Forum

# Current Food Taxes in BC

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# Introduction

- To consider a tax on unhealthy foods, we should know
  - What taxes already imposed; are unhealthy foods already taxed?
  - Second, what instruments are available; how feasible is it to impose a junk food tax?
  - In this presentation we examine those two questions

# Time of Tax Transition

- BC now has two different retail consumption taxes in operation: PST at 7% and GST at 5%
- Quite different coverage of these two, including for the taxation of foods
- After July 1 2010, the PST will be ended
- In its place will be the HST, at a 12% tax rate, with coverage equal to that of the GST
- Our review of PST rules will give information that is short-lived but will reveal the change that is forthcoming
- Demise of PST also means a taxation instrument and its administrative infrastructure will be lost

# Provincial Sales Tax (PST)

- Which food items are now being taxed at 7%:
  - Story is quite simple
  - Food items for human consumption and purchased from retail stores are **not taxed**
  - Restaurant meals are also **not taxed** under PST
  - Snack foods and non-alcoholic hot/cold beverages are also **not taxed**
  - Alcoholic beverages (any beverage with an alcohol content more than 1%) are taxed at 10% PST, *after government price mark-ups*

# Goods and Services Tax (GST)

- Which food items are now being taxed at 5%:
  - Story is *not* simple
  - “Basic Groceries” are effectively **not taxed** (technically they are subject to tax but the tax is “zero-rated”, or set to zero)
  - All other groceries and foods are taxed at 5%
  - All restaurant meals and beverages are taxed (5%)
  - Definition of basic groceries is complex, but, of relevance to a fat or calorie tax, snack and confectionery foods **are taxed** at 5%

# What constitutes Basic Groceries?

- Most foods and beverages marketed for human consumption, including most ingredients mixed with or used in the preparation of foods and beverages
  - Key issues in determining “basic” are how product is *displayed, labelled, and advertised*, its *packaging, serving size*, whether it is *ready-to-eat* (taxable) or not, hot or cold.
- Includes fresh, frozen, canned and vacuum-sealed fruits and vegetables, breakfast cereals, most milk products, fresh meat, poultry and fish, eggs and coffee beans
- Includes milk-based beverages, and fruit-based beverages with >25% fruit juice by volume

# Which groceries/foods are taxable?

- Carbonated beverages (all sizes)
- Candies and confectionery items (incl chocolates, nuts, raisins, and those coated with candy, chocolate, syrup, etc)
- Snack foods
- Dietary supplements (very broad category where health claims made, tablet form, etc)
- Wines, spirits, beer, other alcoholic beverages
- Fruit-based beverages with <25% fruit juice by vol
- Single serving beverages, puddings

# New Sales Tax Regime July 1 2010: HST

- PST to be eliminated including all tax preferences associated with many PST exemptions
- HST rate will be 12% (old PST=7% plus old GST=5%)
- HST rules same as GST rules
  - 0 tax on “basic groceries” as defined above
  - Full tax (12%) on all “non-basic” groceries
  - Full tax (12%) on all restaurant meals
  - Full tax on all snack foods presently taxable under GST and all other items with single servings, etc

# New HST Regime July 1 2010

- For “non-basic groceries” *including snack foods, carbonated and most other beverages (except dairy), confectionery and candies*, will see tax increase from 5% to 12%
  - A rather broad tax that does include more than junk foods, but it does tax junk foods with more than double previous rates (rising from 5 to 12%)
  - No specific exemption for healthy foods, except all dairy products, fruits, vegetables, meats and most *items in bulk*, including processed foods, and *used for preparing foods and meals*

# Another policy-determined “tax”

- An important public policy in Canada involves special protection of dairy and poultry sectors
- These policies push prices of these food items up and result in Canadian prices that are usually well above prices outside Canada
  - Affects dairy products, eggs, poultry meats
  - Imports tightly limited due to strict import quotas
- This policy acts like special “tax” on these products, even though they are usually considered to be “healthy foods”
  - These higher prices due to farm level pricing, not a government imposed levy or direct tax
  - Much more than offsets 0-tax from GST/HST

# Compliance costs of adding new taxes

- An issue to consider in adding junk food or calorie-intensive food taxes is the administrative cost or feasibility of doing so
- Compliance costs are significant and current tax changes (PST to HST) involve a reduction in compliance costs and some simplification of current costly two-tax regimes
- Cannot tinker with GST/HST: no item-by-item changes permitted
- PST system will soon be gone; no instrument left for a new differentiated tax such as junk food tax
- Must add a new tax system, probably not at retail
- Alternative is to tax junk food at manufacturer level

# Summary

- With new HST, BC will have much higher taxes on a variety of food items that include junk foods
  - 12% on junk food compared to 0% tax on “basic groceries”
- But government policy also includes some taxes on healthy foods, so current policy is not focused on taxing unhealthy foods or encouraging healthy foods
- With GST/HST system, no tinkering with special taxes on individual items or food types
  - Further food taxes must be levied by some other system, likely levied directly on food manufacturers
- These practical issues of administrative costs must be addressed in considering merits of such a tax



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