



Updating Tax Policy to Support Responsible Self-Care

Pre-Budget Submission - July 29, 2016

Executive Summary

- The vast majority of Canadians treat their minor ailments through self-care by using consumer health products, including over-the-counter medicines (OTCs) such as Claritin® or Advil® and natural health products (NHPs) such as Vitamin C or Nicorette®. This saves the healthcare system billions of dollars annually.
- Health policy in Canada is evolving to support self-care. Policy leaders are recognizing the value of self-care to the health and of Canadians, the sustainability of our healthcare system and the productivity of our economy.
- Consumer Health Products Canada (CHP Canada) recommends that the current tax policy, which excludes consumer health products from the Medical Expense Tax Credit (METC) and subjects them to the Goods and Services Tax (GST), be realigned to reflect 21st century health policy.
- Making select consumer health products eligible for the METC and/or exempting them from the GST would leave more dollars in the pockets of Canadians, including families and seniors. These changes would contribute to the sustainability of the healthcare system and bring an added measure of fairness to the tax system. It would provide targeted tax relief to lower income Canadians who, since they are less likely to have access to a prescription drug plan, cannot avoid the taxes on consumer health products by seeking a prescription to treat their minor ailments.
- These recommendations, when viewed as tax expenditures, represent excellent value to the Canadian economy, since Canadians who practice responsible self-care are less likely to visit a doctor for these minor ailments. They free up resources in the healthcare system for those who need it most.



About Consumer Health Products Canada

CHP Canada is the industry association that represents the companies that make evidence-based over-the-counter medicines (OTCs) and natural health products (NHPs). These are the products you can find in medicine cabinets in every Canadian home. From sunscreens and vitamins, to pain relievers and allergy medications, people use consumer health products to maintain their health and manage their minor ailments. This is a fundamental part of self-care which is vital to the health of Canadians and the sustainability of our healthcare system.

Recommendations for Budget 2017

The vast majority of Canadians treat their minor ailments through self-care with consumer health products, including OTCs such as Claritin® or Advil® and NHPs such as Vitamin C or Nicorette®, saving the healthcare system billions of dollars annually.

Consumer health products include a broad range of safe and effective options for Canadians—ranging from cold and allergy medicines and pain relievers, to medicated shampoos, sunscreens, and fluoridated toothpaste—regulated as either OTCs or NHPs, with total annual retail sales in Canada of over \$5.6 billion.

While all of these products can play an important role in the daily lives of Canadians, **CHP Canada's recommendations focus on a subset of these products as a starting point for an evidence-based approach to close the gap between health and tax policy in Canada.** This subset consists of products in therapeutic categories that meet one or both of the following criteria:

1. *The therapeutic category includes products containing ingredients that have been switched from prescription to non-prescription status;*
2. *The therapeutic category has a prescription drug counterpart.*

These therapeutic categories account for approximately \$2.1 billion in retail sales annually and include:

- Oral and topical pain relievers
- Gastro-intestinal remedies, including antacids and acid reducers, anti-diarrheals, laxatives, anti-nauseants
- Oral and topical antifungals
- Medicated skin treatments, including anti-acne medications and anti-itch medications
- Cough, cold and allergy medicines
- Nicotine replacement therapies



As Canadian society ages, our healthcare system will come under increasing pressure. Using the tax system to encourage Canadians to practice self-care by using consumer health products to treat minor ailments, is one way to promote good health outcomes and the sustainability of our healthcare system. Targeted changes to how the tax system treats consumer health products is also about fairness, since data shows lower income Canadians are less likely to visit a doctor to treat their minor ailments.

Recommendation #1:

That the Government of Canada provide targeted tax relief for Canadian families that practice responsible self-care by exempting qualifying consumer health products, including OTCs and NHPs, from the Goods and Services Tax (GST).

- Estimated tax savings to Canadians (cost to government): \$107 million

Recommendation #2:

That the Government of Canada provide targeted tax relief for Canadian families who practice responsible self-care by making qualifying consumer health products, including OTCs and NHPs, eligible for the Medical Expense Tax Credit (METC).

- Estimated tax savings to Canadians (cost to government): \$54 million

Recommendation #3:

Consistent with the tax regime afforded to prescription drugs, the Government of Canada extend the same tax treatment to medically necessary, qualifying consumer health products, including OTCs and NHPs.

- Estimated tax savings to Canadians (cost to government): \$161 million



Background

The practice of self-care is an important contribution to the health of Canadians and to the sustainability of their healthcare system, but it faces significant obstacles in the Canadian policy environment. The most significant barriers concern the financial incentives for behaviour inherent in a healthcare system that provides first-dollar insurance coverage for formal services such as doctor and hospital care and at least partial coverage for many prescription drugs, while leaving Canadians to pay all self-care related costs out-of-pocket.

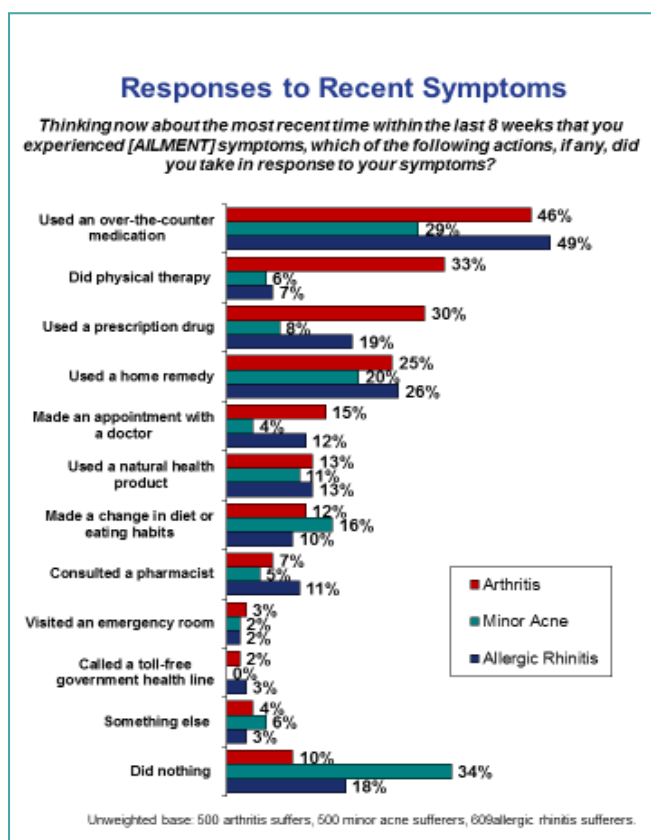
A further financial disincentive to responsible self-care is the differential tax treatment applied to prescription versus non-prescription (OTC and NHP) medicines. Prescription drugs enjoy zero-rated status under the GST and are eligible expenses under the METC. This provides a direct incentive and leads to the availability of tax-exempt employer-provided prescription drug plans (approximately nine out of 10 Canadians have some form of prescription drug coverage).

Currently, our system is set up to reward a visit to a doctor to seek a new prescription, instead of making a trip to a pharmacy to treat a minor ailment. As a result, many Canadians—particularly those with generous prescription drug plans—are visiting the doctor for minor ailments to avoid out-of-pocket expenses, when their symptoms could be treated effectively with a consumer health product.

A survey of minor and chronic ailment sufferers conducted for CHP Canada examined how Canadians dealt with arthritis, minor acne and allergic rhinitis (runny nose due to allergies)ⁱⁱ. There was clear evidence that Canadians choose between self-care and formal healthcare system options for the treatment of these ailments, as outlined in Figure 1.



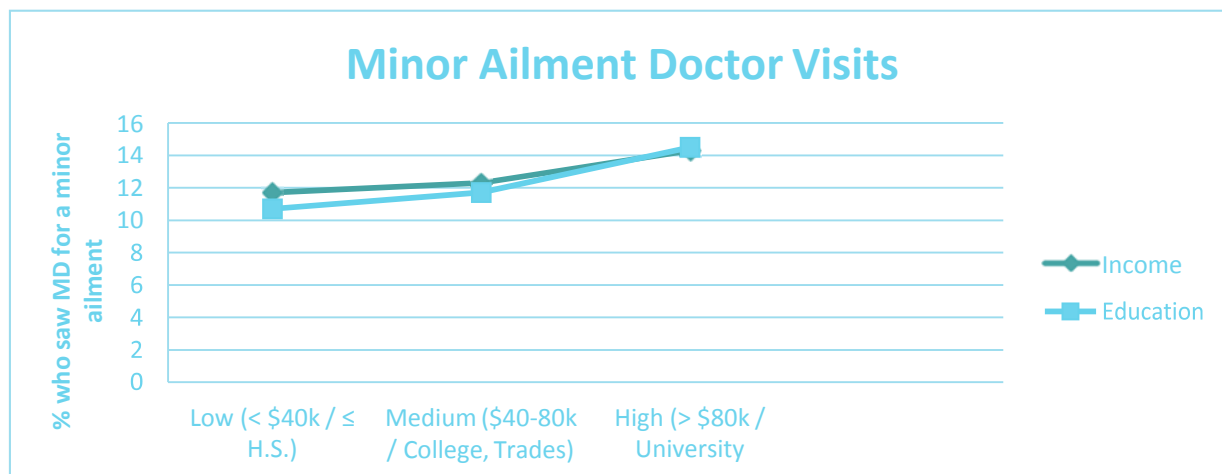
Figure 1



A more recent analysis of three similar surveys of Canadians with minor ailments found that **Canadians with higher incomes and education levels are more likely to see a doctor for colds, allergies, upset stomachs or headaches, than Canadians with lower income/education levels** (Figure 2). For example, high income Canadians are 22% more likely to see a doctor for a minor ailment than low income Canadians, and university-educated Canadians are 35% more likely to do so than Canadians with a high school diploma or less. This likely relates to the drug plan coverage that higher income/education Canadians enjoy. **Overall, Canadians reporting that they had drug plan coverage were 66% more likely to see a doctor for a minor ailment than Canadians without such coverage (19.1% vs 11.5%).** Clearly, financial factors influence the type of care that Canadians with minor ailments seek.



Figure 2



Closing the Health Policy/Tax Policy Gap

These findings reinforce the growing base of evidence that Canadians are taking an increasing role in the management of their health, and the choices they make—including whether to practice self-care, to seek professional care or to do nothing at all—have significant impacts on health outcomes and the overall cost-effectiveness of the healthcare system.

The UK saw improved health and quality of life, greater patient satisfaction and significant reductions in the use of health services, after it identified self-care as one of the four pillars of their National Health Service and instituted supportive policiesⁱⁱ.

In the United States, it is estimated that for every dollar spent on consumer health products, \$6 - \$7 are saved elsewhere in the healthcare system, through reduced doctor visits, pharmacist dispensing fees and prescription drug costsⁱⁱⁱ.

In Canada, several studies demonstrate that switching medicines from prescription to non-prescription status creates net savings for the healthcare system and patients, by reducing doctor visits, pharmacist fees, lab tests, prescription drug costs and time away from work^{iv,v}.



While health policy has evolved to recognize the growing importance of self-care to the health of Canadians and the sustainability of our healthcare system, tax policy treatment of consumer health products remains entrenched in a different era. It makes social and economic sense to align tax and health policy. It is also about fairness for Canadians—particularly lower income groups who practice self-care through the use of medically necessary consumer health products. This can be achieved in part by fairly putting money back in the pockets of those Canadians who—by managing their minor ailments by visiting the pharmacy first—are contributing to the sustainability of our healthcare system.

The METC excludes all consumer health products, even when they are an appropriate therapeutic choice for the same health condition treated by an METC-eligible prescription drug. Since 1988, when the current METC approach was established, more than 30 ingredients sold in hundreds of consumer health products have been switched from prescription to non-prescription status, losing their eligibility for this tax credit in the process, e.g. the pain reliever naproxen found in Aleve®.

Both government and industry have made very substantial investments into these prescriptions to non-prescription switches and into the switch process itself, in order to increase access to these medicines and reduce the cost of care. The METC should align with these initiatives by capturing these products.

Similarly, all consumer health products are subject to the GST, while their prescription drug counterparts are zero-rated.

Getting Relief: Two Case Studies

Over the course of a year, Cathy, a working single mother of two, spent just over \$400 on cold medicines for her pre-teen children, antihistamines for her chronic allergies, and pain relievers, upset stomach remedies and various other OTCs for the family. Twenty dollars in GST savings would leave a little more room for necessities on each shopping trip.

By tax time, Chen has spent more than \$800 on OTC pain relievers for his mother's arthritis, OTC acid blockers for his father's indigestion, an 8-week course of nicotine patches to help him quit smoking and various other OTCs and NHPs the family used to care for colds, his eldest child's acne and various other minor ailments. The extra \$120 refund he would receive through the METC would make a difference.



Summary

Health policy in Canada recognizes the growing value of responsible self-care as an important contributor to the health of Canadians and the sustainability of our healthcare system. By implementing the recommendations for proposed tax relief, more dollars will remain in the pockets of Canadians, while at the same time freeing up resources that can be better deployed elsewhere in our healthcare system.

ⁱ Survey of Minor and Chronic Ailment Sufferers, Redfern Research, September 2014

ⁱⁱ Department of Health, *Self-Care – A Real Choice: Self-Care Support – A Practical Option*, London 2005

ⁱⁱⁱ Booz & Co., *The Value of OTC Medicine to the United States*, Washington 2012

^{iv} Anderson et al, *The Economics of Self-Medication*, Queen's Health Policy, Kingston, Ontario 1995

^v Manga et al, *The Economics of Switching Drugs from Rx to OTC: The cases of H2RAs and Vaginal Antifungals*, University of Ottawa, 1999