



not apply to tobacco products held in vending machines. An extended period will be provided for remittance of the tax, allowing taxpayers until August 31, 2006 to file returns and pay the tax. Interest will apply after that date on late or deficient payments.

## Alcohol Excise Levies

As with tobacco products, the federal government taxes alcohol products both through a targeted excise duty and the broad-based GST.

Budget 2006 proposes to increase alcohol excise duties to offset the impact of the GST rate reduction. The following federal excise duty increases are to be effective July 1, 2006, concurrent with the effective date of the 1 percentage-point reduction in the GST:

Table A3.13

### Alcohol Excise Duty Rate Structure

	Proposed Increase	Proposed Duty Rates as of July 1, 2006
Spirits with greater than 7% alcohol by volume	0.63 cents per litre of absolute ethyl alcohol	\$11.696 per litre of absolute ethyl alcohol
Wine with greater than 7% alcohol by volume	0.1078 cents per litre	\$0.62 per litre
Spirits with 0.5% to 7% alcohol by volume; and wine with 1.2% to 7% alcohol by volume	0.0491 cents per litre	\$0.295 per litre
Beer with greater than 2.5% alcohol by volume	0.03235 cents per litre	\$0.3122 per litre
Beer with 1.2% to 2.5% alcohol by volume	0.0162 cents per litre	\$0.1561 per litre

## Air Travellers Security Charge (ATSC) Rates

ATSC rates are structured to include, where applicable, the goods and services tax or the federal portion of the harmonized sales tax (GST/HST). As a result of the GST/HST rate reduction, certain technical adjustments to ATSC rates are required in order to ensure that consumers receive the full benefit of the rate reduction. The proposed rates are shown in Table A3.14, below. The ATSC rate for other international air travel is not subject to the GST/HST and will remain unchanged.



The new rates will apply to tickets purchased on or after July 1, 2006.

Table A3.14  
**ATSC Rate Structure\***

	Current rates	Proposed new rates
Domestic (one-way)	\$5.00	\$4.95
Domestic (round-trip)	\$10.00	\$9.90
Transborder	\$8.50	\$8.42
Other international	\$17.00	\$17.00

\* The above amounts include the GST or the federal portion of the HST where applicable.

## **GST/HST Treatment of Debt Collection Services**

Budget 2006 confirms that debt collection services that are generally provided by collection agents to financial institutions are not financial services for GST/HST purposes and are therefore taxable.

## **Excise Tax on Jewellery**

An excise tax is imposed under the Excise Tax Act on jewellery manufactured and sold in, or imported into, Canada. The tax is payable by manufacturers on the sale price of domestically produced jewellery at the time of delivery to the purchaser, and by importers on the duty-paid value of imported jewellery in accordance with the provisions of the Customs Act. Jewellery exported from Canada is exempt from the tax. In addition to jewellery, whether real or imitation, the tax also applies to clocks (with a value greater than \$50) and articles made of semi-precious stones.

The proposed repeal of the excise tax applies to deliveries or importation of jewellery, clocks and articles made of semi-precious stones, on or after May 2, 2006, in accordance with the provisions of the Excise Tax Act that govern by whom and when the tax is payable.

## **Vintners and Small Brewers**

Budget 2006 proposes to support vintners and small- and medium-sized brewers by reducing the excise duties on certain wines and beer.



## **Excise Duty on Wine**

Excise duty is imposed under the Excise Act, 2001 on wine produced in Canada. The duty is imposed on the product at the time of packaging. Exports are exempt. In the case of imported wine, the duty is levied under the Customs Tariff at the time of importation. All producers and importers are required to hold a licence under the Act. Payment of the duty is deferred if the wine is placed in the producer's excise warehouse or delivered to the excise warehouse of a provincial liquor board.

Budget 2006 proposes to exempt from duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100 per cent Canadian-grown agricultural products.

The proposed relief will apply to all goods falling within the definition of wine in the Act (including ciders, wine coolers, fruit wines and sake) made from 100 per cent Canadian-grown agricultural products. The relief will be available to wine licensees operating in Canada.

The 500,000-litre threshold will be based on the quantity a licensee produces and packages during their particular fiscal year, for fiscal years that begin on or after July 1, 2006. If a licensee's current fiscal year commenced before July 1, 2006, the licensee will be eligible for relief in their current fiscal year in respect of their first 500,000 litres times the number of whole months remaining in the fiscal year divided by 12. For example, a vintner with a fiscal year beginning April 1, 2006 would be eligible for relief on the first 375,000 litres (500,000 litres times 9 divided by 12) in that fiscal year.

The 500,000-litre threshold calculation will include all eligible wine produced and packaged in Canada in a fiscal year, including wine that has been exempted or relieved from duty under the Act (e.g. for export, sale to duty free shops, or delivery for use as ships' stores). The threshold includes all wine produced by a wine licensee and packaged on behalf of the licensee.

To maintain the integrity of the excise duty system, associated company and related person rules similar to those in the Income Tax Act will be applicable. Wine licensees will also be responsible for maintaining adequate books and records to substantiate any relief claimed.

This measure will apply to wine packaged on or after July 1, 2006.



## Excise Duty on Beer

Excise duty is imposed under the Excise Act on beer produced in Canada. The duty is payable at the time of packaging. Exports are exempt. In the case of imported beer, the duty is levied under the Customs Tariff on the beer at the time of importation.

Budget 2006 proposes excise duty relief for beer produced by small and mid-sized brewers as set out in the following table:

Table A3.15

### Excise Duty Relief for Beer Produced by Small and Mid-Sized Brewers

Annual Production Volume (hectolitres)	Excise Duty Reduction	Proposed Rates as of July 1, 2006 for Regular Beer <sup>1</sup>
First 2,000	-90 %	\$3.122/hl
Next 3,000 (2,001 – 5,000)	-80 %	\$6.244/hl
Next 10,000 (5,001 – 15,000)	-60 %	\$12.488/hl
Next 35,000 (15,001 – 50,000)	-30 %	\$21.854/hl
Next 25,000 (50,001 – 75,000)	-15 %	\$26.537/hl
Over 75,000	Regular rate	\$31.220/hl

<sup>1</sup> Greater than 2.5% alcohol by volume.

Reduced rates of excise duty will apply to licensed Canadian brewers who have produced and packaged no more than 300,000 hectolitres (hl) of beer in the previous calendar year and do not exceed that limit in the current calendar year. Any brewer that exceeds the threshold or otherwise does not qualify for the duty relief in any calendar year will be required to pay the full rate of excise duty on all beer produced and packaged in that calendar year. Any excise duty relief already claimed during that calendar year will be required to be repaid with interest, starting from the first day that the amount should have been paid.



The 300,000 hl threshold calculation includes all beer produced and packaged by a licensed Canadian brewer in a calendar year, including exported beer. If a beer licensee packages beer produced by a different brewer, that quantity of beer is applied against the threshold of the licensee who is ultimately responsible for paying the duty.

For 2006, licensed Canadian brewers will be eligible for relief only in respect of beer they package on or after July 1, 2006. To qualify for the reduced rates in 2006, these producers must have produced and packaged no more than 300,000 hl in 2005 and not exceed that level in all of 2006.

To maintain the integrity of the excise duty system, associated company and related person rules similar to those in the Income Tax Act will be applicable. Licensed Canadian brewers will be responsible for maintaining adequate books and records to substantiate any relief claimed. Additional compliance and administrative mechanisms will also be introduced.

The proposed excise duty relief will apply to qualifying beer packaged on or after July 1, 2006.

## **Personal Income Tax Measures**

### **Personal Income Tax Rates**

The lowest personal income tax rate will be reduced to 15 per cent from 16 per cent effective January 1, 2005. The rate will be 15.5 per cent effective July 1, 2006. Accordingly, the full-year rate for 2005 will be 15 per cent, for 2006, 15.25 per cent and, for the 2007 and subsequent taxation years, 15.5 per cent. For the 2005 taxation year the 15-per-cent rate applies to taxable incomes of up to \$35,595. For the 2006 taxation year the 15.25-per-cent rate will apply to taxable incomes of up to \$36,378. The upper limit for the application of the 15.5-per-cent rate will be indexed for taxation years after 2006. These rates will also be generally used to calculate non-refundable tax credits and the alternative minimum tax for the 2005 and subsequent taxation years.

### **Basic Personal Amounts**

The basic personal amount—the amount that an individual can earn without paying federal personal income tax—will be increased by \$500 to \$8,648 for the 2005 taxation year. For the first half of 2006 it will then be increased by indexation plus a further \$200, for a total of \$9,039. The basic personal amount will be reduced by \$400 to \$8,639 on July 1, 2006 at the