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ARCHIVED - FEDERAL EXCISE DUTY ON WINE

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BACKGROUND

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 MEASURES

Rate Increase to Offset GST Rate Reduction

Budget 2006 proposed to increase alcohol excise duties on July 1, 2006, to offset the impact of the goods and services tax (GST) rate reduction. The increases in excise duties maintain the overall current federal tax burden on these products.

The excise duty on wine with greater than 7 per cent alcohol by volume was increased by 10.8 cents per litre (from 51.22 cents per litre to 62 cents per litre). On a typical 750 ml bottle of wine, the increase in excise duty amounts to about 8 cents.

Overall, the alcohol duty increases are designed to be revenue-neutral following the GST reduction. The federal tax burden on wine products will remain about the same as it is now.

Excise Relief for 100 Per Cent Canadian Wine

Budget 2006 proposed 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 product. After consultation with industry, it was decided to eliminate the 500,000 litre threshold and exempt all wine produced in Canada that is made from 100 per cent Canadian-grown agricultural product. The relief will come into effect on July 1, 2006.

Expansion of the relief will help the competitiveness of vintners of 100 per cent Canadian wine by reducing the excise duty on their product by 62 cents per litre (as of July 1, 2006). On a typical 750 ml bottle of wine, the relief will provide excise duty savings of 46.5 cents per bottle for producers of 100 per cent Canadian wines.

The estimated value of the additional relief is \$3 million per year, for total tax savings of over \$10 million in the first full year of this measure.

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