



Ottawa, Canada K1A 0G5

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Mr. Alistair MacGregor, M.P.
House of Commons
Ottawa, ON K1A 0A6



Dear Mr. MacGregor:

On behalf of the Minister of Finance, the Honourable Bill Morneau, thank you for your correspondence of June 14, 2017, written on behalf of your constituents, regarding the alcohol taxation measure proposed in Budget 2017 – *Building a Strong Middle Class*. The measure was included in Bill C-44, *Budget Implementation Act, 2017, No. 1*, which received royal assent on June 22, 2017.

Small businesses provide important goods and services, create opportunities, and strengthen communities across Canada. To be successful, small businesses need a growing economy and strong consumer demand. Budget 2017 is about creating good, well-paying jobs today for Canada's middle class, while also preparing Canadians for the jobs of tomorrow. At a time when advances in technology are changing the way Canadians work, the Government of Canada is making smart, responsible investments that will equip Canada's workers with the tools they will need to succeed.

It is also important to note that Canadian small businesses benefit from a supportive tax environment. In 2017, the average combined federal-provincial small business tax rate is 14.4 percent, which is significantly lower than the average combined general corporate tax rate of 26.7 percent. Internationally, Canada's small businesses tax rate is lowest in the G-7 and fourth lowest among Organisation for Economic Co-operation and Development countries. This reduced tax rate allows small businesses to retain more earnings that can be reinvested to help firms grow and create jobs.

In addition to generous tax support, small and medium-sized enterprises also benefit from direct program support for scaling up, including access to financing and foreign markets, support for innovation, and services to build entrepreneurial and management capacity. Of note are services and products offered by the Business Development Bank of Canada, as well as the Canada Small Business Financing Program, which helps small businesses obtain loans to finance equipment and leasehold improvements.

The Government has also been a strong advocate for making progress on interprovincial trade in alcohol. The *Canadian Free Trade Agreement*, which came into effect on July 1, 2017, creates, for the first time, a federal-provincial-territorial working group that will submit a report within one year of the agreement's entry into force, recommending ways to liberalize the interprovincial trade in alcohol.

The Government recognizes the significant contribution that the Canadian alcoholic beverage industries make to the national economy through job creation and sales of high-quality products.

Budget 2017 proposed to increase the excise duty rates on alcohol products by 2 percent for duty that becomes payable after March 22, 2017. The excise duty rate on typical beer will increase from \$31.22 per hectolitre (1 hectolitre equals 100 litres) to \$31.84 per hectolitre. The excise duty on typical wine will increase from \$0.62 per litre to \$0.63 per litre. The excise duty on typical spirits will increase from \$11.696 per litre of absolute ethyl alcohol to \$11.930 per litre of absolute ethyl alcohol.

This measure represents a small excise duty increase in 2017 of approximately 5 cents per 24 bottles of beer, approximately 7 cents per typical bottle of spirits, and less than 1 cent per standard bottle of wine.

Budget 2017 also proposed to automatically adjust these rates to account for inflation on April 1 of every year, starting in 2018.

The alcohol excise duty rates were effectively last adjusted in the mid-1980s. Adjusting the alcohol excise duty rates on an annual basis to account for inflation is required to maintain their effectiveness over time. Doing so will also help avoid disproportionate ad hoc increases in the future. Other jurisdictions, including a number of provinces, also adjust their alcohol taxes or mark-ups on an annual basis to account for inflation.

Canadian vintners will continue to benefit from an exemption of excise duty on wine produced from 100-percent Canadian-grown agricultural products, and Canadian brewers will continue to benefit from decreased rates on the first 75,000 hectolitres of beer produced per year.

Thank you for writing on behalf of your constituents.

Sincerely,



Allie Chalke
Policy Advisor
The Office of the Honourable Bill Morneau – Minister of Finance