

**Written Submission for the Pre-Budget
Consultations in Advance of the 2019 Budget**

By: Beer Canada



Recommendations

- Recommendation 1 - That the Federal Government eliminate inflation-indexed federal excise duties on beer by repealing from the *Excise Act*:
 - Section 170.2 clauses 1, 2, 3 and 4
 - 1(b), 2(b) and 3(b) of Part II of the Schedule
- Recommendation 2 – That, in place of indexing beer taxes to inflation, the Federal Government review excise rates from time-to-time taking inflation into account as a guide and proposing any future increases to Parliament.

Beer Canada appreciates the opportunity to contribute to the Finance Committee's 2019 Pre-Budget Consultation themed "Ensuring Canada's Competitiveness".

Beer Canada is the national voice of domestic brewers with 50+ members from across the country. Our members collectively account for 90 percent of the beer brewed domestically.

Canada's brewers account for more than 70 percent of the Gross Domestic Product (GDP) generated by the entire domestic beverage alcohol sector. In 2017, Canada's brewers produced 22.4 million hectolitres of beer, exported 1.7 million hectolitres to the U.S., employed 14,810 Canadians and paid \$969 million in wages.^{1,2,3,4}

Canadian beer accounts for 85 percent of all beer sold in Canada. The Conference Board of Canada estimates beer sales support 149,000 jobs, \$5.3 billion in wages and \$5.7 billion in government tax revenues.⁵ In 2017, Canadian brewers paid \$571 million in federal excise duty.⁶

Beer Canada's top priority is to fix recent federal legislation that hikes excise duty rates on beer annually by the rate of inflation. This "escalator tax" is bad tax policy. It's too rigid, feeds higher prices and impairs the industry's competitiveness. We are not opposing excise duties on beer, nor are we saying excise should never be increased. What we do oppose is an escalator mechanism that automatically increases the tax on beer without a vote, analysis or consideration of the economic realities brewers and beer drinkers are up against.

The Federal Government enacted similar tax legislation in 1980 but repealed it in 1985.^{7,8} The reasons for repealing it then, continue to apply today.

The Escalator Tax Mechanism is Too Rigid:

Two recent economic events provide perfect examples of why the Federal Government's new escalator tax mechanism is too rigid and needs to be repealed.

The U.S. Tax Cuts and Jobs Act has made tax competitiveness vis-à-vis the U.S. a top priority for Canada. U.S. brewers are already formidable competitors in the Canadian beer market. The U.S. is the largest importer of beer into Canada, accounting for 30 percent of all imported beer sales by volume in 2017.⁹

The U.S. Tax Cuts and Jobs Act is complex but the benefit to U.S. brewers is crystal clear and in stark contrast to the burden the Canadian government is imposing on its local brewing industry. The Act lowered U.S. excise duties paid by American brewers. Excise on the first 60,000 barrels of beer is cut in half to \$3.50 per barrel. For barrelage over 60,000 all the way up to 6 million, the excise rate is cut from

¹ Statistics Canada Table 36-10-0434-01

² Canada Revenue Agency.

³ Statistics Canada CATSNET Analytics

⁴ Statistics Canada Table 36-10-0480-01.

⁵ Brewing Up Benefits, The Conference Board of Canada, January 2018.

⁶ Public Accounts Canada, 2016-2017, Vol. II, 16.9.

⁷ The Budget, October 28, 1980, page 16. <https://www.budget.gc.ca/pdfarch/1980-plan-eng.pdf>

⁸ The Budget, May 23, 1985, page 77. <https://www.budget.gc.ca/pdfarch/1985-pap-eng.pdf>

⁹ Statistics Canada, CATSNET Analytics.

\$18 to \$16 per barrel.¹⁰ The Act will lower the excise duty burden on U.S. brewers by \$280 billion dollars by the end of 2019. American brewers will invest these tax cuts into their breweries, pay down debt and become more aggressive competitors. Meanwhile in Canada, by the end of 2019, our Federal Government will have layered an additional \$63 million in annual tax burden on Canadian brewers, making domestic brewers less competitive.

There has been uncertainty and concern about trade since the election of President Donald Trump in 2016. The Government was wrong to impose a regime that annually and automatically increases the tax burden on brewers with so much uncertainty on the horizon. With two back-to-back increases already adding \$25 million in additional tax burden, Canadian brewers are now also faced with having to absorb tariffs on aluminum cans.

In March of this year, the U.S. imposed a 10% tariff on aluminum. An exemption for Canadian aluminum was eliminated on June 1 and on July 1, Canada retaliated with a 10% tariff on U.S. aluminum beer cans. Canadian brewers rely on U.S. aluminum can supply. Canada's tariff adds an estimated \$10.5 million to the brewing industry's input costs.

Despite the legitimate concern brewers have expressed with regard to trade and tax competitiveness, the rigid escalator tax policy will increase beer taxes again in 8 months unless it is repealed in Budget 2019.

The Escalator Tax Feeds Higher Prices

There are many layers of tax hidden in the price consumers pay for beer. An increase in the federal excise tax has a knock-on effect that pushes prices up by more than just the excise duty increase. Using New Brunswick as an example, a federal excise increase of five cents per case ladders up to twice that (\$0.11) at the cash register. This is because of the 90 percent liquor board markup and 15 percent HST that gets applied on top of excise. The escalator will cause this to happen every April 1, one increase on top of another. Restaurants and bars apply their markup which compounds the effect of the excise increase by even more than at retail. Consumers respond to higher taxes by purchasing less or substituting with lower tax alternatives.

Retail and food service industries account for two-thirds of the jobs supported by the sale of beer in Canada.¹¹ These industries skew toward hiring younger workers, a cohort with an unemployment rate of 11.7 percent as of June 2018, which is double the average unemployment rate for all age groups.¹² Higher beer taxes lead to lower beer sales which will hurt job opportunities for young Canadians in retail and food service industries.

The federal escalator tax uniformly raises the price of beer regardless of the economic conditions in a particular region of the country. The unemployment rate in Newfoundland was a seasonally-adjusted 14.2 percent in March 2018. It was 5.6 percent in Quebec. Despite Newfoundland having more than twice the amount of unemployment as Quebec, the Federal Government's new escalator tax legislation hikes excise rates by the same amount in both provinces regardless.

¹⁰ U.S. Craft Beverage Modernization and Tax Reform Act January 1, 2018

¹¹ Brewing Up Benefits, The Conference Board of Canada, January 2018, page 8.

¹² Statistics Canada Table 14-10-0287-01.

The Escalator Tax Impairs Competitiveness

Brewers, like any manufacturer, must keep production costs low to stay competitive. The federal excise duty on beer is a tax levied against the volume of beer a brewer produces. It is a tax on production. Any excise duty increase raises a brewer's cost of production.

The escalator tax results in the Government imposing higher production costs with no regard for the other market realities a brewer faces. Consider the context in which the government introduced the 2017 legislation that imposes the escalator tax: From 2013 to the end of 2016, domestic sales of beer made in Canada dropped by 3.6 million cases.¹³ During this period, salaries and wages paid by domestic brewers increased by 21.7 percent. Energy and water utility costs increased by 17 percent. Vehicle fuel costs increased by 16 percent. Materials and supplies purchased by brewers increased by 35.8 percent.¹⁴ And provincial governments increased beer taxes 24 times.¹⁵ Automatically increasing a production tax on an agri-food industry struggling with higher input costs and declining sales goes against the federal Government stated goal of wanting to help Canadian industry grow and compete.

Consumers have alternatives to buying highly-taxed beer. They can avoid escalating beer taxes by making their own beer at a brew-on-premise (u-brew) facility where federal excise duties do not apply. High beer taxes could also induce more Canadians to brew at home and avoid all taxes other than sales tax on materials.

Higher beer prices encourage consumers to purchase beer in the United States before returning home from a trip. The reason beer is cheaper in the United States is because taxes are considerably lower. On a typical case of beer in Canada, \$20.31 of the retail price is beer-specific tax. In the United States, for the same case of beer, just \$4.12 of the retail price is tax.¹⁶ Duty-free beer purchased in the United States derives no tax benefit to the Federal Government.

Beer does not only compete against wine and spirits. It competes against tea and coffee for social occasions as well. Per capita tea and coffee consumption has increased by 17 and 14 per cent respectively over the last 20 years while per capita beer consumption has declined by 11 percent.¹⁷ Canadian brewers purchase 300,000 tonnes of malting barley from Prairie malt barley farmers every year. Canada imports tea and coffee. There is 13-15 percent sales tax on a cup of tea or coffee. By contrast, 47 percent of the price of beer is government tax.

Beer will now also have to compete with legal recreational marijuana. The Federal Government has made it clear that it plans to keep the price of marijuana low, ostensibly to eliminate the black market. It has set a very low excise tax on marijuana with no escalator mechanism. High beer taxes makes domestic beer less competitive when stacked up against low tax marijuana. Canada has set the combined federal/provincial tax on marijuana to be \$1 per gram if under \$10, and 10 percent if the price

¹³ Beer Canada, 2018 Industry Trends Report. Case is 24x355ml cans.

¹⁴ Statistics Canada Table 16-10-0117-01 Principal Statistics for Manufacturing Industries.

¹⁵ Beer Taxes: A Canadian – U.S. Comparison, May 2018, Appendix A.

¹⁶ Beer Taxes: A Canadian – U.S. Comparison, May 2018, page 3.

¹⁷ Statistics Canada Table 32-10-0054-01, Foods Available in Canada, per capita based on total population.

per gram is higher than \$10. Combined with sales tax, the tax on a gram of recreational marijuana will be 20-25 percent compared to beer's 47 percent tax.

In the 2017 Budget, the Government said the escalator tax was necessary because "over time, excise duties have represented a smaller and smaller portion of the total price of alcohol products, reducing their effectiveness".¹⁸ The Government once before, in 1980, passed legislation to index the tax on beer. Then, as now, the Government rationalized automatic tax increases based on wanting to "maintain their real value".¹⁹ The 1980 legislative provisions introducing indexation were repealed in 1985 "because automatically increasing the excise levies on alcohol products in accordance with a rigid formula is not appropriate".²⁰ The same logic applies today.

Beer Canada requests that the Finance Committee recommend eliminating the escalator tax mechanism from the *Excise Act* by repealing:

- Section 170.2 clauses 1, 2, 3 and 4
- 1(b), 2(b) and 3(b) of Part II of the Schedule

The excise tax on beer is expressed as specific amounts of tax per litre as opposed to an ad valorem tax which is expressed as a percentage of price. An ad valorem tax adjusts up and down with changes in price while a fixed volumetric levy does not. In place of indexing beer taxes to inflation, Beer Canada requests the Finance Committee recommend that the Federal Government review excise taxes from time-to-time taking inflation into account as a guide. This process would be more democratic and require the Government to review excise duty increases with a view to "ensuring Canada's competitiveness".

¹⁸ The Budget, March 22, 2017, page 211. <https://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf>

¹⁹ The Budget, October 28, 1980, page 16. <https://www.budget.gc.ca/pdfarch/1980-plan-eng.pdf>

²⁰ The Budget, May 23, 1985, page 77. <https://www.budget.gc.ca/pdfarch/1985-pap-eng.pdf>