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Three Months until Beer Tax Hike in Ontario

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It has never been a better time to start a craft brewery in Ontario. Craft beer is extremely popular and regulatory changes appear to be on the horizon that will make opening and running a brewery more lucrative. All brewery owners should be aware of certain special taxes that apply solely to the production and sale of alcohol and on November 1, 2015 Ontario will introduce a new tax increase on the beer you make.

Beer is subject to three taxes in Ontario:

1. Basic Beer Tax
2. Volume Tax
3. And if applicable, an Environmental Tax.

Whereas these taxes are adjusted annually for inflation, this year the adjustment will include an additional \$0.03 increase per Litre. For some microbreweries this could mean an increase of \$150,000.00 per year in tax remittances.

The Basic Beer Tax is calculated based on volume of beer bought. The Basic Beer Tax rate depends on whether the beer bought is draft or bottle and whether it was bought from a beer manufacturer, microbrewery, or brew pub.

The Beer Volume Tax is also based on the volume of beer bought. It is \$0.176/L whether the beer is draft or bottled. The Beer Volume Tax does not apply to draft beer made and sold in a brew pub.

The Environmental Tax only applies to beer packaged and sold in non-refillable containers.

Microbreweries are taxed at a different rate than larger manufacturers. In order to be considered a microbrewery in Ontario worldwide production must not be more than 50,000 hectolitres. Microbreweries are taxed approximately 60% less per litre than larger beer manufacturers. However, once a microbrewer exceeds the 50,000 hL limit, the first litre sold in the next year will be taxed at the higher per litre tax rate. On the federal level, this is not the case. Federally, the first 75,000 hL are taxed at a lower rate.

The Canadian federal tax structure mirrors the graduated federal excise tax structure in the United States. The recently introduced and awkwardly named Fair Brewers Excise and Economic Relief Act of 2015 (the FAIR BEER Act) creates a graduated federal excise tax structure as follows:

- No excise tax on the first 7,143 barrels;
- \$3.50/barrel on barrels 7,144-60,000;
- \$16/barrel on barrels 60,001-2 million; and
- \$18/barrel on every barrel above 2 million.



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A barrel is approximately 119L.

Ontario does offer some reprieve for medium size breweries. Tax credits are available for some beer manufacturers with permanent establishments in Ontario who produce more than 50,000 hL but less than 150,000 hL per year.

Beer taxes must be reported monthly and remitted to the Ministry of Finance by the 20th of the next month.

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