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An Examination of Beer Taxation in Canada

Executive Summary

Canada has some of the highest taxes on beer in the world. Today, almost 50% of the price we pay for beer consists of taxes. The complexity of the tax load is hidden behind a series of charges and markups imposed by liquor boards and provincial and territorial, and federal governments. It is time for a re-examination of this situation—and as conversations concerning the "pandemic recovery" spread, now is a good time to undertake this review. As we take the path through and beyond the global pandemic, we have the opportunity to build stronger, more equitable solutions to Canadian society's biggest issues. One key question concerns the matter of who will pay for the COVID recovery, but it is clear that the financial burden should not be shouldered by those most impacted by the pandemic. Multinational companies, particularly those who pay no or inadequate taxes at the moment, need to pay their fair share. Tax structures should be reviewed through a lens of fairness. Governments will inevitably need to raise revenue, but they should resist the urge to return to the familiar playbook of raising beer taxes further.

Introduction

COVID-19 has impacted every facet of Canadian life. Families, communities, schools, and businesses have had to reshape what "normal" looks like in the face of the worst global health crisis in generations.

As we collectively move through and past the global pandemic, the conversation about what post-COVID Canadian society will look like and who will pay for the ecovery is an important one. The 2020 Federal Fall Economic Statement showed the heavy economic impact of COVID-19 on the Canadian economy and forecasted a federal deficit of over $380 billion for the 2020–21 fiscal year. Many have pointed out that the pandemic recovery provides an opportunity to build our society differently and a chance to tackle some of society's most pressing issues, such as climate change and economic inequality. One fact must hold true: the burden of rebuilding cannot be borne disproportionately by the public, especially those who have been hit hardest by the pandemic. Workers and families cannot afford to pay for the entire recovery, nor should they have to. Wealthier Canadians and corporations, many of whom presently pay no tax at all, need to contribute more. In the current context, the matter of beer taxes in Canada should serve as a cautionary tale.

The Canadian Beer Industry

An ever-increasing and complicated list of taxes, including federal excise taxes, provincial and territorial taxes, and markups, has resulted in Canada having some of the highest taxes on alcohol in the world.

Beer Canada, the beer-producing industry's trade association, estimates that, on average, taxes make up almost half the price of beer paid by consumers. The fact that the majority of these taxes are embedded in the price of the product means that consumers do not see their weight. Globally, Canada has had a competitive advantage in making beer. Proximity to large supplies of malt barley and fresh water makes it easier to manufacture beer in this country than in many other nations. Beer, especially domestic beer, is in many ways tied to the so-called "Canadian identity." Beer commercials and Beer Store pamphlets often show a cold beer with a Muskoka chair, hockey players or skaters on an ice rink, or other national icons. In 2019, 85% of the beer consumed in Canada was brewed in Canada,[1] and beer sold in Canada has three times the economic impact of wine and spirits combined.[2] The Conference Board of Canada concluded that almost every industry and every level of government benefits to some degree from the national beer economy.[3] In 2019, the beer industry contributed nearly $13.6 billion to Canada's gross domestic product, and in 2016, it was responsible for $5.7 billion worth of government tax revenues.[4]

Furthermore, the health of the beer industry does not benefit only brewers; all parts of a complex supply chain benefit as well. For example, Canadian brewers purchase 300,000 tonnes of Canadian barley annually. Other inputs include malting, grain handling, bottling or canning, packaging, warehousing, transportation, marketing, and promotion. Distributors such as stores, licensed establishments, and exporters benefit too. And the industry is growing. Most of Canada's breweries are now small-sized and local operations, with 94% of breweries producing less than 15,000 hectolitres of beer.[5] In 2019, domestic production went up by 4.2%,[6] and from

2018 to 2019, the number of brewing facilities in Canada jumped 12.9% from 995 to 1123.[7] The beer industry provides 149,000 Canadian jobs with a total labour income of $5.3 billion a year, and for every direct job, another 0.55 indirect jobs are supported through the supply chain.[8] In fact, 1 in every 120 jobs in Canada is supported directly or indirectly by the beer economy.[9] As a value-added manufacturing industry, beer production provides good, well-paid, and often unionized jobs. The Canadian Brewery Council is a coalition of over 20 Brewery Union locals across Canada (including UFCW Local 12R24, which represents over 6,000 employees working at The Beer Store in Ontario, and the Canadian Union of Brewery and General Workers, representing workers at Molson Breweries).[10]

And unionization is growing as more breweries emerge. In October, Turning Point Brewing Company workers in British Columbia joined the Service Employees International Union (SEIU) Local 2, in what they called "one of the most significant brewery unionizations in the province in decades". SEIU Local 2, which was established as a brewery workers' union in 1902, is focusing on investing more resources into organizing the craft and independent brewery sector.[11] SEIU Local 2 was among the unions that signed onto the "Freeze It for Them" campaign that is calling for governments across the country to freeze beer taxes.

Beer is Canada's most popular alcoholic beverage product and accounts for 41.5% of total alcohol sales through liquor boards and retail outlets.[12] The overall volume of beer purchased has stayed stable over the last decade, though per capita consumption has declined by 10%. The decline can be explained because of price increases, demographic changes, and increased competition from other beverages.[13] But beer remains an expansive and integrated Canadian industry, impacting the lives of almost all Canadians, whether as workers or consumers or both.

Beer Taxes: Canada Isn't Measuring Up Globally

The taxes paid on beer make up a complicated patchwork.

Beer taxes include federal excise tax, federal sales tax, provincial and territorial beer commodity tax, and provincial and territorial sales tax, as well as charges and markups. In the end, most of these costs are downloaded to the consumer, with taxes making up an average 47% of the price of beer sold.[14] The consumer beer tax, on average, is about five times higher in Canada than in the United States.[15]

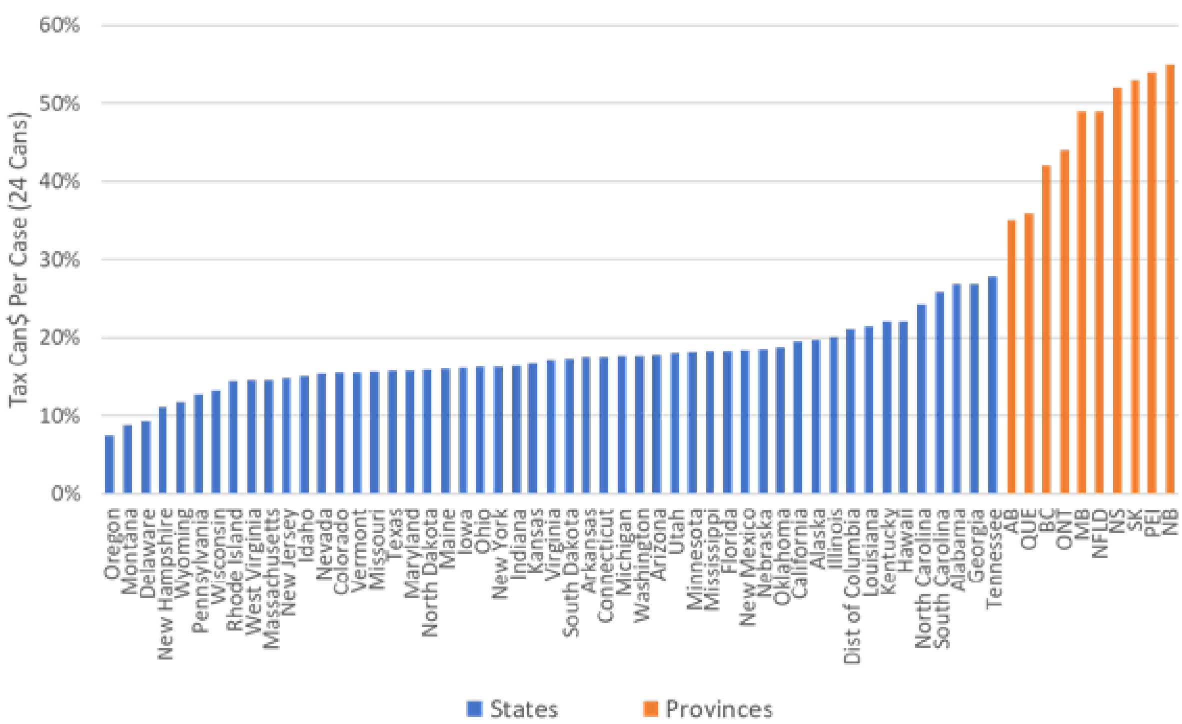
Excise Taxes: The Escalator Tax That Won't Stop Climbing

In Canada, federally funded initiatives are financed mainly by personal income taxes, corporate income taxes, consumption taxes, and social security contributions.

Consumption tax is a tax levied on sales of goods or services, including general sales taxes, excise taxes, value-added taxes, and tariffs. Unlike a sales tax that applies to almost all consumer goods, excise tax is a consumption tax placed only on specific goods. It is a flat tax, whereas sales tax is a percentage of the sale price. In Canada, both taxes are applied to beer. At the federal level, alcohol production is monitored and taxed by the Canada Revenue Agency through the Excise Duty Program held by the *Excise Act*. The federal government collects both the beer excise tax at the time of production and the federal sales tax at the time of consumption.[16]

For domestic producers, excise taxes are paid by businesses at the point of manufacturing, not sale. For importers, they are paid at the time of import. The federal excise tax has increased four times in the last three years, and a hike in excise taxes almost always increases prices for consumers. When stacked up against countries in the European Union or against the United States, Canada's beer tax rates are as much as 180% higher (see Figure 1).

Figure 1. Total Beer Consumer Tax as Percentage of Price: Canada vs. the United States (Including Sales Taxes)



NOTE: These tax percentage estimates include federal and state/provincial beer commodity and sales taxes in each jurisdiction. The U.S. examples are based on 24-pack price examples from 2016. The Canadian estimates are based on Beer Canada which estimates the tax load on the ten top-selling products in each province in 2017. SOURCE: Mander, *Beer Taxes: A Canadian-U.S. Comparison.*

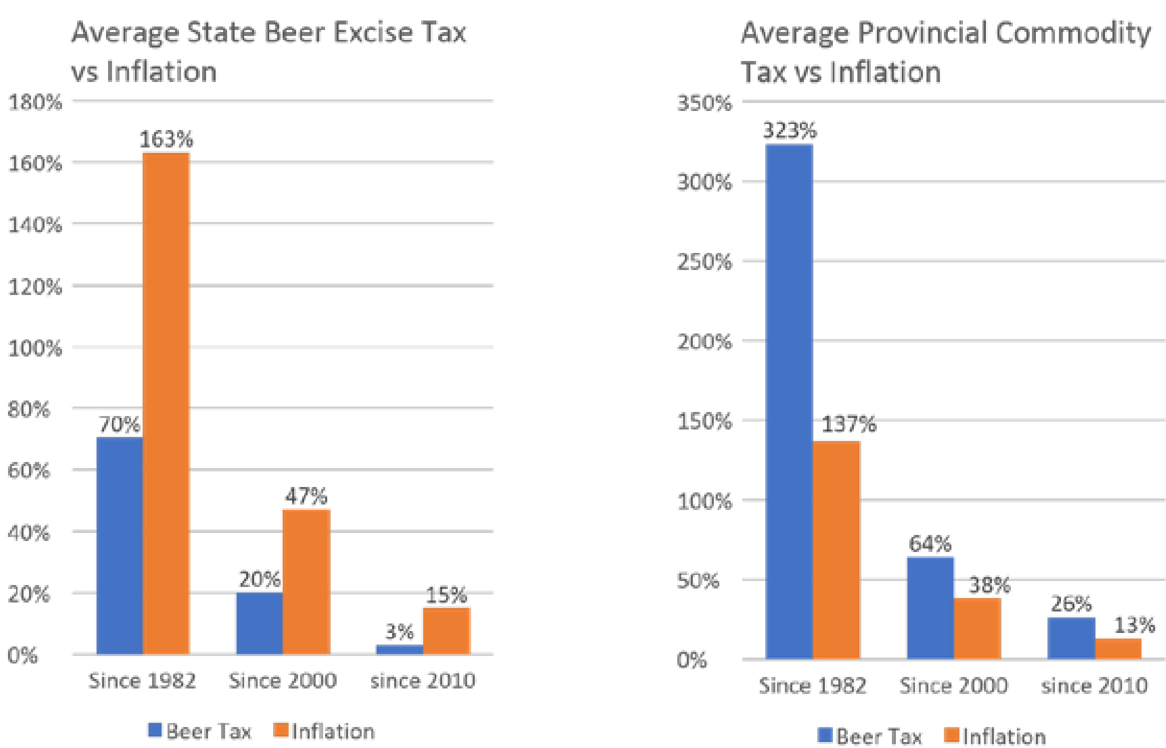
Excise taxes are all selective taxes on specific goods and services—most notably, alcohol, tobacco, and petroleum. This type of tax has been around for centuries, including an excise tax levied on salt in Europe during the Middle Ages. Salt was targeted because its supply was dependable and it was therefore a secure source of revenue.[17] In 19th-century Europe, most excise taxes were absorbed into broader general taxes on goods and services, but excise taxes on tobacco, alcohol, and petroleum products have remained prevalent around the world.[18] In Canada, alcohol excise taxes have been a component of the tax base since before Confederation. In the early 18th century, for instance, this revenue stream funded the first grammar school in Nova Scotia. Until the mid-20th century, when personal income taxes began to be levied, about 15% of government revenue came from excise taxes on alcohol.[19] Excise taxes are particular in coverage and discriminatory in intent, and they are justified on more than just revenue-raising grounds.[20]

They are appealing revenue sources because they are easy to identify and administer and because consumption often stays high on the products to which excise taxes are applied, even when prices are raised.[21] It is generally understood that broad-based taxes are less distortionary and better for the economy and that broad sales taxes and value-added taxes are better for economic growth than excise taxes. Further, broad-based taxes garner the same revenue as excise taxes. Historically, however, a few rationales have supported the imposition of excise taxes. Take excise taxes on alcohol, for instance. First is the fact that they control externalities. Like excise taxes on petroleum being used to pay for the cost of some highway maintenance, excise taxes on alcohol are often explained as a way to pay for the social costs of alcohol abuse, including health care costs. In addition, excise taxes are sometimes referred to as “sin taxes”; used to discourage consumption. While some research suggests that there is a cause-and-effect factor whereby higher prices lead to less consumption, the drop in consumption is proportionately smaller than the increase in prices.[22] Given that Canadian taxes are already so high compared to those in many other jurisdictions, it is difficult to draw the conclusion that continuing to raise Canadian excise taxes on beer will reduce alcohol consumption.

In 2017, legislation was passed to implement an annual automatic increase in the federal excise tax, often referred to as an escalator tax.[23] [24] This decision was met with a backlash because of Canada’s already exceedingly high tax rates. Further, the automatic nature of the increase allows Parliament to skirt around necessary inquiry and approval or disapproval in any systematic fashion. It also allows the government to keep levying this increasing tax even when economic circumstances change—as they have, drastically, as a result of the pandemic. Beer Canada objected to the automatic increases on many grounds, including the fact that they would severely hurt domestic brewers, which create jobs and economic growth. They also argued that the legislation was inconsistent with Canada’s National Alcohol Strategy and the direction recommended by the Prime Minister’s Economic Advisory Panel.[25] Canadian provinces cannot legally collect excise taxes, but Ontario and Quebec apply direct commodity taxes to beer consumers that are very similar to the federal excise tax.[26] Ontario charges “pre-collected consumer taxes”; for beer. Manufacturers have to report them monthly to the Ministry of Finance, and while legally, they are payable by the end consumer, the manufacturer must first pay them at the point of shipment.
The manufacturer then remits the pre-collected consumer taxes on all the beer they ship for sale in Ontario and builds those taxes into the price of the product.[27] The process is similar in Quebec. Ontario and Quebec are the only two provinces/territories where provincial/territorial beer commodity taxes are subject to the oversight of the provincial/territorial legislatures. All other provinces and territories collect provincial/territorial beer commodity charges as liquor board charges or markups. In some instances,

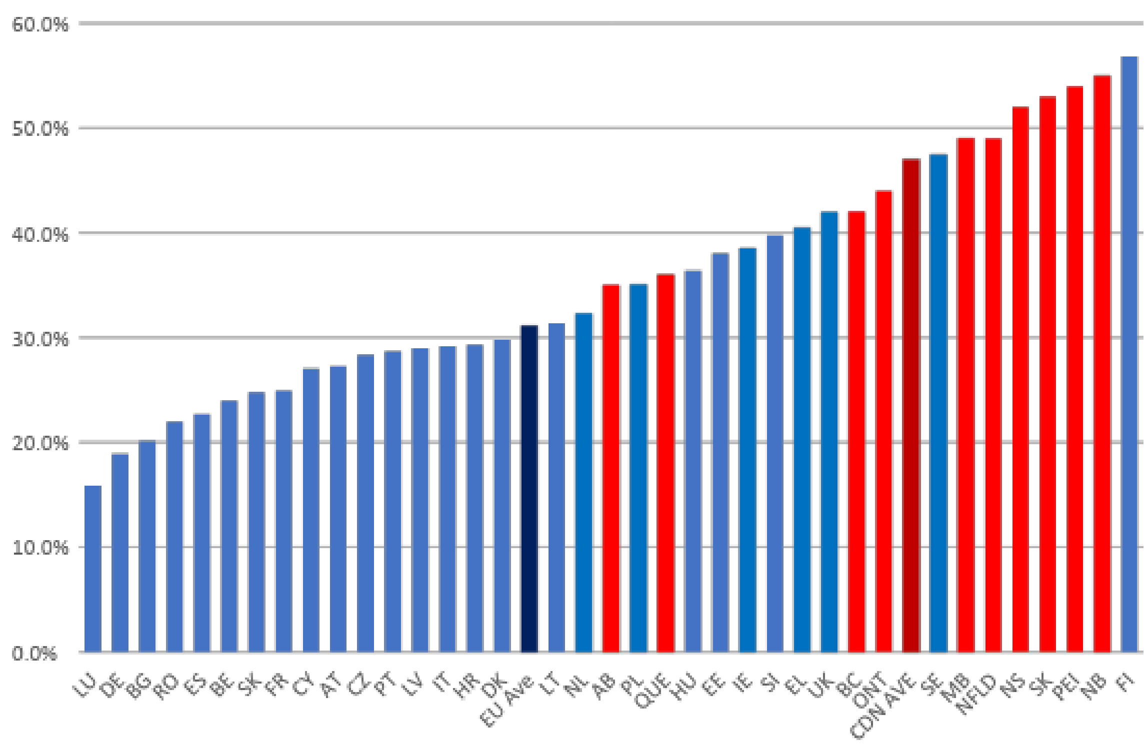
this also happens in Quebec and Ontario, but in the case of these two provinces, these charges and markups are in addition to the commodity taxes overseen by their respective legislatures.[28] All the provinces and territories also collect sales taxes on beer sales, some of which have been harmonized with other consumer goods. The ad-valorem taxes collected as liquor board markups are calculated based on a percentage of the price. This creates a tax-on-a-tax effect (or tax multiplier), where an increase in a tax levied by one level of government is then subject to a percentage-based tax levied by again, usually by another entity or government.[29] Canadian provincial sales taxes generate twice as much as state sales taxes in the U.S.[30] Indeed, the average provincial commodity beer taxes have increased at double the rate of inflation since 1982. They are 13 times more than average U.S. state excise beer taxes (excluding sales taxes) (see Figure 2). Since 2012, provincial consumer taxes on beer have increasedsignificantly: Quebec (58%), Ontario (18%), Manitoba (19%), Saskatchewan (24%), and Alberta (28%).[31]

Figure 2. Taxes on Beer Compared to Inflation in American States and Canadian Provinces



Now combined federal excise and sales taxes on beer in Canada are almost 180% higher than U.S. federal beer taxes.[32] Beer taxes in Canada are higher in terms of absolute dollars and as a percentage of the selling price. On average, 47% of the retail price in Canadian provinces is made up of taxes, whereas taxes constitute only 17% of the retail price in states in the U.S. (see Figure 1). Similarly, Canadian provinces have higher beer tax rates than almost all countries in the European Union (see Figure 3). In Canada, the combination of regular beer tax increases such as increases to the federal excise tax and the annual automatic increases, the tax multiplier effect, and the taxes collected as liquor board markups result in the tax load being significantly higher for beer in Canada than in the U.S and in many countries in the E.U.

Figure 3. Total Beer Consumer Tax as Percentage of Price: Canada vs. the European Union (Including VAT and Sales Taxes)



NOTE: The tax estimates shown here include beer commodity taxes and sales taxes. Note also that tax percentage estimates will vary depending on product price points. E.U. prices are based on Numbeo consumer input regarding beer prices at grocers as of January 2021. The Canadian estimates are based on the Beer Canada estimate of the tax load on the ten top-selling products in each province in 2017.

Within the chorus of voices calling for tighter scrutiny and slower growth of the tax burden on brewers is that of Beer Canada, which has represented Canadian brewers since 1943 and whose members account for 90% of the beer produced in Canada. This association launched the Freeze It for Them campaign earlier this year. Supported by unions such as SEIU Local 2, this campaign is based on the reality that "Canadian consumers, small businesses and the thousands of people working in areas hit hardest by the pandemic—restaurants, hospitality, agriculture, tourism, manufacturing, and transportation—need our support. Freezing beer tax increases is one small step in providing relief where it's needed most."

Pandemic Recovery

COVID-19 has illustrated the consequences of inequality in Canada and highlighted the significant gaps in our social safety net—in the areas of health care, income support, housing, and school systems.

However, the pandemic recovery offers us the opportunity to create permanent, sustainable, and equitable solutions. Government spending is necessary and must continue for the country to get through the pandemic, to keep our communities safe, and to mitigate the social and economic impacts of the coronavirus. The federal government's fall economic update projected that combating COVID-19 will bring the national deficit to at least $381.6 billion this fiscal year,[33] and it is a fact that progressive tax reforms will be needed to pay the bill. Despite neoliberal rhetoric that seeks to make us believe that tax cuts and social services are not connected, tax cuts will not have a negative effect on social services. A healthy level of taxation is required in order to maintain the social collective and pay for education, health care, and a network of programs that allow communities and families to thrive. As we look down the road at a "pandemic recovery," taxes will help rebuild Canadian society and, hopefully, make services more accessible for all. Which raises the question: Who should shoulder the burden of those taxes?

While the beer industry has struggled through the pandemic, Canada's top billionaires grew their wealth by more than $50 billion between April and October of 2020.[34] The top 1% increased their share of total wealth (which is now more than a quarter of all net wealth in the country) from 2010 to 2019, whereas the share of all other groups declined during that time period. One reason for this is that Canada does not have a wealth, estate, or inheritance tax. At the end of 2019, Canadian corporations held $380 billion in offshore tax havens.[35] While countries such as France, Denmark, and Poland refused to provide COVID-19 aid to companies using tax havens, Canada has not done the same.[36] An annual increase in excise taxes levied without scrutiny, along with the existing medley of provincial taxes and charges and markup, creates a great disadvantage for the beer industry and, as such, represents an inequity that needs to be rectified. The 2020 Ontario Budget announced that Ontario will freeze beer tax rates until March 2022 because of the economic hardships the hospitality sector and the beverage alcohol sector have been and still are facing during the pandemic.[37] The federal government and more provinces should consider taking similar measures. As governments wrestle with how to pay for the pandemic recovery, it's time to rethink our tax structures, while looking through a lens of fairness.

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