

Cost estimate of alcohol excise duty relief – Update



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This note is an update to the cost estimate published on June 17, 2024, which contains a revision and improvement to the calculation of the breakdown of total cost between the different types of alcohol. It also incorporates more recent Consumer Price Index (CPI) data and forecasting which slightly reduces the total cost over five years. Lastly, it now provides a breakdown of the cost between foregone excise duty revenue and foregone GST revenue.

In an announcement on March 9, 2024, the government proposed two measures to provide excise duty relief to alcohol producers.¹ These measures would be in place for the 2024-25 and 2025-26 fiscal years. The first measure will maintain the yearly increases on excise duty rates at 2 per cent, instead of the yearly increases being tied to inflation.² The second measure is a further reduction of 50 per cent on the excise duty applied to a brewer's first 15,000 hL of beer brewed in Canada.³

The PBO estimates these measures will have a fiscal cost of \$356 million over 5 years, of which \$343 million will come from the reduction in excise duty revenues and \$14 million will come from the reduction in GST revenue stemming from lower prices induced by the excise duty relief. In each year of this costing, the policy changes would reduce the total alcohol excise duty revenue by about 3 per cent while the reduction in GST revenue is negligible.

¹ For more information, consult: [Supporting Canadian businesses with alcohol excise duty relief](#). This measure was included in Bill C-69: [Budget Implementation Act, 2024, No. 1](#).

² The government had also capped the 2023-24 alcohol excise duty increases at 2 per cent.

³ One hectoliter (hL) is equal to 100 liters.

5-Year Cost

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Annual increase capped at 2% - Spirits	20	26	27	28	29	129
Annual increase capped at 2% - Beer	19	24	25	25	25	119
Annual increase capped at 2% - Spirits coolers	3	4	4	4	5	19
Annual increase capped at 2% - Wine	8	11	11	12	12	53
50 % reduction on first 15,000 hL of beer	11	11	0	0	0	22
Foregone GST	3	3	2	3	3	14
Total cost	63	79	69	71	73	356

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.
- The 2024-2025 cost of foregone GST revenue does not account for the GST Holiday from December 14, 2024, to February 15, 2025, on some alcoholic beverages announced on November 21, 2024.

Estimation and Projection Method

The PBO excise tax model was used to estimate the revenue from the excise tax on alcohol. Because different rates apply to different types of alcohol, the model includes four categories: spirits, beer, spirit coolers and wine. The model was run in three scenarios: in the baseline scenario without a policy change, in the scenario with the 2 per cent yearly increase in the excise duty of alcohol, and in the scenario with the 2 per cent increase and the 50 per cent reduction on the excise duty applied to a brewer's first 15,000 hL of beer. The difference in government revenue between each scenario represents the cost of each policy change.

To project the volume of alcohol subject to excise duty for each of the four categories, the latest data point available (2022-23) was grown by the average annual growth rate between 2009-10 and 2018-19 for that same category. The excise duty rate in each category varies depending on the alcohol content. Since the PBO does not have access to volume data by alcohol content, an average effective duty rate was calculated for each category. This rate was obtained by dividing the total federal excise revenue for each category from the 2023 Public Accounts by its volume for that same fiscal year.

In the baseline scenario, the effective duty rates are projected forward using PBO's CPI projection. In the scenarios with policy changes, the effective duty rates are simply grown by 2 per cent for the first two years, and then by PBO's CPI projection for the following years. Since beer is subject to an additional duty relief, the PBO created a weighted average beer excise duty rate based on the proportion of beer that would qualify for the 50 per cent rate reduction using beer production data.

Changes to the excise duty rates have an impact on the final price the consumer faces. This change in price is expected to affect the amount of alcohol consumers would purchase. To account for this behavioural effect, the model incorporates elasticities from academic literature, in order to project variations in alcohol consumption.^{4,5} The projected alcohol volumes were multiplied by the projected excise duty rates to estimate the total excise duty revenue in each scenario.

Even though the policy changes end after 2025-26, there will still be a fiscal cost in future years. This is because excise duty rates would be lower at the end of 2025-26 than in the baseline scenario. Even when indexation resumes in 2026-27 and beyond, the levels of the excise duty rates would be lower than if the growth rates were not capped at 2 per cent per year.

Sources of Uncertainty

Consumption trends of various types of alcohol, as well as inflation rates in the years after the policy, may differ from the PBO's projections.

Note prepared by

Zachary Vrhovsek, Analyst

⁴ Other aspects of the consumer-facing price may also change between years. The PBO's model takes this into account, in order to isolate the effect of the change in excise duty on consumption behaviour.

⁵ This costing note does not account for the possible behavioural impact of the two-month GST/HST holiday announced on November 21, 2024. For more information, see the backgrounder: [More money in your pocket: A tax break for all Canadians](#).

Prepared under the direction of

Govindadeva Bernier, Director

Data Sources

Beer production and brewery data

Canada Revenue Agency, obtained from Beer Canada

Consumer Price Index projections

Office of the Parliamentary Budget Officer, [Economic and Fiscal Outlook – October 2024](#)

Alcohol volume and tax data

Statistics Canada Tables [10-10-0010-01](#), [10-10-0011-01](#) and [20-10-0066-01](#)

Historical excise duties revenue

Public Accounts of Canada

Elasticities

Ogwang & Cho (2009)

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