



# Excise Duty Notice

Under the *Excise Act, 2001*

EDN21

April 2008

## Enhancements to Tobacco Compliance and Changes to Duty and Special Duty on Certain Tobacco Products

The information in this notice is provided for your reference and convenience and does not replace the law found in the *Excise Act, 2001* and its regulations. It reflects proposed measures included in Bill C-50, the *Budget Implementation Act, 2008*, which received first reading in the House of Commons on March 14, 2008. Any references to these amendments should not be taken as a statement by the Canada Revenue Agency (CRA) that they will be enacted in their current form.

As the information in this publication may not completely address your particular operation, you may wish to refer to the proposed measures, the relevant act or regulations, or contact your regional excise duty office for additional information.

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### General

The federal budget tabled by the Minister of Finance on February 26, 2008 proposed a number of amendments to the *Excise Act, 2001*, to enhance tobacco compliance, to increase the duty and special duty on tobacco sticks, and to change the manner in which duty and special duty are applied to manufactured tobacco and tobacco products. These proposed changes are included in Bill C-50, the *Budget Implementation Act, 2008*, which received first reading in the House of Commons on March 14, 2008.

Further information on duty and special duty rates may be obtained from any regional excise duty office. A list of all regional excise duty offices is available in Excise Duty Memorandum 1.1.2, *Regional Excise Duty Offices* on the CRA Web site at [www.cra-arc.gc.ca/menu/EXMS-e.html](http://www.cra-arc.gc.ca/menu/EXMS-e.html).

### Tobacco compliance

#### Controls on tobacco manufacturing equipment

Bill C-50 proposes to restrict the possession and importation of tobacco manufacturing equipment. The term "tobacco manufacturing equipment" means any machinery or equipment designed or modified specifically for the manufacture of a tobacco product.

Bill C-50 proposes that no person shall possess tobacco manufacturing equipment with the intent of manufacturing a tobacco product unless:

- the person is a tobacco licensee; or

La version française de la présente publication est intitulée *Produits du tabac – Mesures d'observation améliorées et modifications à certains taux du droit d'accise et du droit spécial*.



Canada Revenue Agency

Agence du revenu du Canada



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- the person is an individual manufacturing manufactured tobacco or cigars for their personal use as permitted under the *Excise Act, 2001*.

Bill C-50 proposes that no person shall import tobacco manufacturing equipment unless:

- the person is a tobacco licensee;
- the equipment is designed for use by an individual manufacturing manufactured tobacco or cigars for their personal use as permitted under the *Excise Act, 2001* and is not designed for commercial manufacturing;
- the person provides evidence satisfactory to the Minister of Public Safety and Emergency Preparedness that the equipment is imported:
  - (i) on behalf of a tobacco licensee,
  - (ii) for the sole purpose of maintenance, alteration or repair in Canada, if the equipment is intended to be exported as soon after the maintenance, alteration or repair is completed,
  - (iii) by or on behalf of a person that carries on a business of supplying that equipment, or
  - (iv) for in-transit movement through Canada; or
- it is imported in prescribed circumstances or under prescribed terms and conditions.

### **Record keeping**

Bill C-50 proposes that every person who possesses tobacco manufacturing equipment (other than equipment designed for use by an individual manufacturing manufactured tobacco or cigars for personal use and not designed for commercial manufacturing) shall keep records that will enable the determination of the source, the type and the disposition of that equipment.

### **Offence – unauthorized possession of tobacco manufacturing equipment subject to fines and/or imprisonment**

Bill C-50 proposes that unauthorized possession of tobacco manufacturing equipment will be an offence under the *Excise Act, 2001*, and subject to fines and/or imprisonment.

### **Licensing authority**

The *Excise Act, 2001* provides the Minister of National Revenue with the authority to refuse to issue a licence when it is not in the public interest.

Bill C-50 proposes to make explicit the Minister's authority to amend, suspend, refuse to issue, or cancel a licence where access to the premises of a licensee is denied or impeded by any person or when it is not in the public interest.

All the tobacco compliance measures described above will apply on Royal Assent.

### **Imported stamped tobacco for duty free shops and customs bonded warehouses**

The *Excise Act, 2001* currently requires imported manufactured tobacco for delivery to a duty free shop to be unstamped. Bill C-50 proposes to allow stamped imported manufactured tobacco to be delivered to:

- a duty free shop for sale or offer for sale in accordance with the *Customs Act*; or
- a customs bonded warehouse.

Therefore, Canadian duty free shop licensees will not be required to self-assess special duty on this imported stamped manufactured tobacco.

These proposed changes will be effective February 27, 2008.

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### **Duty and special duty rates on tobacco sticks**

Tobacco sticks are currently subject to lower rates of duty and special duty, as applicable, than cigarettes. Bill C-50 proposes that these duty and special duty rates be the same as for cigarettes, effective February 27, 2008.

#### **Proposed new rates effective February 27, 2008**

<b>Tobacco sticks</b>	<b>Excise duty (rate per stick)</b>	<b>Special duty (rate per stick)</b>
Tobacco sticks manufactured in Canada that are black stock for delivery to duty free shops, customs bonded warehouses, foreign duty free shops, or for use as ships' stores or foreign ships' stores	\$0.074975	
Other stamped tobacco sticks manufactured in Canada and imported stamped tobacco sticks	\$0.085	
Imported tobacco sticks (unstamped) subject to self-assessment by a duty free shop licensee; traveller's tobacco; tobacco sticks (unstamped) that are exported by a tobacco licensee within legislated quantity limits		\$0.075
Tobacco sticks manufactured in Canada that are exported		\$0.095724

### **Application of duty and special duty to manufactured tobacco and tobacco products effective July 1, 2008**

Bill C-50 proposes that manufactured tobacco and tobacco products (other than cigarettes and tobacco sticks) be subject to duty and special duty, as applicable, on the basis of each 50 gram increment or fraction thereof, effective July 1, 2008.

The proposed changes will result in the payment of a greater amount of duty and special duty in circumstances where the package is less than 50 grams, or is not a multiple of 50 grams.

Note: Tobacco products (unstamped), other than cigarettes or tobacco sticks, that are exported by a tobacco licensee within legislated quantity limits continue to be subject to special duty at the rate of \$50/kg.

#### **Proposed new rates effective July 1, 2008**

<b>Manufactured tobacco and tobacco products, not including cigarettes and tobacco sticks</b>	<b>Excise duty per 50 g package or fraction thereof</b>	<b>Special duty per 50 g package or fraction thereof</b>
Manufactured tobacco manufactured in Canada that is black stock for delivery to duty free shops, customs bonded warehouses, foreign duty free shops, or for use as ships' stores or foreign ships' stores	\$2.49915	
Other stamped manufactured tobacco manufactured in Canada and imported stamped manufactured tobacco	\$2.8925	
Imported manufactured tobacco (unstamped) subject to self-assessment by a duty free shop licensee; traveller's tobacco		\$2.50
Tobacco products (other than cigarettes or tobacco sticks) manufactured in Canada that are exported		\$2.3001

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**Refund – imported black stock manufactured tobacco**

Bill C-50 proposes a refund for persons that import black stock manufactured tobacco that is delivered to:

- domestic or foreign duty free shops;
- customs bonded warehouses; or
- a person for use as ships' stores or foreign ships' stores.

The proposed refund provisions will take effect February 27, 2008. However refunds will not be paid until after Bill C-50 receives Royal Assent.

For more information on the proposed changes included in Budget 2008, visit the Department of Finance Web site at [www.fin.gc.ca](http://www.fin.gc.ca).

All technical publications related to the *Excise Act, 2001* and regulations are available on the CRA Web site at [www.cra.gc.ca/exciseduty](http://www.cra.gc.ca/exciseduty).