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Small Producers of Wine

From: [Canada Revenue Agency](#).

Excise Duty Memorandum EDM4-1-2

November 2022

This version replaces the one dated March 2005. This memorandum has been revised to include updated information on determining who is eligible for the exemption for small producers of wine and on calculating wine sales for purposes of the small producer threshold.

Under the Excise Act, 2001, a wine licensee that qualifies as a small producer of wine is exempt from paying excise duty. This memorandum explains how a wine licensee can determine if they are a small producer of wine.

Except as otherwise noted, all statutory references in this publication are to the provisions of the Excise Act, 2001. The information in this memorandum does not replace the law found in the Act and its regulations.

If this information does not completely address your particular situation, you may refer to the Act or relevant regulation, or contact your CRA regional excise office for additional information. The offices are listed at [Contact Information – Excise and Specialty Tax Directorate](#).

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General information

1. Every producer or packager of wine must have a wine licence and must fulfill all the obligations associated with the licence. For information on the responsibilities and requirements related to producers and packagers of wine, refer to [Excise Duty Memorandum EDM4-1-1, Producers and Packagers of Wine](#).

Excise duty exemption for small producers of wine

2. Excise duty is not imposed on wine packaged in Canada if it is produced by a wine licensee that qualifies as a small producer of wine and is packaged by them or on their behalf.

3. A wine licensee qualifies as a small producer of wine for a particular fiscal month if the total sales of wine that they have produced and packaged, or have had packaged on their behalf, did not exceed \$50,000 (the small producer threshold) in both:

- the previous fiscal year
- the current fiscal year up to the particular fiscal month

4. Wine is considered to be packaged on behalf of a wine licensee if that wine licensee contracts out the packaging activities (for example, bottling) to another wine licensee but retains ownership of the wine. The wine licensee that retains ownership remains responsible for reporting any excise duty on the wine.

5. A small producer of wine cannot claim the excise duty exemption for packaged wine that they do not produce, including imported wine and blends of imported and domestic wines.

Example 1

A wine licensee begins operations on April 1. Their fiscal year is from April 1 to March 31 and their fiscal months are calendar months.

The wine licensee has no previous sales of wine. Therefore, they qualify for the excise duty exemption for small producers of wine when they begin operations.

In their first fiscal year, the wine licensee has monthly sales of \$3,750 from wine that they have produced and packaged (\$45,000 in total in their first fiscal year). This means that they qualify for the excise duty exemption for small producers of wine each month during their first fiscal year. This also means that they qualify for the excise duty exemption for small producers of wine at the beginning of their second fiscal year.

Between April 1 and November 30 of their second fiscal year, the wine licensee sells \$48,500 of wine that they have produced and packaged. This means that they still qualify as a small producer of wine in December of that fiscal year.

Determining eligibility for the exemption

6. To determine their eligibility for the excise duty exemption for small producers of wine, a wine licensee must include all sales of packaged wine, including packaged wine that is exported and wine packaged from imported bulk wine, whether or not excise duty is imposed on the wine. Sales of bulk wine are not included for purposes of the small producer

threshold.

7. The sales figure does not include the GST/HST or provincial sales taxes.

8. For transactions between related persons or associated persons, sales must be based on the arm's length principle and reported at fair market value.

Exceeding the small producer threshold

9. Small producers of wine are responsible for monitoring their sales of packaged wine to determine if they continue to qualify as small producers of wine.

10. If a wine licensee's total sales exceed the small producer threshold in a particular fiscal month, the wine that they have produced and packaged, or have had packaged on their behalf, during that fiscal month and from previous fiscal months when the wine licensee was a qualified small producer of wine, remains exempt from excise duty, regardless of when the wine is sold. Wine packaged after the particular fiscal month is subject to excise duty, even if the wine was produced during or before the particular fiscal month.

Example 2 (continued from Example 1)

In December, the wine licensee sells \$12,500 of packaged wine. This brings the sales for their second fiscal year to \$61,000 (\$48,500 at the end of November + \$12,500 in December), which is greater than the small producer threshold.

The wine licensee no longer qualifies as a small producer of wine, which means that excise duty applies to the wine that they produce and package, or have packaged on their behalf, after December.

The earliest the wine licensee could re-qualify for the excise duty exemption for small producers of wine is at the beginning of their fourth fiscal year if the total sales of packaged wine do not exceed \$50,000 in their third fiscal year.

Warehousing exempt wine

11. A small producer of wine may store packaged exempt wine on their premises. They must maintain separate records for exempt and duty-paid inventories.

Filing returns and making payments

12. A wine licensee, including a small producer of wine, must file [Form B265, Excise Duty Return – Wine Licensee](#), for each reporting period, even if the quantities or amounts to report are nil. If applicable, the wine licensee must calculate and report any excise duty payable on that return and pay the amount of duty owing.

Maintaining books and records

13. Every person that has a licence, including a small producer of wine, is required to maintain adequate books and records to demonstrate that they have complied with the Act.

14. For information on the requirement to maintain books and records, refer to [Excise Duty Memorandum EDM9-1-1, General Requirements for Books and Records](#).

Explanation of terms used in this memorandum

Fiscal month means a fiscal month as determined under subsection 159(1), which states that the fiscal months of a person are one of the following:

- a. the same fiscal months they determined for GST/HST purposes
- b. fiscal months that meet the requirements set out for GST/HST purposes
- c. calendar months

Fiscal year means the same period that is the person's fiscal year for GST/HST purposes.

Non-duty-paid packaged wine is wine on which excise duty has been imposed but has not been paid.

Packaged wine means wine in a container with a capacity of not more than 100 litres that is ordinarily sold to consumers without being repackaged. Packaged wine also includes marked special containers of wine that are intended for delivery to and use at bottle-your-own premises.

To **produce** wine means to bring it into existence by fermentation.

Wine means any of the following:

- a. a beverage, containing more than 0.5% absolute ethyl alcohol by volume, that is produced without distillation (except distillation to reduce the absolute ethyl alcohol content) by the alcoholic fermentation of one of the following:
 - i. an agricultural product other than grain
 - ii. a plant or plant product, other than grain, that is not an agricultural product
 - iii. a product wholly or partially derived from an agricultural product or plant or plant product other than grain
- b. sake
- c. a beverage described above that is fortified to not more than 22.9% absolute ethyl alcohol by volume

A **wine licensee** is a person that has a wine licence under paragraph 14(1)(b), which allows the person to produce or package wine.

Further information

For all **technical publications** related to the Excise Act, 2001 and its regulations, go to [Excise duties technical information under the Excise Act, 2001](#).

To make a **general** or **technical enquiry** on excise duties or to request a **ruling** or **interpretation** related to excise duties, go to [Contact Information – Excise and Specialty Tax Directorate](#).

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