

Excise Duty Memoranda Series

5.1.1 Denatured Alcohol and Specially Denatured Alcohol

April 2005

Overview	This memorandum provides an overview of the rules in the <i>Excise Act, 2001</i> (the “Act”) relating to denatured alcohol and specially denatured alcohol, and of the obligations and entitlements of specially denatured alcohol registrants.
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Disclaimer	The information in this memorandum does not replace the law found in the Act and its Regulations. It is provided for your reference. As it may not completely address your situation, you may wish to refer to the Act or its Regulations, or contact any Canada Revenue Agency (CRA) tax services office for additional information.
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[Proposed amendments]	This memorandum reflects the proposed amendments to the Act announced by the Minister of Finance on June 24, 2003. [Where information reflects proposed amendments, the information is enclosed in square brackets.] Any commentary in this memorandum should not be taken as a statement by the CRA that such amendments will in fact be enacted in their current form.
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La version française de ce document est intitulée *Alcool dénaturé et alcool spécialement dénaturé*.

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General

1. Denatured alcohol and specially denatured alcohol are produced by mixing spirits with denaturants in order to render them non-potable, generally for use in various industrial applications. The Act imposes controls over the manufacturing of denatured alcohol, and even tighter controls over the possession, supply, importation and disposal of specially denatured alcohol.
- Meaning of “denatures”
s 2
2. To “denature” means to denature spirits into denatured alcohol or specially denatured alcohol using prescribed denaturants in the prescribed manner.
- Meaning of “denatured alcohol”
s 2
3. “Denatured alcohol” means any prescribed grade of denatured alcohol made from spirits in accordance with the prescribed specification for that grade.
- Meaning of “specially denatured alcohol”
s 2
4. “Specially denatured alcohol” means any prescribed grade of specially denatured alcohol made from spirits in accordance with the prescribed specification for that grade.
- Meaning of “spirits”
s 2
5. “Spirits” means any material or substance containing more than 0.5% absolute ethyl alcohol by volume, excluding wine, beer, vinegar, denatured alcohol, specially denatured alcohol, [fusel oil or other refuse produced as a result of the distillation process] or an approved formulation. Any product containing or manufactured from beer, vinegar, denatured alcohol, specially denatured alcohol, [fusel oil or other refuse produced as a result of the distillation process] or an approved formulation that cannot be consumed as a beverage is also excluded from the definition of spirits.
- Denatured Alcohol and Specially Denatured Alcohol Regulations*
6. The prescribed denaturants are listed in the *Denatured and Specially Denatured Alcohol Regulations* (the Regulations). Examples of prescribed denaturants for purposes of denatured and specially denatured alcohol include methyl alcohol, toluene, ethyl acetate, solvent naphtha, isopropyl alcohol, acetone, formaldehyde solution, chloroform, iodine and pine tar.
7. Other terms that relate to denatured and specially denatured alcohol are defined under the Act and its Regulations and will be available in Excise Duty Memorandum 1.3.1, *Definitions*.

Manufacturing of denatured alcohol and specially denatured alcohol

- Prohibition – denaturing of spirits
s 94
8. The Act imposes a prohibition on the denaturing of spirits. However, a spirits licensee is the only person authorized to manufacture denatured alcohol and specially denatured alcohol. A spirits licensee who denatures spirits must ensure that the spirits are denatured in accordance with the prescribed specifications of the Regulations.
- Regulations
s 3
9. A spirits licensee who denatures spirits shall ensure that the spirits and the denaturants are thoroughly mixed, and the denaturant used is one set out in column 1 of the table of the Regulations that possesses the characteristics set out in column 2.

- Required proportions 10. Schedule 1 of the Regulations lists 14 denatured alcohol grades and Schedule 2 lists 25 specially denatured alcohol grades. The quantities of denaturants set out in the Regulations are the quantities required to denature 100 litres of spirits. Where quantities other than 100 litres of spirits are denatured, the quantity of the denaturant used must be in the same proportion as in the Regulations.
- Example of denaturing 11. Where a spirits licensee wishes to denature 100 litres of spirits into SDA grade SDAG-1 (Item I of Schedule 2 to the Regulations), the Regulations require it to be denatured using 5 litres of methyl alcohol (methanol). If the licensee wishes to denature 500 litres of spirits into SDA grade SDAG-1, then the volume of denaturants used is multiplied by 5 (i.e., 25 litres of methyl alcohol (methanol) would be added).
12. The spirits licensee is required to maintain adequate books and records to confirm the use of the product, the grade and the quantity of specially denatured alcohol produced.

Denaturants submitted for analysis

13. An excise duty officer may occasionally request that a spirits licensee provide to the Laboratory and Scientific Services Directorate of the Canada Border Services Agency a sample of denaturants, denatured alcohol or specially denatured alcohol.

Relief of excise duty

- Duty relieved – denatured and specially denatured alcohols 132 14. When a spirits licensee denatures bulk spirits into denatured alcohol or specially denatured alcohol in accordance with the Regulations, the excise duty imposed on the spirits under the Act or levied under section 21.1 of the *Customs Tariff* is relieved.

Requirement for an SDA registration

- SDA registration ss 18(1) and s 96 15. The Act provides for the issuance of a specially denatured alcohol (SDA) registration that authorizes a person to possess and use specially denatured alcohol. A person possessing an SDA registration is called an SDA registrant. No person other than an SDA registrant is permitted to use specially denatured alcohol.
16. An SDA registrant must use specially denatured alcohol in accordance with the provisions of their registration. This registration allows an SDA registrant to purchase, receive grades of specially denatured alcohol from a spirits licensee, import, export, and dispose of specially denatured alcohol in a manner approved by the CRA. These activities are further explained in the following paragraphs.
- Restrictions imposed on registration ss 18(2) 17. The CRA may impose restrictions on the use of particular grades of specially denatured alcohol.

5.1.1 Specially Denatured Alcohol Registrants

- SDA uses
18. The Act does not specify the uses to which specially denatured alcohol may be put. Specially denatured alcohol is used as a solvent, as a raw material in the manufacture of other products, as a fuel or fuel additive, in laboratories, and in numerous other ways. Use of specially denatured alcohol does not include its packaging or re-packaging for purposes of resale, but it may be used to produce a product other than spirits, specially denatured alcohol or denatured alcohol.
19. Information relating to the requirements and procedures for obtaining an SDA registration is provided in Excise Duty Memorandum 2.4.1, *Obtaining a Registration*.

Possession of denatured alcohol and specially denatured alcohol

- Possession of DA
20. Denatured alcohol is not suitable for human consumption, and the spirits cannot be easily recovered. Accordingly, the Act does not impose any restrictions on who may possess it, nor is registration required to possess or use denatured alcohol.
- Possession of SDA
21. As spirits can be more easily recovered from specially denatured alcohol, the Act imposes several restrictions on the possession, use, and supply of specially denatured alcohol.
- Prohibition – possession of SDA s 97
22. Specially denatured alcohol may only be possessed by
- (a) a spirits licensee or an SDA registrant, if they possess specially denatured alcohol produced or imported by a spirits licensee or imported by the SDA registrant;
 - (b) a sufferance warehouse, if it possesses specially denatured alcohol that was imported by a spirits licensee or an SDA registrant; or
 - (c) an alcohol registrant, if they possess specially denatured alcohol only for the purpose of its storage and transportation and if the alcohol was produced by a spirits licensee or imported by a spirits licensee or an SDA registrant.

Supply of denatured alcohol and specially denatured alcohol

- Prohibition – supply for or use as beverage s 95
23. Denatured alcohol or specially denatured alcohol may not be sold, provided for use in, or used in or as a beverage.
- Sale of SDA s 99, para 103(a) and (b)
24. The sale of specially denatured alcohol is prohibited, except by
- (a) a spirits licensee who sells it to another spirits licensee;
 - (b) a spirits licensee who sells it to an SDA registrant;
 - (c) an SDA registrant who returns it to the spirits licensee who supplied it; or
 - (d) an SDA registrant who exports it, if it was imported by the SDA registrant.
- Exporting SDA s 102
25. Specially denatured alcohol may only be exported by a spirits licensee or by the SDA registrant who imported it.

Transporting denatured alcohol and specially denatured alcohol

- Transporting DA 26. Any person may transport denatured alcohol.
- Transporting SDA s 97 27. Spirits licensees, SDA registrants alcohol registrants are the only persons authorized to transport specially denatured alcohol under the Act.

Importing denatured alcohol, specially denatured alcohol and alcohol denatured other than in accordance with the Act

- Importing DA 28. Any person may import denatured alcohol without restriction.
- Importing SDA s 100 29. Only spirits licensees and SDA registrants are permitted to import specially denatured alcohol. Where any other person attempts to import specially denatured alcohol, the shipment will be denied entry at the time of importation.
- Importing alcohol containing denaturants but that is not denatured alcohol 30. A person may import alcohol that has denaturants added but is not denatured within the meaning of the Act. The imported product would, however, be considered spirits and subject to the relevant provisions and restrictions of the Act unless it is excluded from the definition of “spirits” (e.g., an approved formulation). Such a product has a tariff classification number separate from those used for denatured alcohol or specially denatured alcohol.
- Importing bulk and packaged spirits ss 75(1), s 150 31. [If the imported product is bulk spirits, then it may only be imported by a spirits licensee or a licensed user.] In this case, the additional duty equal to excise duty would be deferred. If the imported product is non-duty-paid packaged spirits, it may only be imported by an excise warehouse licensee or licensed user and defer the excise duty. Otherwise, the importer must pay the excise duty at the time of importation.
- Importation of Intoxicating Liquors Act* applies s 59.1 32. Whether the imported product is bulk or packaged spirits, the provisions of the *Importation of Intoxicating Liquors Act* also apply.
- Other alcohol-based products 33. A Regional Excise Duty Office should be contacted to determine whether a product is excluded from the definition of “spirits”, “denatured alcohol” or “specially denatured alcohol” and the resulting implications.
- Sampling of DA and SDA ss 68(1) 34. Persons who import denatured alcohol or specially denatured alcohol may be required to make the goods available for sampling before they are released from customs control. Denatured alcohol or specially denatured alcohol may only be reported at certain Canadian customs locations that are designated for sampling. Shipments of denatured alcohol or specially denatured alcohol arriving at other locations will be directed to the closest customs office designated for sampling.
- Sampling fee ss 68(4) 35. The Canada Border Services Agency (CBSA) is authorized under the Act to charge importers a fee for sampling and testing of shipments of denatured alcohol or specially denatured alcohol.

5.1.1 Specially Denatured Alcohol Registrants

- Laboratory and Scientific Services Directorate 36. Samples taken at designated customs offices will be sent to the Laboratory and Scientific Services Directorate of the CBSA for testing to verify that the denatured alcohol or specially denatured alcohol is denatured in accordance with the Regulations.
- Sampling Initiative 37. Additional information on the procedures for sampling is available on the CBSA Web site. Refer to Customs Notice CN-521, *Denatured Alcohol and Specially Denatured Alcohol – Excise Act, 2001 and the Commercial Import Sampling Initiative (CISI)*, issued July 1, 2003.

Spirits mistakenly acquired or imported as denatured alcohol or specially denatured alcohol

- Spirits mistakenly possessed as DA or SDA ss 101(2) 38. If a person other than a spirits licensee, licensed user or alcohol registrant possesses a product that was believed to be denatured alcohol or specially denatured alcohol in accordance with the Regulations, and then subsequently learns that the product is spirits and not denatured alcohol or specially denatured alcohol as originally believed, the person must immediately
- (a) return it to the spirits licensee who produced or supplied it; or
 - (b) dispose of, or destroy it, in a manner specified by the CRA.
- Spirits mistakenly imported as DA or SDA ss 101(1) 39. If a person other than a spirits licensee or a licensed user imports a product that was reported under the *Customs Act* as being denatured alcohol or specially denatured alcohol, and then subsequently learns that the product is spirits and not denatured alcohol or specially denatured alcohol as originally believed, the person must immediately
- (a) export it for return to the person from whom it was acquired; or
 - (b) dispose of, or destroy it, in a manner specified by the CRA.
- If product used ss 101(3) 40. If a person is unable to return, dispose of, or destroy, spirits that were mistakenly acquired or imported as denatured alcohol or specially denatured alcohol as required, because they used some of the spirits in the production of another product before learning that the product was not denatured alcohol or specially denatured alcohol, the person must
- (a) dispose of or destroy the other product in a manner specified by the CRA; and
 - (b) pay a penalty equal to the duty imposed under the Act or the *Customs Tariff* on the amount used.
- Exceptions ss 101(4) 41. The requirement to dispose of, or destroy, the products or to pay a penalty as discussed above does not apply if
- (a) the other product is not spirits in the opinion of the CRA;
 - (b) the CRA deems the other product to have been produced using denatured alcohol or specially denatured alcohol; and
 - (c) the person complies with any conditions imposed by the CRA.

- Contacting the CRA
42. Any person who possesses or imports what they believed to be denatured alcohol or specially denatured alcohol and later learns that the product has not been denatured should contact their nearest Regional Excise Duty Office to discuss the situation with an excise duty officer and to ensure that any proposed method of return, disposal or destruction is approved by the CRA.
43. Regional offices and their addresses are listed in Excise Duty Memorandum 1.1.2, *Regional Excise Duty Offices*.

Returns and disposals of denatured alcohol and specially denatured alcohol

- Restrictions on disposal s103
44. An SDA registrant may not dispose of specially denatured alcohol other than to
- (a) return it to the spirits licensee who supplied it;
 - (b) export it if it was imported by the SDA registrant; or
 - (c) destroy it in a manner specified by the CRA.
- Destruction and disposal of SDA
45. If an SDA registrant has specially denatured alcohol that they would like to return or destroy, they should contact their Regional Excise Duty Office to ensure that it is returned or destroyed in an approved manner and that adequate documentation is maintained.
46. Additional information on the acceptable methods of disposing of, or destroying, spirits will be provided in Excise Duty Memorandum 3.4.2, *Spirits Taken for Analysis or Destruction*.

Keeping records

- Keeping records ss 206(1)
47. Every person who possesses an SDA registration under the Act is required to maintain all records that are necessary to determine whether they are in compliance with the Act.
48. Additional information on the requirement to maintain books and records is available in Excise Duty Memorandum 9.1.1, *General Requirements for Books and Records*.

Offences and penalties

- Failure to comply
49. If an SDA registrant fails to comply with the restrictions of their SDA registration, they may be subject to a penalty or guilty of an offence under the Act.
- Enforcement Part 6
50. Additional information on offences and penalties will be provided in Excise Duty Memoranda 11.2.1, *Offences and Penalties*.

All of the memoranda in the Excise Duty Memoranda Series will be available on the CRA Web site at www.cra-arc.gc.ca/tax/technical/act2001-e.html.