

## Alcoholic Beverages

*Cette publication est disponible en français en appelant le 1-800-668-5821.*

### About this Pointer

This *Pointer* will help you if you sell **alcoholic beverages** in an establishment such as a restaurant, bar, pub, hotel, resort or as a caterer. It explains the basic Retail Sales Tax (RST) rules for your type of business. If you also sell prepared foods or charge for admissions, please refer to **Small Business Pointer (SBP) 906 - Prepared Foods** and **SBP 909 - Admissions**.

Note: Revisions to previous content (February 2001) have been identified by a bar (|).

### What are alcoholic beverages?

Alcoholic beverages include liquor, beer, wine, premixed cocktails, and alcoholic coolers. Businesses that sell alcoholic beverages often sell prepared foods too.

### What are prepared foods?

**Prepared foods** are ready-to-eat foods bought from an eating establishment, and include take-out and eat-in service. Examples of prepared foods are meals, pizzas, sandwiches, hand-scooped ice cream, five or fewer pastries, and non-alcoholic hot or cold drinks.

### Charging RST

**Two** RST rates may apply to your business. You charge RST at:

- **10 per cent** on alcoholic beverages, sold at any price
- **8 per cent** on prepared foods sold for more than \$4.00 (**excluding** alcoholic beverages), and on snack foods such as candies, gum, chips, and pretzels.

When you sell prepared foods along with alcoholic beverages, show the two charges, and the related RST, separately on the customer's bill.

**For example:**

|                                     |                |
|-------------------------------------|----------------|
| Chicken wings                       | \$ 5.00        |
| Salad                               | 3.00           |
| <b>Food total</b>                   | <b>\$ 8.00</b> |
| Draft beer                          | 3.50           |
| Rum & coke                          | 4.00           |
| <b>Alcohol total</b>                | <b>\$ 7.50</b> |
| Subtotal                            | 15.50          |
| <b>RST on food (8 per cent)</b>     | <b>.64</b>     |
| <b>RST on alcohol (10 per cent)</b> | <b>.75</b>     |
| GST (6 per cent)                    | .93            |
| <b>Total bill</b>                   | <b>\$17.82</b> |

If you serve liquor and mix separately (not premixed) to your customer, you charge 10 per cent RST on the liquor and 8 per cent RST on the mix **provided** the charges are also shown separately on your customer's bill.

### Can I use tax-included pricing?

**Tax-included pricing** means that RST is included in your prices and you do **not** show RST separately. If you choose this method, you **must** use it consistently. You must also state on a sign or in your menus that the prices include the 8 per cent or 10 per cent RST. You can use this method:

- for all alcoholic beverages; and
- for prepared foods **if** the prices of **all prepared foods are over \$4.00**.

## How to calculate RST with tax-included pricing?

You calculate Retail Sales Tax (RST) on the sale price without the federal Goods and Services Tax (GST). If your prices include GST, use a factor, as described below, to determine the correct RST amount.

| If your price includes... | and...  | then...   |
|---------------------------|---|---|
| <b>both RST &amp; GST</b> | you do not state the actual RST included in each item | multiply the total tax-included price by: <ul style="list-style-type: none"> <li>• <b>8/114</b> to arrive at the RST amount (8 per cent rate)</li> <li>• <b>10/116</b> to arrive at the RST amount (10 per cent rate).</li> </ul>   |
| <b>both RST &amp; GST</b> | you state the actual RST included in each item        | multiply the actual RST amount included in the price by the number of items sold.<br><b>Example:</b> If the RST amount included in the price of a beer is \$0.40 and you sell 10 beers, the RST on the sale is \$0.40 x 10 beers = \$4.00.  |
| <b>GST</b>                | you charge RST separately                             | multiply the GST-included price by: <ul style="list-style-type: none"> <li>• <b>7.5472 per cent</b> for prepared foods over \$4.24 (\$4.00 + 6 per cent GST), and</li> <li>• <b>9.4340 per cent</b> for all alcoholic beverages.</li> </ul> This method is the same as applying 8 per cent and 10 per cent RST on the GST-excluded prices. Do not show these factors on your customer's bill. |

For more details, please refer to **RST Guide 208 - Tax-Included Pricing**.

## Gratuities

The gratuities or service charges must be for **serving food and drinks**, and must be **20 per cent or less**. Otherwise, these charges are taxable. If you bill your customers separately for gratuity or service charges, do not charge RST on these charges.

## On what do I pay RST?

You must pay RST on all taxable items that you use in your business but do not sell to your customers, such as drinking glasses, bar equipment and supplies to prepare food. If you give away free alcoholic beverages to anyone including yourself, you must pay 12 per cent RST on your cost of the alcoholic beverages. Report the RST on Line 3 of your RST return. Please refer to **RST Guide 302 - Alcoholic Beverages** for details. Instructions on how to complete your RST return are included with your return card.

## What can I purchase without paying RST?

You do not pay RST on your purchase of items that you sell to your customers. These include alcohol and drink mixes, and disposable items that you use to serve drinks, such as straws and napkins. To claim an exemption from RST, you must give a valid Purchase Exemption Certificate (PEC) to your supplier. For details on PECs, please refer to **RST Guide 204 - Purchase Exemption Certificates**.

## Liquor licences

To sell alcoholic beverages, you must have a **liquor licence**. To obtain a liquor licence, register with the Alcohol and Gaming Commission of Ontario (AGCO) at **1-800-522-2876**. The AGCO can refuse to issue, renew or transfer a liquor licence if you have any past due RST returns or you owe RST to the Ontario Ministry of Finance. If this happens, call the collection officers at the telephone number provided by the AGCO or contact the nearest Ontario Ministry of Finance Tax Office.

## Keeping records

You must keep **all** books and records to support your sales and purchases for at least seven years. Such records include detailed cash register tapes (X and Z tapes), guest checks, sales invoices and journals, purchase invoices and journals, bank records and financial statements.

## For more information

For more information, please contact the nearest Ontario Ministry of Finance Tax Office listed under Taxes - Provincial (Retail) Sales Tax in the blue pages of your telephone directory, call our TAX FAX service at 1-877-4-TAX-FAX (1-877-482-9329), or visit our website at [www.trd.fin.gov.on.ca](http://www.trd.fin.gov.on.ca).

*This Pointer uses plain language to explain the most common situations faced by small businesses. The explanations are provided for guidance only. Whether tax applies in your situation will depend on the specific facts involved. Please contact us if you have questions.*