

August 2006

Retail Sales Tax

Prepared Foods

SBP 906

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

About this Pointer This *Pointer* will help if you sell **prepared foods** from an eating establishment. It explains the basic Retail Sales Tax (RST) rules for your type of business. If you also sell alcoholic beverages, please refer to **Small Business Pointer 907 - Alcoholic Beverages**.

Note: Revisions to previous content (December 2002) have been identified by a bar (|).

What is an eating establishment?

An **eating establishment** is a place where prepared foods are served, such as a restaurant, bar, cafeteria, snack bar, donut shop, hotel, coffee truck, vending machine, or any premises or location to which a caterer supplies prepared food products.

Eating establishments also include bakeries, grocery stores and convenience stores if they sell prepared foods. For example, if a convenience store has an area where prepared foods, such as hot coffee and sandwiches are sold, then that area is considered an eating establishment.

Types of foods

Food products sold for human consumption are not taxable. However, for RST purposes, food products are different from prepared foods, snack foods and soft drinks.

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.

What are snack foods and soft drinks?

Snack foods include candies, gum, chips, pretzels, ice cream bars, and individual servings of prepackaged snack cakes or pastries. Please note that an individual serving may have more than one piece in it, such as a package of two snack cakes.

Soft drinks are non-alcoholic drinks, such as pop, bottled water (1 litre or less), and fruit drinks with less than 25 per cent juice.

Charging RST

You must charge 8 per cent RST on prepared foods (including delivery) if the total charge is more than \$4.00. Calculate the RST before the federal Goods and Services Tax (GST), and show it separately on the receipt.

All soft drinks and snack foods are taxable at 8 per cent. However, individual portions of prepackaged snack cakes, prepackaged pastries or soft drinks are considered prepared foods when sold with other prepared foods from an eating establishment. RST applies if the total charge is more than \$4.00. For example, if you sell a combination consisting of a sandwich, a package of two snack cakes, and a soft drink, for \$4.00 or less, RST does not apply to any items in the combination.

Individual portions of prepackaged snack cakes, prepackaged pastries, or soft drinks, sold without prepared foods, are taxable even if the items are sold from an eating establishment. The \$4.00 threshold does not apply.

All other snack foods are taxable, no matter where they are sold and if sold with or without prepared foods. For example, if you sell a soft drink, a slice of pizza, and a bag of chips for \$4.00 or less, you must charge RST on the bag of chips as it continues to be a snack food.

When an eating establishment sells five or fewer pastries, such as donuts or muffins, that are not prepackaged, with or without a beverage, these pastries are considered prepared foods. You must charge RST if the total is more than \$4.00. But more than five pastries sold in one transaction makes them a food product, and you do not charge RST.

Can I use tax-included pricing?

You can use tax-included pricing **only** if every prepared food item you sell is priced at more than \$4.00, or \$4.24 including GST. 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 RST.

How to calculate RST with tax-included pricing

If your price includes ... and...		then...
both RST & GST	you do not state the actual RST included in each item	multiply the total tax-included price by: • 8/114 to arrive at the RST amount.
both RST & GST	you state the actual RST included in each item	multiply the actual RST amount included in the price by the number of items sold. Example: If the RST amount included in the price of a salad is \$0.40 and you sell 10 salads, the RST on the sale is \$0.40 x 10 salads = \$4.00.
GST	you charge RST separately	multiply the GST-included price by: • 7.5472 per cent for prepared foods over \$4.24 (\$4.00 + 6 per cent GST). This method is the same as applying 8 per cent RST on the GST-excluded price. Do not show the factor on your customer's bill.

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

Sales discounts and gift certificates

Sales discounts include dollar-off discounts, two meals for the price of one, and buy one meal, get the second at half price. You must charge RST if, after applying the discount, the net amount of the sale is more than \$4.00.

When you sell gift certificates, you do not charge RST. When customers redeem a gift certificate, you must charge RST if, before deducting the certificate amount, the full amount of the sale is more than \$4.00. Please refer to **RST Guide 511 - Discount Coupons** for other types of discounts.

Mobile caterers

You must charge and remit RST the same way as any other seller of prepared foods. For example, if you choose tax-included pricing, you must use this method consistently and post a sign showing your prices include RST. You must remit the actual RST you collect on taxable sales. For information on remitting the correct RST, please contact us.

Free meals

You do not charge or pay RST on meals that you provide free of charge to your employees. But if you subsidize employee meals, you must charge the employee RST if the employee pays more than \$4.00. Also, you must pay RST on any other meals that you give away free if the cost is more than \$4.00. For details, please refer to **RST Guide 300 - Prepared Foods**.

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. This includes furniture, equipment and supplies, such as kitchen equipment and chinaware. It also includes disposable items which you use to **prepare but not serve** food to the customer, such as coffee filters, foil or plastic wrap used to cover and store foods.

If you take items out of your stock for your own or business use, you must pay RST on the cost of these items. In such cases, report the RST payable on Line 3 of your next RST return. 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. You can also buy exempt from RST **non-returnable items used to serve food** to your customers, such as disposable containers or bags used for take-out, plastic cutlery, stir sticks, and paper doilies for desserts. To claim an exemption, 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**.

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 the 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.

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.

