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# THE QST AND THE GST/HST: HOW THEY APPLY TO FOODS AND BEVERAGES

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**BY SELLING FOOD AND BEVERAGES, YOU PROVIDE AN INDISPENSABLE SERVICE. AS SUCH, MANY OF THE PRODUCTS YOU SELL ARE ZERO-RATED OR TAX-EXEMPT.**

We designed this booklet to help you determine which ones.

This document was prepared in collaboration with the Canada Revenue Agency.



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This publication is provided for information purposes only. It does not constitute a legal interpretation of the *Excise Tax Act*, the *Act respecting the Québec sales tax* or any other legislation.

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## FOREWORD

This booklet is intended for owners or operators of grocery stores, convenience stores, bakeries, pastry shops, snack bars, butcher shops, restaurants, bars, catering services and vending machines, and for other persons carrying on activities in the food services sector.

For more information concerning the application of the GST and the QST, refer to the booklet *General Information Concerning the QST and the GST/HST* (IN-203-V).

You can also refer to GST/HST Memorandum 4.3, *Basic Groceries*, published by the Canada Revenue Agency.

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### ABBREVIATIONS USED IN THIS GUIDE

GST	Goods and services tax
HST	Harmonized sales tax
ITC	Input tax credit
ITR	Input tax refund
QST	Québec sales tax

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## APPLICATION OF THE GST/HST AND THE QST

Most property and services are subject to the GST and the QST. The majority of transactions conducted in Canada are GST-taxable at the rate of 5%. Transactions conducted in Québec are subject not only to the GST, but also to the QST at the rate of 9.975%.<sup>1</sup> Certain items such as prescription drugs and basic groceries are zero-rated (that is, subject to the GST and the QST at the rate of 0%). A small number of goods and services, such as healthcare services and long-term residential leases, are exempt from both taxes.

The harmonized sales tax (HST) applies in the participating provinces<sup>2</sup> (New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and, as of April 1, 2013, Prince Edward Island). Generally, the rules applicable to the GST also apply to the HST. Businesses registered for the GST are required to collect and remit the HST on all taxable sales<sup>3</sup> (other than zero-rated sales) that they make in the participating provinces. To find out what the applicable HST rates are in each of the participating provinces, consult Revenu Québec's website at [www.revenuquebec.ca](http://www.revenuquebec.ca).

Québec businesses that are registrants<sup>4</sup> for GST/HST purposes must collect the HST on sales they make in the participating provinces. However, the term "HST" is not used consistently in this booklet. Therefore, unless stated otherwise, we have used the term "GST" to refer to the GST/HST.

As a rule, persons that carry on commercial activities (that is, anyone operating a business whose sales are taxable or zero-rated) are required to register for both the GST and the QST. Registrants are required to collect the GST and the QST when they make taxable (other than zero-rated) sales. However, persons that carry on commercial activities that have chosen not to register because they are small suppliers are not required to collect these taxes, except on the sale of taxable immovables.

In general, a person is considered to be a small supplier if the person's total taxable sales do not exceed \$30,000 for a given calendar quarter or for all four calendar quarters that immediately precede the given calendar quarter. Total taxable sales are sales made worldwide by the person and the person's associates. They do not include sales of capital property (such as immovables or automobiles). Even if you are not required to register, you may choose to do so if you meet certain conditions. Furthermore, under the QST system, any retailer of alcoholic beverages or tobacco is required to register, even if the retailer is considered to be a small supplier.

1. From January 1 to December 31, 2012, the rate was 9.5%, and the QST was calculated on the selling price including the GST. Effective January 1, 2013, the QST is calculated on the selling price not including the GST.

2. On April 1, 2013, the HST was replaced in British Columbia by the GST.

3. In this booklet, we use the term "sale" rather than "supply" since goods and services are most often supplied by way of sale.

4. A "registrant" is a person that is registered or that is required to be registered for the GST and the QST.



Registrants may recover tax paid or payable by claiming input tax credits (ITCs) under the GST system and input tax refunds (ITRs) under the QST system with respect to taxable property and services acquired for use in their commercial activities. However, certain restrictions with respect to ITRs apply to large businesses, that is, businesses whose taxable sales, excluding financial services, exceeded \$10 million in their most recent fiscal year.<sup>1</sup>

Most registrants claim ITCs and ITRs when they file their GST and QST returns for the reporting period during which they made their purchases, although they generally have up to four years to claim the ITCs and ITRs to which they are entitled. A simplified method for calculating ITCs and ITRs is available to small businesses. Although this simplified method does not affect the procedure for charging, collecting or reporting the GST and the QST, it does provide a simpler way of determining the ITCs or the ITRs that registrants may claim when filing their GST and QST returns. Using this method, registrants do not have to calculate the exact amount of tax and the amount of the actual expense applicable to each invoice.

For each reporting period, registrants must calculate the tax they collected and the tax they should have collected during the period in question. They must also calculate the tax that they paid or that became payable during the reporting period and that gives entitlement to ITCs and ITRs. The difference between the two amounts, after adjustments have been taken into account, is the tax that registrants must remit (if the result is positive) or the ITCs or the ITRs that they may claim (if the result is negative). Small businesses may use the Quick Method of Accounting to determine the GST and the QST that they must remit.

At the time of registration, a registrant may, in certain cases, choose how often GST and QST returns must be filed; otherwise, Revenu Québec will assign the registrant a filing frequency.

For reporting periods ending on or after July 1, 2010, registrants (excluding charities) whose total annual taxable sales exceed \$1.5 million are required to file their GST and QST returns electronically. Total annual taxable sales exclude sales made outside Canada, zero-rated exports of goods and services, and taxable sales of immovables and goodwill.

For more information concerning the application of the GST and the QST, refer to the general information booklet *General Information Concerning the QST and the GST/HST* (IN-203-V).

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1. Certain restrictions also apply with respect to ITCs. Registrants that claim ITCs for the HST paid in Ontario or, since April 1, 2013, in Prince Edward Island may also have to recapture the portion relating to the provincial component of the HST they paid upon purchasing certain property and services. For more information, contact Revenu Québec. These restrictions were eliminated for British Columbia on April 1, 2013.



## SPECIAL CASES

### Coupons

Coupons are generally receipts or tickets whose monetary value has not necessarily been determined and for which no consideration is given in exchange. Coupons entitle consumers to a discount on the purchase price of specific property or services.

Coupon redemptions, as well as related handling fees and postage, are not taxed. However, coupon clearing houses must charge the GST and the QST on brokerage fees.

The following section outlines how to calculate the GST and the QST on various types of coupons.

### Reimbursable coupons

These are generally referred to as manufacturer's coupons and are treated in the same way as cash given by the customer at the time of the transaction. The GST and the QST payable are deemed to be included in the face value of the coupons. Reimbursable coupons

- are remitted by the retailer to a third party (for example, a coupon clearing house or the manufacturer) for redemption;
- entitle the purchaser, at the time of purchase, to a discount indicated on the coupon as a fixed amount;
- apply only to taxable (other than zero-rated) property and services.

When a customer presents a merchant with this type of coupon and the merchant's prices do not include the GST or the QST, the merchant must total the value of all items purchased and add the GST and the QST payable before deducting the value of the coupon or coupons from the total amount charged. If the GST and the QST are included in the merchant's prices, the merchant must total the sale first and then deduct the value of the coupon or coupons.

<b>Example</b>	<b>GST<sup>1</sup> and QST not included</b>	<b>GST and QST included</b>
Price of item	\$25.00	\$28.74
GST paid on item (\$25 x 5%)	+ \$1.25	
QST paid on item (\$25 x 9.975%)	+ \$2.49	
	\$28.74	\$28.74
Value of coupon (GST and QST included)	– \$10.00	– \$10.00
<b>Amount paid by the customer</b>	<b>\$18.74</b>	<b>\$18.74</b>

1. In this example and in the two following paragraphs, GST does not mean the HST.





The retailer must account for the GST collected (\$1.25 in the example) on the GST return without taking the face value of the coupon into account. The QST collected (\$2.49 in the example) must be accounted for in the same manner on the QST return. When the retailer sends the coupon to the manufacturer for redemption, the retailer will be reimbursed for its full value (including the GST and the QST) and any related handling fees and postage.

The manufacturer must reimburse the full face value of the coupon to the retailer, and may then claim an ITC and an ITR in respect of the GST and the QST that were reimbursed and were deemed to have been included in the value of the coupon. The manufacturer may claim an ITC equal to  $5/105$  of the value of the coupon (in the example,  $5/105$  of \$10, or \$0.48) and an ITR equal to  $9.975/109.975$ <sup>1</sup> of the value of the coupon (in the example,  $9.975/109.975$  of \$10, or \$0.91).

Registrants that use such coupons to make purchases for their business must keep in mind that the value of the coupon accepted by the merchant reduces the amount of tax actually paid on the purchases in question, since the face value of the coupon includes the tax. The amount of the ITC that may be claimed is therefore reduced by  $5/105$  of the face value of the coupon. Similarly, the ITR is reduced by  $9.975/109.975$  of the face value of the coupon. In the example, the registrant would claim an ITC of \$0.77 (\$1.25 minus  $5/105$  of \$10) and an ITR of \$1.58 (\$2.49 minus  $9.975/109.975$  of \$10).

### Non-reimbursable coupons

Non-reimbursable coupons are normally issued by retailers. Such coupons

- are not remitted to a third party for redemption;
- entitle the purchaser, at the time of purchase, to a discount indicated on the coupon as a fixed amount or percentage;
- apply only to taxable (other than zero-rated) property and services.

Such coupons may be treated as reimbursable coupons (refer to the previous section), or be used to reduce the price of property or services before the calculation of the GST and the QST.

Retailers who treat their non-reimbursable coupons as reimbursable coupons to simplify their accounting because all of their coupons can be treated in the same way must follow the rules set forth in the previous section. Retailers can claim ITCs and ITRs for the GST and the QST considered to be included in the value of the coupon in the period in which the coupon was accepted.

Retailers who use their non-reimbursable coupons to reduce the price of property or services before the calculation of the GST and the QST must deduct the value of the coupon from the selling price of the property or service before calculating the GST and the QST to be paid by the customer.

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1. This fraction was  $9.5/109.5$  from January 1 to December 31, 2012.



<b>Example</b>		
Total price of item		\$25.00
Value of coupon	–	\$10.00
Subtotal		\$15.00
GST <sup>1</sup>	+	\$0.75
QST	+	\$1.50
<b>Amount paid by the customer</b>		<b>\$17.25</b>

When filling out their GST and QST returns, retailers must deduct the value of the coupon from the selling price of the item before calculating the amount of the GST and the QST collected (\$0.75 and \$1.50 respectively in the example). If the value of the coupon is subtracted prior to the calculation of the taxes, retailers may not claim ITCs and ITRs in this respect. (They would be entitled to do so if they had issued the coupon and then treated it as a reimbursable coupon.)

### Other coupons

Coupons that are not for a specific discount are treated in the same way as non-reimbursable coupons whose value is deducted from the selling price of an item before the calculation of the taxes (as shown in the example in the previous section). Such coupons reduce the selling price of the property or service before the GST and the QST are calculated. Accordingly, retailers must deduct the value of the coupon from the selling price before calculating the GST and the QST payable and may not claim ITCs or ITRs with respect to such coupons. (They would be entitled to do so if they had issued the coupon and then treated it as a reimbursable coupon.)

Coupons that are not for a specific discount may

- entitle the customer to a certain percentage off the price of an item (for example, a reimbursable coupon offering a 10% reduction on the next purchase);
- offer an item for no charge, if another item is purchased (for example, two-for-one coupons);
- entitle the customer to more than one monetary discount (for example, \$0.10 off a 750 ml bottle of a soft drink, or \$0.20 off a 1.5 L bottle);
- be used for taxable, zero-rated or exempt property and services.

1. In this example and in the paragraph below the table, GST does not mean the HST.



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## Deposits on bottles and cans

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Special rules have applied to deposits on beverage containers since May 1, 2002. Under these rules, the refundable deposit is not taxable.

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## Gift certificates

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The purchase of a gift certificate is not subject to the GST or the QST since such a transaction is not considered to be a sale for tax purposes. Furthermore, when a customer uses a gift certificate to purchase property or services the certificate is considered to be cash, the GST and the QST must be calculated on the full price of the item sold (as if it were being paid for in cash), and the value of the certificate is considered to constitute a portion of the amount paid for the item. The retailer is not entitled to claim any form of compensation.

<b>Example</b>		
Price of item		\$10.00
GST <sup>1</sup>	+	\$0.50
QST	+	\$1.00
Subtotal		\$11.50
Value of gift certificate	–	\$2.00
<b>Total</b>		<b>\$9.50</b>

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## Franchise fees

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Franchise fees are generally taxable under the GST and QST systems. Franchise fees can include administrative, management or accounting services, as well as property such as promotional items and stationery.

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## Tips and service charges

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Tips offered freely to employees for their services are not subject to the GST or the QST. However, tips added automatically to the bill as service charges are taxable.

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1. In this example, GST does not mean the HST.



## SUPPLIERS OF MEALS, FOODS AND BEVERAGES

The following table lists various types of commercial establishments in the food services sector and outlines how the GST and the QST apply to each type. Further examples are given after the table.

**Restaurants and hotels**

Almost all items are taxable under the GST and QST systems.

**Educational and healthcare institutions and other public sector bodies**

Most items are tax-exempt.

**Vending machine operators**

Almost all items are taxable under the GST and QST systems.

**Other establishments supplying foods heated for consumption**

Almost all items are taxable under the GST and QST systems.

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### Restaurants and hotels

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In establishments where most food and beverage sales (90% or more) are taxable (for example, in restaurants, fast-food and take-out-and-delivery restaurants, snack bars, catering establishments, bars, lounges and mobile canteens), operators must collect the GST and the QST on all basic groceries sold. However, such foods and beverages are not taxable if sold in a form that does not allow them to be consumed immediately, considering the type of item (for example, an uncooked pizza), the quantity sold (for example, a one-litre container of ice cream), or its packaging.

In establishments selling sweetened baked goods and similar products, operators must collect the taxes on the items sold, with the exception of products that are not intended to be consumed on the premises and that are either prepackaged for sale to consumers in quantities of more than five single servings, or are not prepackaged but are sold in quantities of more than five single servings (for example, a whole pie).

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## Educational and healthcare institutions and other public sector bodies

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The following types of products and services sold by educational and healthcare institutions and other public sector bodies are exempt under the GST and QST systems:

- foods and beverages prepared for elementary- or secondary-school students and served in the school cafeteria, or at extra-curricular activities organized by the school;
- meals served to students registered at a university or a public college, under a plan providing for 10 or more meals a week, for one month or longer, to be eaten at a restaurant or cafeteria of the university or college (prepared foods purchased by students at a convenience store or any similar establishment are not exempt);
- foods and beverages (including those supplied by catering services) supplied to a school authority, where the seller is responsible for serving the foods and beverages offered primarily to students using an elementary- or secondary-school cafeteria;
- foods and beverages (including those supplied by catering services) supplied to a university or public college, where the foods and beverages are sold to students under a plan providing for 10 or more meals a week, for one month or longer;
- foods and beverages served by a public sector body in a place where recreational activities are held for the underprivileged or the mentally or physically disabled;
- foods and beverages sold by a public sector body under a program to relieve poverty, suffering or distress; but not foods or beverages supplied as part of a fundraising activity;
- prepared foods and beverages sold to aged, infirm, disabled or underprivileged persons in their place of residence under a program established for that purpose (foods and beverages sold on behalf of a public sector body as part of such a program are also exempt);
- foods and beverages served to patients and residents of healthcare institutions.

Educational and healthcare institutions and other public sector bodies are not required to remit GST or QST with respect to items sold from vending machines that accept a single 25-cent coin (or a coin of lesser value) per transaction.

The following types of products and services sold by educational and healthcare institutions and other public sector bodies are taxable under the GST and QST systems:

- all foods and beverages sold from vending machines, other than from machines that accept a single 25-cent coin (or a coin of lesser value) per transaction;
- beverages, chips and other snack foods sold to elementary- or secondary-school students in the school cafeteria, or at extra-curricular events organized by the school;
- foods and beverages served at receptions, private meetings and other special events taking place in educational institutions;
- foods and beverages sold in hospital cafeterias and in public sector buildings (government office buildings, for example);
- confections and snack foods;
- carbonated beverages, alcoholic beverages, and fruit-flavoured or fruit-juice beverages containing less than 25% natural fruit juice.



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## Vending machine operators

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All foods and beverages sold from vending machines, including such items as milk and fruit that may be zero-rated when sold elsewhere, are taxable. However, vending machine operators are not required to account for the GST and the QST on items sold from vending machines that accept a single 25-cent coin (or a coin of lesser value) per transaction.

The price of foods and beverages sold from vending machines is deemed to include the GST and the QST, where these taxes apply.

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## Other establishments supplying foods heated for consumption

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Certain businesses carry on activities in the food services sector that do not constitute their principal source of income. Examples of such businesses are department-store lunch counters and snack bars, hotel dining rooms and room service, and food concessions operated in arenas and movie theatres. Most foods and beverages sold in such establishments are taxable under the GST and QST systems.

Furthermore, grocery stores, convenience stores, bakeries, delicatessens, doughnut shops and similar businesses that sell prepared foods and beverages are considered to be establishments that provide foods heated for consumption. Sales of these types of foods and beverages are taxable. However, some foods and beverages sold as take-out items (other than items sold from vending machines) may be zero-rated under certain circumstances. See “Sweetened baked goods and similar products” on page 20 and “Prepared foods and beverages” on page 23.





## GROCERY AND CONVENIENCE STORES

Most of the items sold in grocery and convenience stores are zero-rated basic groceries (that is, they are taxed at 0%). However, certain products sold in these stores are taxable. The lists below give examples of taxable and zero-rated products, by category. Consult the section “Taxable groceries” for details on basic groceries and other items.

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### Examples of taxable foods and beverages

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- Single servings of all beverages other than plain milk and beverages prepared and prepackaged specially for consumption by babies
- Beer, wine and alcoholic beverages
- Carbonated beverages
- Carbonated mineral water
- Hot beverages (coffee, tea, etc.)
- All dispensed beverages
- Candies and other confections
- Chewing gum
- Chocolate bars
- Fruits, seeds, nuts and popcorn when they are coated or treated with candy, chocolate, honey, molasses, sugar, syrup or artificial sweeteners
- Granola bars
- Salted seeds
- Potato chips, corn chips and similar products
- Popped corn products
- Single servings of sweetened baked goods (for example, purchases of fewer than six doughnuts, muffins, slices of cake or pie, etc.)
- Foods heated for consumption (French fries, burritos, pizzas, chicken, etc.)
- Ice cream, ice milk, frozen yogurt, frozen juice bars
- Ice pops



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### Examples of taxable items

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- Soaps and detergents
- Paper products (paper towels, toilet paper, etc.)
- Household cleaning products (scouring pads, fabric softeners, etc.)
- Housewares and kitchenware
- Deodorants and perfumes
- Hair care products
- Personal hygiene products
- Shaving products
- Skin care products
- First aid products
- Non-prescription medications
- Pet food and pet products
- Plants and gardening supplies
- Newspapers, magazines, greeting cards
- School and stationery supplies
- Charcoal and barbecue products
- Toys

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### Examples of zero-rated basic groceries

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- Dairy products (unflavoured milk, cheese, butter, cream, sour cream, yogurt)
- Meat (beef, poultry, pork, lamb, prepared meats, sausages)
- Fish
- Breads and cereals
- Vegetables
- Fruits
- Eggs





## TAXABLE GROCERIES

Sales of basic groceries are zero-rated. The term “basic groceries” applies to most foods and beverages intended for human consumption (including sweetening agents, seasonings and other ingredients to be mixed with such foods and beverages, or that can be used in their preparation). However, certain categories of groceries (for example, carbonated beverages, confections and snack foods) are taxable.

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### Alcoholic beverages and carbonated beverages

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The GST and the QST apply to sales of alcoholic beverages, carbonated beverages, and certain non-carbonated beverages.

- Wines, spirits, beer and other alcoholic or de-alcoholized beverages are taxable. Beer-making kits containing more than just ingredients to make beer (such as kits that include equipment or apparatus required to manufacture beer) are subject to tax. Under the QST, the sale of grapes, grape juice, concentrated or non-concentrated grape must, malt, malt extract, and similar products used to make wine or beer is taxable. Under the GST, however, the sale of beer-making kits containing only the ingredients to make beer (yeast, hops, etc.), as well as the sale of grape juice concentrates used by consumers to make wine, is zero-rated. Cooking wine sold and represented as a condiment, and normally purchased in grocery stores, is also zero-rated, as are foods preserved in alcohol.
- All carbonated beverages, including carbonated mineral water, are taxable. Many establishments operate soda fountains. These fountains are operated with cylinders of pre-mix or post-mix. Pre-mix is a carbonated beverage supplied in a cylinder with all the syrups and CO<sub>2</sub> required; its sale is taxable. Post-mix contains all the ingredients for a carbonated beverage, but does not contain CO<sub>2</sub>; its sale is zero-rated. The sale of cylinders of CO<sub>2</sub> is taxable.
- Non-carbonated fruit-juice and fruit-flavoured beverages are taxable if they contain less than 25% by volume of
  - a natural fruit juice or combination of natural fruit juices;
  - a reconstituted natural fruit juice or combination of reconstituted natural fruit juices.

The same is true with respect to products that, when added to water, produce beverages of the kind described in the previous paragraph. However, milk-based beverages and iced tea mixes, including fruit-flavoured iced tea mixes, are zero-rated if they are sold in other than single servings.



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## Confections

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Under the GST and QST systems, sales of confections that may be classed as candy are taxable. Such products include candy floss, chewing gum and chocolate (whether sweetened naturally or artificially), and fruits, seeds, nuts and popcorn when they are coated or treated with candy, chocolate, honey, molasses, sugar, syrup or artificial sweeteners.

Examples of taxable confections

- chocolate-covered coffee beans and chocolate-covered raisins
- chocolate bars
- chocolates containing fruits, toffee, caramel, fondant or liqueur
- fruit drops and jelly sweets
- marshmallows and cream sweets
- sesame bars
- meringue nests
- gingerbread
- chewing gum
- candy floss
- nuts, popcorn, raisins, apples, etc., when coated or treated with candy, chocolate, molasses, sugar or syrup

Examples of products that are zero-rated (that is, taxable at 0%)

- bulk industrial chocolate
- baker's chocolate
- liquid chocolate icing
- edible cake decorations packaged and sold as cake decorations
- chocolate spread
- chocolate for fondue, sold in bars (unless repackaged as chocolate for fondue and sold door-to-door)
- angelica (a plant used, among other things, for cake decoration) and cocktail cherries
- meal replacement bars

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## Snack foods

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The GST and the QST apply to sales of snack foods such as chips, crisps, puffs, curls and sticks.

Examples of taxable snack foods

- potato chips
- corn chips
- cheese puffs
- potato sticks
- bacon crisps
- cheese curls
- popcorn
- brittle pretzels
- salted seeds (for example, peanuts and sunflower seeds when supplied salted)
- snack mixtures that contain cereals, nuts, seeds, dried fruit or any other edible product
- granola products (for example, granola bars)
- fruit bars, rolls and drops, and similar fruit-based foods

Examples of zero-rated snack foods

- unpopped popcorn kernels, salted or unsalted
- any products sold primarily as breakfast cereals

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## Ice pops and frozen confections

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Ice pops, frozen juice bars, and flavoured, coloured or sweetened ice waters are taxable (whether or not such items are frozen). This is true even if they contain fruit juice or pieces of fruit, regardless of the percentage of fruit juice in the product and whether the product is sold on a stick or otherwise. Frozen confections containing a mixture of fruit or fruit juice and dairy products (such as cream or ice cream) are also taxable.

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## Ice cream and similar products

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Ice cream, ice milk, sherbet, frozen yogurt, frozen pudding and substitutes for these products, and products that contain any of these products, are taxable when packaged or sold in single servings, regardless of the number of servings in each package. A “single serving” of ice cream or a similar product is a unit of less than 500 ml or 500 g. A product is considered to be packaged in single servings when each of the portions is individually wrapped or packaged in its own right.



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## Sweetened baked goods and similar products

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Cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies and croissants with sweetened filling or coating, and similar products are taxable if

- they are prepackaged for sale in quantities of fewer than six single servings;
- they are not prepackaged for sale, but are sold in quantities of fewer than six single servings.

A “single serving” of sweetened baked goods is a single item weighing less than 230 g, or a portion or part of a product that is offered for sale in single servings.

The term “sweetened filling or coating” includes any sweetening ingredients (other than unsweetened fruit) added as a filling, but excludes sweetened products added merely as catalysts for leavening agents (known as yeast foods). “Sweetened filling or coating” refers essentially to any icing, sugar or sweetened topping applied to the surface of a product before, during or after processing.

Examples of products that are taxable when they are prepackaged for sale in quantities of fewer than six single servings, or when they are not prepackaged for sale, but are sold in quantities of fewer than six single servings

- cakes, including coffee cakes and tea cakes
- pies and tarts
- flans
- sweetened crêpes
- muffins and muffin bars
- cookies
- strudels
- wafers
- plum puddings
- doughnuts and fritters
- waffles
- breads (such as banana or carrot bread) consisting primarily of a muffin mix or similar sweetened base
- graham crackers

#### Examples of zero-rated sweetened baked goods and similar products

- a mixed supply of six or more single servings of the taxable products listed above (for example, one tart, two muffins, one cookie and two doughnuts) when they are not individually packaged
- traditional breads
- tortillas and taco shells
- meat pies and doughs of all kinds, including puff pastry and cookie dough
- pie shells, vol-au-vent shells and phyllo leaves
- English muffins without a sweetened filling or coating
- soft pretzels
- traditional bread products such as bagels, scones, tea biscuits, croissants and rolls, without a sweetened filling or coating
- salted crackers and other crackers (other than graham crackers and crackers with a sweetened filling or coating)

Therefore, establishments specialized in take-out food are not required to collect tax on sales of six or more items intended for consumption outside the establishment. Foods with a sweetened filling or coating that are packaged in single servings are taxable, regardless of the number of items purchased.





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## Single servings of pudding and beverages

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Puddings and beverages (other than unflavoured milk) are taxable. However, such products are zero-rated if

- they are prepackaged by the manufacturer or producer for sale in multiple single servings;
- they are sold in a box, a bottle or other original container in a quantity exceeding a single serving;
- they are prepared and packaged specially for consumption by babies.

A “single serving” of pudding or a similar product is considered to be a unit of less than 425 g. A “single serving” of a beverage is considered to be a unit of less than 600 ml.

Examples of products that are taxable when sold in single servings (unless the above-mentioned exceptions apply)

- pudding
- flavoured gelatin
- mousse
- flavoured whipped dessert product
- spring water
- juice containing natural fruit juice (25% or more)
- chocolate milk
- fruit-flavoured yogurt-based beverages

Carbonated beverages and fruit-flavoured beverages containing less than 25% natural fruit juice are taxable, whether or not they are sold in single servings (see “Alcoholic beverages and carbonated beverages” on page 17).

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## Unbottled water and ice

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Unbottled drinking water is zero-rated when dispensed to consumers in quantities exceeding a single serving from a vending machine belonging to the supplier or located in the supplier’s permanent establishment. The same is true of ice made only from drinking water, regardless of the quantity dispensed.

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## Prepared foods and beverages

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The sale of the prepared foods and beverages detailed below is taxable.

### Heated foods and beverages

The sale of prepared foods and beverages heated for consumption is taxable.

Examples

- French fries
- fish and chips
- chicken
- pizzas
- foods sold from a heated counter
- foods sold from a separate take-out counter
- foods heated at the point of sale
- coffee
- tea
- hot chocolate
- other hot beverages

Prepared foods are zero-rated when sold unheated elsewhere than at counters from which these types of foods are usually sold. For example, when a butcher sells heated barbecued chickens, such sales are taxable. However, barbecued chickens that go unsold and are then placed in a refrigerated counter are zero-rated when sold from such a counter.

### Salads

Salads for consumption at the point of sale or elsewhere are taxable, whether sold in single servings or in large containers. Fruit salads and gelatin salads that normally contain fruits and that can be moulded are also taxable.

Packages of unmixed salad ingredients, including lettuce, dressing or seasonings, each in a separate pouch or container, are zero-rated. Salads preserved in containers or vacuum-packed are also zero-rated.

### Sandwiches and similar products

Sandwiches and similar products (for example, hot dogs, hamburgers, submarines and pita sandwiches), including products sold at the prepared food counter of a convenience store, are taxable. Frozen sandwiches are, however, zero-rated.



### **Platters of prepared foods**

Platters of cheese, cold cuts, fruits, vegetables and other prepared foods are taxable.

Examples

- appetizer platters including cheese, fruits, canapés or pâtés
- platters of meat, fish, poultry and other food products, including cold cuts
- frozen shrimp rings

### **Beverages dispensed at the point of sale**

Beverages such as milk, coffee, tea, iced tea, hot chocolate and juice are taxable when they are served on the premises.

### **Foods and beverages sold under a contract with a caterer**

All foods and beverages supplied by a caterer are taxable, regardless of whether or not service of the foods and beverages is included in the terms of the contract.

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### **Foods and beverages sold from vending machines**

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Items sold from vending machines are often the same, or of the same type, as those distributed in cafeterias or in fast-food restaurants. It has therefore been determined that all foods and beverages sold from vending machines are taxable, even if the product is normally zero-rated (for example, a single serving of unflavoured milk); however, vending machines that accept a single 25-cent coin (or a coin of lesser value) per transaction are excluded from this provision.

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### **Other items sold in eating establishments**

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In establishments where most (90% or more) of the total sales of foods or beverages are taxable, sales of other food products are also taxable. This means that rolls served à la carte in a restaurant are taxable. However, when this type of establishment sells prepared foods that are not intended for immediate consumption, the sale of these products is zero-rated. To determine whether the foods or beverages are intended for immediate consumption, a registrant must consider not only the type of item (for example, a bag of coffee beans is zero-rated), but also the quantity sold or the packaging (for example, a two-litre container of ice cream is zero-rated).

Sweetened baked goods and similar products referred to previously are also zero-rated if sold in an eating establishment, provided the products are not consumed on the premises, are sold in quantities of more than five single servings (for example, a whole cake to be taken out), or are prepackaged in quantities of more than five single servings.





## MULTI-USE PRODUCTS

Ingredients to be mixed with foods and beverages for human consumption, or that can be used in the preparation of such foods and beverages, are zero-rated, even though a particular product may also have non-food or non-beverage uses.

In such cases, the packaging is important in determining the tax status of the product in question. Where the product is provided for a non-food use in the same packaging or form as it is for use in foods or beverages, the sale is zero-rated. Where it is packaged and promoted for non-food use only, the sale is taxable. Products such as carbon dioxide, ethyl alcohol and other alcohols are always taxable, regardless of their use.

## PRODUCTS CONSUMED BY CERTAIN ETHNIC GROUPS

Products not normally identified as foods or beverages in Canada but consumed as such by specific ethnic groups are considered basic groceries (and therefore zero-rated) if the foods or beverages are consumed as basic grocery items, unless the items are included as taxable foods or beverages in the section “Taxable groceries” (refer to page 17).

## EDIBLE OR CONSUMABLE PRODUCTS THAT ARE NOT BASIC GROCERIES

Although potted herbs and vegetable plants are edible products, they are not basic groceries; their sale is taxable. On the other hand, dried packaged herbs and spices sold or represented as seasonings for food are zero-rated.



## DIETARY SUPPLEMENTS AND MEAL REPLACEMENTS

Dietary supplements made from synthetic or natural ingredients and produced in tablet, pill, capsule, granulated or powdered form and sometimes sold by drugstores and health food stores are generally taxable. Appetite suppressants sold in pill, tablet or capsule form are also taxable.

However, dietary supplements in granulated or powdered form sold as ingredients to be mixed with foods or beverages, or that can be used in their preparation, are zero-rated, provided such supplements when mixed with water do not produce a non-carbonated fruit juice or fruit-flavoured beverage containing less than 25% by volume of a natural fruit juice or combination of natural fruit juices, or a reconstituted natural fruit juice or combination of reconstituted natural fruit juices.

Meal replacement bars and beverages labelled as such within the meaning of the federal *Food and Drugs Act* are zero-rated since these items are not considered to be dietary supplements. (Meal replacement bars are considered to be basic groceries.) However, liquid dietary supplements that are taken with a spoon (and not drunk from a glass) and that are not meant to quench a thirst cannot be considered beverages and are therefore taxable.

## VITAMINS

Vitamins, minerals and tonics sold in pill, capsule, tablet or other form and not considered to be ingredients in the preparation of foods or beverages for human consumption, as defined by law, are not basic groceries and are therefore generally taxable.



## MIXED SUPPLIES OF BASIC GROCERIES AND TAXABLE PRODUCTS

When zero-rated items and taxable items are combined into one product and sold for a single consideration, the tax status varies depending on the nature of the resulting product. For example, peppercorns are taxable when contained in a pepper mill.

## GIFT BASKETS

A gift basket is zero-rated when all or substantially all (90% or more) of the value of its component parts (including the basket or other packaging) is zero-rated. However, where more than 10% of the value of its component parts is taxable, the gift basket is taxable.

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