

Alcoholic Beverages

About this Guide

This *Guide* provides tax information to help businesses understand how Retail Sales Tax (RST) applies to alcoholic beverages. Revisions to the previous version dated June 2001 are identified by a bar (|).

For general RST information that applies to all businesses such as registration for vendor permits, general exemptions, and how to charge and collect tax, see ***Small Business Pointer 901 - The Basics of Retail Sales Tax***.

Sales of Alcoholic Beverages

Vendor Requirements

Persons who sell liquor, beer, or wine must obtain a Vendor Permit from the Ministry of Revenue to collect RST on their sales. They must also obtain a liquor licence issued by the Alcohol and Gaming Commission of Ontario (AGCO).

Special Permits

Alcoholic beverages may be sold under the authority of a special occasion permit under the Liquor Licence Act (LLA) which is administered by the AGCO. RST, plus a levy, is payable at the time the alcoholic beverages are purchased. No RST is to be charged when the alcohol is served.

Licensed Establishments

Whether or not a liquor licence has been obtained from the AGCO, the seller is required to charge RST at the rate of 10 per cent on sales of alcoholic beverages, including premixed drinks. If liquor and mix are supplied but not premixed, RST applies at the rate of 10 per cent on the liquor and 8 per cent on the mix if the charges are shown separately. Eight per cent RST applies to snack foods as well as prepared food products sold for more than \$4.00. See ***RST Guide 300 - Prepared Foods***, and ***RST Guide 501 - Snack Foods, Beverages and Candies*** for more information.

Retail Outlets

RST at the rate of 12 per cent applies to alcoholic beverages sold by:

- Beer manufacturers (retail outlets)
- Brewers Retail stores (The Beer Store outlets)
- LCBO outlets and Agency Stores
- Wine stores (including stores selling sacramental wines).

Brew Pubs

A brew pub is a licensed establishment selling draught beer that is manufactured on the premises for onsite consumption. RST applies at the rate of 10 per cent on such sales.

Brew pub operations may qualify for RST manufacturing exemptions on production equipment, consumables and raw materials used primarily and directly in the brewing operation.

Brew Pubs
(continued)

To qualify as a manufacturer, the brew pub must sell more than \$5,000 worth of beer in a fiscal year. The brew pub is not entitled to claim an exemption on the equipment used in the eating establishment area. Retail Sales Tax (RST) is payable on the equipment used in the preparation and/or serving of prepared food products. See ***RST Guide 400 - Manufacturers*** for more information on manufacturing.

Ferment On Premise Facilities

Ferment on Premise (FOP) facilities operating in Ontario are required to apply with the AGCO for an operating licence. An FOP licence permits the business to provide a facility where equipment for making beer or wine on the premises is available for customers to use.

For RST purposes, these establishments are not manufacturers but are providing a non-taxable service by allowing customers to use their premises and equipment. FOP licensees are required to charge 8 per cent RST on bottles, bottle labels, caps, corks, cleaning chemicals, and taxable ingredients (i.e., brewers malt, malt extract, hops) to their customers. In addition, they must collect the flat tax of 13 cents per litre on all beer and/or wine produced.

Vessels

Operators of cruise vessels are required to collect RST on all alcoholic beverages sold. When the total charge for a cruise includes alcoholic beverages, the cruise vessel is considered the purchaser and is required to pay RST on the cost of all alcoholic beverages provided to passengers.

Some cruise vessels have docking rights outside Ontario and may be liable for tax in another jurisdiction for any alcoholic beverages served during the cruise. In these instances, RST does not apply to alcoholic beverages served during the cruise, provided the cruise vessel retains proof that another jurisdiction requires payment of tax and that the tax has, in fact, been paid to that jurisdiction.

Airlines

RST does not apply to alcoholic beverages sold while the aircraft is in flight. This also applies to any alcoholic beverages that are given away free of charge during the flight.

Free Alcoholic Beverages

Vendors are required to pay RST at 12 per cent on any alcoholic beverages taken from inventory for own use or provided free of charge. RST is payable on either the actual cost or on 50 per cent of the regular selling price, and is to be reported on line 3 of the RST return covering the period of use. The option chosen must be used consistently.

Other Alcohol Related Items

Beer & Wine Making Kits

The contents of a beer or wine-making kit sold as a package must be listed individually to determine which items are taxable or exempt. If the items are not listed individually, then the whole kit is taxable.

No RST applies to the selling price if the total cost to the vendor of the taxable items, container and packaging is less than 10 per cent of the vendor's cost of the exempt items in the package.

Beer & Wine Making Kits (continued) Where this cost is more than 10 per cent, Retail Sales Tax (RST) is collectible on the total selling price of the package.

The primary component of most beer making kits is the beer concentrate or malt extracts and hops. For RST purposes, malt, malt extract, and hops are not exempt food products.

The primary component of most wine making kits is the grape or wine concentrate; some kits may also contain yeast. For RST purposes, these ingredients are exempt food products.

Non-Alcoholic Beverages Under the *Liquor License Act* (LLA), non-alcoholic beer and wine means: “a product capable of human consumption that contains 0.5 of 1 per cent or less of alcohol by volume or 0.4 of 1 per cent or less of alcohol by weight”.

RST applies to the sale of non-alcoholic beverages as follows:

- Non-alcoholic beverages sold by grocery and convenience stores, etc., are taxable at the rate of 8 per cent.
- Non-alcoholic beverages sold by eating establishments are taxable at the rate of 8 per cent when sold with prepared food products and the total sales transaction is more than \$4.00, excluding GST.

For RST purposes, when wine is non-carbonated and meets the definition of non-alcoholic wine under the LLA, it is considered a fruit juice. Non-alcoholic beer and wines that are sparkling or carbonated are considered to be soft drinks.

Non-taxable Services

RST does not apply to the following services:

- Liquor Delivery Services – a fee charged to the public for the delivery of liquor by a person who holds a liquor delivery service licence.
- Corkage Fees – a fee charged by restaurants for opening bottles of wine brought into the restaurant by the customer.

Gratuities

Vendors of alcoholic beverages may add a mandatory service or gratuity charge to their bill in lieu of a gratuity that is normally paid at the discretion of the customer. RST is not payable on these service charges provided they fall within percentages normally accepted by the industry, but should not exceed 20 per cent. These charges must be shown separately on the customer’s bill.

RST Application

Tax-extra pricing Vendors who sell alcoholic beverages have the option of using tax-extra pricing or tax-included pricing.

Tax-extra pricing (continued)

Tax-extra pricing means the applicable 10 per cent or 12 per cent Retail Sales Tax (RST) charged on sales must be shown separately on the bill given to the customer.

Some vendors use the federal option of GST-included pricing for alcoholic beverages. To calculate the amount of RST to charge and collect from customers, a factor can be applied to the total selling price which includes the GST.

For alcoholic beverages taxed at the rate of 10 per cent, vendors can multiply the GST-included selling price times the factor of 9.524 per cent. For alcoholic beverages taxed at the rate of 12 per cent, vendors can multiply the selling price of alcoholic beverages times the factor of 11.429 per cent. The amount of RST calculated by applying these factors to the GST-included selling price is the same amount of RST that is calculated by multiplying the actual selling price, less GST, times the RST rate. The amount of RST calculated must be shown separately when billing customers. The equivalent factor must not be shown or stated on the bill.

Tax-included Pricing

Vendors using tax-included pricing for sales of alcoholic beverages must either post a sign in a prominent location or state in their price lists that prices for all alcoholic beverages include the applicable 10 per cent or 12 per cent RST. As an alternative, the actual amount of RST included in the selling price of each beverage may be stated on the sign or price list. One of these methods must be used to advise customers that prices include RST. If customers are not advised, all prices will be considered to be tax-extra. This could result in a penalty assessment for failure to collect the proper amount of tax.

If a vendor's sign or price list makes a general statement that all prices include tax, the RST to be remitted on alcoholic beverages is calculated as follows:

10% rate: $10/115 \times \text{total sales (including RST and GST)}$

12% rate: $12/117 \times \text{total sales (including RST and GST)}$

Where a vendor's sign or price list states the actual amount of RST included in the selling price of each alcoholic beverage, the 10 per cent or 12 per cent RST to be remitted is calculated by multiplying the RST amount by the number of units sold. See ***RST Guide 208 - Tax-Included Pricing*** for more information.

Liquor Licences

All liquor licences are issued for a specific location as opposed to a specific business. The owner - as licensed with the AGCO - is responsible for the ongoing operation of the licence. To request a new liquor licence or to renew or transfer an existing liquor licence, contact the AGCO or visit their website at www.agco.on.ca.

The AGCO can refuse to issue, renew or transfer a liquor licence if there are any past due RST returns or any money owing to the Ministry of Revenue. The AGCO will inform applicants if this situation applies to them, and will also provide applicants with a contact number for the Revenue Collections Branch (RCB) of the Ministry of Revenue.

Applicants must then make arrangements with the RCB to pay all Retail Sales Tax (RST) liabilities and file all outstanding returns before the AGCO will issue, transfer or renew a liquor licence. Once the applicants have cleared their accounts, the RCB will inform the AGCO that arrangements satisfactory to the Ministry of Revenue have been made, and only then will the AGCO proceed with the issuance of a liquor licence.

More Information



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Written Interpretation:
To obtain a written interpretation on a specific situation not addressed in this publication, please send your request in writing to:

Ministry of Revenue
Tax Advisory Services Branch
Retail Sales Tax Section
33 King Street West, 3rd Floor
Oshawa ON L1H 8H5

Disclaimer and References

The information contained in this publication is provided only as a guideline and is not intended to replace the legislation.

Legislative References:

- *Retail Sales Tax Act*, Subsections 2(2), section 3.1, paragraph 7(1)48
- Regulation 1013 under the *Retail Sales Tax Act*, section 1 and section 10.1

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