

Ministry of Finance

Tax Information Sheet



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Information Sheet

www.fin.gov.bc.ca/rev.htm

On July 1, 2010, the social service tax, also called the provincial sales tax (PST), was replaced with the harmonized sales tax (HST). However, the information in this publication regarding the details of how an audit is conducted still applies.

Liquor Audits – What to Expect

Social Service Tax Act

This information sheet, compiled in consultation with liquor industry representatives – *Alliance of Beverage Licensees of British Columbia (ABLE BC)*, provides the details of what you can expect when a liquor audit of your business is about to begin and will assist you in preparing for the audit. The ministry conducts audits to ensure consumption taxes are collected and paid fairly and consistently throughout the province. We are committed to the service standards and code of conduct outlined in our *Taxpayer Fairness and Service Code*.

The auditor looks at documentation to ensure that you have properly collected and remitted tax on your liquor sales. The auditor applies your actual mark-ups¹, to your liquor purchases that have been recorded by the Liquor Distribution Branch, or its agent, to calculate estimated liquor sales. Where selling price information has not been maintained, a standard industry mark-up may be used. The 10% social service tax rate is applied to this figure to arrive at an estimate of tax that should have been collected on your liquor sales. This estimated tax figure is compared to the actual tax that you have remitted and the auditor looks for explanations where there is any significant variance. As the liquor has been purchased specifically for resale, any remaining unexplained variance is generally assumed to be unreported sales. The auditor knows that variances can occur for a variety of reasons and will take into account explanations for variances and make appropriate adjustments as warranted. Accordingly, it is helpful to maintain accurate, complete and up-to-date records for both you and the auditor.

¹ Mark-ups are calculated based on the selling price of the liquor divided by the cost of the liquor.

The auditor looks for evidence of good internal controls. The following are areas the auditor may look at.

- **Does your bartender dispense liquor by free pour, jiggers or metered gun dispensers?**

There is better control if metered dispensers are used and properly maintained.

- **Do you make off-sales?**

Off-sales are generally sold at a lower price than regular pub sales, which means a lower mark-up. It is important to record off-sales separately from regular pub sales.

- **Do you have regular inventory counts for self checks of sales revenue?**

Reconciling purchases to revenue is a good internal control. Thefts, broken bottles, spilled drinks and other similar incidents should be recorded and reconciled against purchases. This is further evidence of good internal controls and enables an auditor to accurately assess any tax that is due and make reasonable adjustments to spillage factors used in making variance calculations.

- **Do you collect tax on the total sale price of mixed drinks, not just the liquor portion?**

Tax is due on the total sale price of mixed drinks.

- **Are there claims of excessive or accidental spillage?**

Accidental or excessive spillage should be recorded in a log or through the Point of Sale system. An auditor will calculate unrecordable spillage factors for each category of drinks. These factors are then applied in the variance formula calculation. The spillage factor percentages can be adjusted where a business's practice or conditions warrant it. These adjustments are made based on the evidence made available to the auditor as well as observations made during the auditor's visit of the establishment.

- **Do you use liquor in the preparation of food?**

Liquor used in the preparation of food is not taxable.

- **Are you remitting tax on the cost rather than the selling price of promotional drinks?**

If you are remitting tax on the selling price of promotional drinks, you are over paying the tax due and may be eligible for a refund. The auditor can explain how you may obtain a refund.

- **Are you collecting and remitting tax on non-liquor sales?**

If you are remitting tax on the sales of products other than liquor, the auditor will make an adjustment in the calculation that compares the estimated tax collected to actual tax remitted.

In order to facilitate a smooth, efficient audit it is important that an auditor has access to the appropriate records. At the beginning of your audit, you should discuss which documents the auditor will need for the audit. Typically, an auditor will need:

- daily cash reports – showing voids, over-rings and promotional liquor
- liquor menu detailing the sale price of products sold including or excluding tax
- details of reconciliations of the Point of Sale system to inventory counts (this information monitors the control of liquor purchases to sales)
- cash register tapes for all registers and details of product sales categories
- other sales/purchase reports
- liquor purchase details
- details of promotional liquor – tax due at 10% on cost
- special event details
- own consumption, customer and owner promotion
- replacement drinks, void sales
- police report or insurance claim for incidences of theft
- daily logs of breakage including chipped or broken beer bottles
- daily logs containing the draft-line cleaning times, the distance from the cooler and the age and type of chilling equipment (this information will be used to calculate the spillage percentages for draft products)
- tax remittances and supporting documentation
- any other relevant documentation that may impact the variance calculation

Effective February 21, 2007, audit assessments of liquor licensees for variances between the amount of tax remitted on liquor sales and the amount of tax expected based on liquor purchases will be reduced from the current six year period to a maximum three year period.

More detailed information on the general audit process is provided in [Bulletin GEN 009](#), *Understanding Your Consumer Tax Audit*.

There are a number of bulletins and brochures available on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/consumer_taxes.htm Those of most interest to liquor vendors are:

- [Bulletin SST 094](#), *Liquor Sellers*
- [Bulletin SST 027](#), *Restaurants*
- [Bulletin GEN 003](#), *Appeals of Tax Assessments or Disallowed Refunds*
- [Taxpayer Fairness and Service Code](#)

Further Information

If you have any questions, please call us toll-free at 1 877 388-4440, or e-mail your questions to CTBTaxQuestions@gov.bc.ca

The information in this notice is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are available on our website.