



LCT-1 Issued: January 1988

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## THE LIQUOR CONSUMPTION TAX

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**READER SURVEY**

This bulletin has been prepared to assist you in understanding your obligations under *The Liquor Consumption Tax Act* and *The Revenue and Financial Services Act*. It is provided as a general guide and should not be considered a substitute for the legislation.

*Changes to this bulletin are identified by a bar (|) in the left margin.*

The contents of this bulletin are presented under the following sections:

- A. General Information
- B. Enforcement Provisions
- C. Selling or Purchasing a Business
- D. Resale Levy
- E. Calculating the Tax
- F. Personal Consumption and Promotional Drinks
- G. Spillage and Breakage
- H. Saskatchewan Electronic Tax Service (SETS)

Attachment – Audit Information and Record Keeping Requirements

### A. GENERAL INFORMATION

#### The Liquor Consumption Tax (LCT)

The LCT rate is 10 per cent and it applies to the total selling price of beer, wine and spirits, including charges for the right to consume alcohol in a licensed establishment, such as Bring Your Own Wine (BYOW) charges.

#### Your Special Licence

A special licence is issued to all LCT collectors to allow for the purchase of beer, wine and spirits for resale. If you carry on business at more than one location in the Province, you will receive a special licence for each place of business.

A special licence is not transferable and cannot be used by anyone else.

### **Collecting the Tax**

The tax on sales of beer, wine and spirits consumed on licensed premises must be calculated on the total selling price including mixes and corkage. It is not permissible to levy a separate charge for mixes, corkage and other similar charges in order to reduce the amount of tax payable.

### **Your Responsibilities**

Your responsibilities as a collector under *The Liquor Consumption Tax Act* are to:

- collect the tax on the sale of beer, wine and spirits;
- collect the resale levy on purchases made by special occasion permit holders who resell alcohol under open pricing;
- collect the tax on fees to consume alcohol such as BYOW charges;
- refund the tax on returned beer, wine and spirits if the full purchase price is refunded to the customer;
- pay the tax on beer, wine and spirits for your own use when taken from stock;
- keep complete and up-to-date records of all your business transactions; (You should not destroy these records unless permission has been granted by the Ministry of Finance. Records must be retained for at least six years. See the attachment at the end of this bulletin, *Audit Information and Record Keeping Requirements*);
- remit the tax and resale levy collected to Finance;
- file tax returns by the due date shown on the return;
- advise us if your business and/or mailing address is changed;
- advise us if your business is discontinued or sold or if there is a change in your business name; and,
- quote your special licence number when you are buying beer, wine and spirits for resale.

### **Remitting the Tax**

You are required to submit tax monthly, quarterly or annually depending on the amount of the taxes to be paid. The filing frequency is established as follows:

<b>Filing Frequency</b>	<b>Tax Collected or Payable</b>
Annually	0 to \$3,600 per year
Quarterly	\$3,600 to \$7,200 per year
Monthly	over \$7,200 per year

A tax return form will be sent to you at the end of each reporting period. Instructions for completing the return are provided on the form. Please read the instructions carefully. An incorrectly completed form may delay the processing of your tax return and payment. If there is no tax to report for the period, you must still file a "0" return.

If for some reason you do not receive a tax return, your tax information must still be filed by the due date. Simply prepare a return along the general lines of a previous tax return, deduct your commission and remit the balance. To ensure your tax account is properly credited, please quote your account number when filing the information.

Returns are due by the 20<sup>th</sup> day of the month following the end of the reporting period. The completed form must be returned, with your payment, by the due date shown on the return to avoid the application of penalty and interest.

**A tax return form must be completed for each reporting period.** If you have no tax to report, please mark your return "0" and return it for processing.

### **Commission**

You are entitled to a commission, to a maximum of \$1,800 in each calendar year, based on the amount of tax collected in each reporting period. The amount of commission you may claim on each return is based on how often you file your returns, and is calculated as follows:

- Monthly - 10% of first \$250 of tax collected and 1% on the balance.
- Quarterly - 10% of first \$750 of tax collected and 1% on the balance.
- Annual - 10% of first \$3,000 of tax collected and 1% on the balance.

Commission is not allowed if your tax return is filed late or if it is filed without a payment.

### **Tax Credit on Bad Debts**

You may claim a credit for the tax portion of receivables that are written off as uncollectible. The tax credit should be taken as an internal adjustment in your records. Details of the accounts written off must be kept for audit verification by the Revenue Division.

## **B. ENFORCEMENT PROVISIONS**

### **Failure to Comply**

Non-compliance can result in the suspension of your special licence issued under *The Liquor Consumption Tax Act*. If your special licence is suspended, you will not be allowed to purchase beer, wine or spirits for resale and you will not be allowed to sell alcoholic beverages in your establishment.

### **Corporate Director's Liability**

In certain circumstances, corporate directors may be held personally liable for taxes collected but not remitted by a corporation.

Directors may be held personally accountable for a corporation's tax liability when collection efforts against the corporation have failed or when a corporation becomes bankrupt or commences other liquidation proceedings. Directors may only be held liable if the corporation fails to collect or remit the tax (as opposed to taxes payable by the corporation). A director may avoid liability by demonstrating that reasonable steps were taken to ensure that the corporation remitted its tax collections.

### **Penalties for Failing to Remit Tax**

Penalty and interest charges are applied to taxes that are not remitted by the due date. These charges are necessary to ensure that taxes are collected and remitted on time.

### **Penalty Applied to Late Returns**

A penalty of 10 per cent of the tax payable, to a maximum of \$500, is applied to each return period.

### **Penalty Applied to Audit Assessments (Effective July 1, 2007)**

The following penalties apply to audit assessments:

#### **Tax on Sales**

- A penalty of 10 per cent of the amount assessed, with no maximum, is applied to audit assessments for liquor sales where the tax should have been collected from your customers, but was not.
- A penalty of 25 per cent of the amount assessed, with no maximum, is applied to audit assessments for LCT that has been collected from your customer but not remitted.
- A penalty of 100 per cent of the amount assessed, with no maximum, may be applied to audit assessments for LCT collected from your customer that willfully has not been remitted.

#### **Tax on Consumption**

- A penalty of 10 per cent of the amount assessed, with no maximum, is applied to audit assessments for liquor that was taken from inventory for your own use or given away for promotional purposes, where the tax should have been self assessed, but was not.

### **Interest Charges**

Interest at the prime interest rate plus 3 per cent is charged from the date the tax was to have been remitted.

### **C. SELLING OR PURCHASING A BUSINESS**

Businesses are required to report and remit Provincial Sales Tax (PST) on the purchase or sale of used goods, including business assets, such as restaurant equipment and taxable vehicles. When used assets are purchased as part of the closure or transfer of a business, the purchaser is required to self-assess and report the tax.<sup>1</sup>

When selling your business please ensure that you:

- Advise us immediately of the name of the new owner, the effective date of the sale and return your special licence.
- Submit a tax return within 15 days of the sale for all taxes owing to the date of the sale of the business.
- Obtain a copy of the certificate in duplicate from us verifying that all taxes have been paid. The duplicate copy should be provided to the purchaser.

When purchasing an established business please ensure that you:

- Apply for a special licence. A licence application form should be requested from us.
- Obtain a copy of the certificate issued by us to the seller verifying that all taxes collected by the seller have been paid. If you fail to do so, you may be held responsible for all taxes collected but not remitted by the seller.

### **D. RESALE LEVY**

A resale levy must be collected on the sale of alcohol sold to Special Occasion Permit holders that are reselling the product under open pricing for community social functions and fundraising events for non-profit groups, sports clubs and educational groups. The resale levy is in addition to the LCT, GST and deposit and is calculated by applying the appropriate percentages as follows:

- 10% for beer
- 14% for wines, coolers and ciders
- 18% for spirits and liqueurs

The resale levy must be recorded in item three on your LCT return.

### **E. CALCULATING THE TAX**

LCT at 10 per cent applies to the total selling price of beer, wine and spirits, before GST, and includes charges for the right to consume alcohol in a licensed establishment, such as BYOW charges.

Examples are provided on the following page for the calculation of LCT when tax-inclusive pricing is used.

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<sup>1</sup> Information Bulletin PST-58, *Information on the Taxation of Used Goods*

To ensure that you do not over-remmit LCT, the refundable deposits and environmental handling charges on beverage containers should be deducted before calculating the tax on off-sale.

The following table summarizes these deposits and charges:

<b>Beverage Container</b>	<b>Environmental Handling Charge (per container)</b>	<b>Refundable Deposit (per container)</b>	<b>Total Amount (per container)</b>
· Metal cans			
· under 1 litre	5¢	10¢	15¢
· 1 litre or more	5¢	20¢	25¢
· Plastic bottles			
· under 1 litre	6¢	10¢	16¢
· 1 litre or more	6¢	20¢	26¢
· Non-refillable glass bottles			
· 300 ml or less	7¢	10¢	17¢
· more than 300 ml but less than 1 litre	7¢	20¢	27¢
· 1 litre or more	7¢	40¢	47¢
· Beer bottles (refillable)	0¢	10¢	10¢

**(a) Franchises**

The following illustration will assist Saskatchewan Liquor and Gaming Authority franchisees in the completion of their LCT returns. This method may only be used when no segregation is made in your records between sales and tax collected (GST and LCT).

**Calculation of Tax Collected When Tax-Inclusive Pricing is Used**

Liquor sales from records (including GST, LCT, refundable deposits and environmental handling charges)	\$7,500.00	
Deduct resale to hotels (including GST, refundable deposits and environmental handling charges)	<u>500.00</u>	
		\$7,000.00
Deduct deposit/environmental charge on sales (excluding resale)		
25 glass bottles (300 ml or less) @ 17¢ per bottle	\$ 4.25	
150 glass bottles (greater than 300 ml but less than 1 litre) @ 27¢ per bottle	40.50	
20 glass bottles (1 litre or greater) @ 47¢ per bottle	9.40	
15 plastic bottles (under 1 litre) @ 16¢ per bottle	2.40	
10 plastic bottles (1 litre or greater) @ 26¢ per bottle	<u>2.60</u>	
	\$ 59.15	
Deduct: Beer bottle deposit (50 cases sold @ \$1.20 per dozen)	\$ 60.00	

Beer can deposit/environmental charge (100 cases sold @ \$1.80 per dozen)	<u>180.00</u>	<u>299.15</u>
Total sales		\$6,700.85
Multiply by 10/115 to arrive at tax collected		\$ 582.68
Plus: Resale levy collected during the return period		<u>100.00</u>
Total		<u>\$ 682.68</u>

The above total sales figure of \$6,700.85, the tax of \$582.68 and the resale levy of \$100.00 should be recorded on your LCT return.

**(b) Hotels**

The following illustration will assist hotels in the completion of their LCT returns. This method may only be used when no segregation is made in your records between sales and tax collected (GST and LCT).

To ensure that you do not over-remit LCT, the appropriate refundable deposits and environmental handling charges on designated containers should be deducted before calculating the tax owing. Please refer to the table on page 6 for the correct deposits and environmental charges.

**Calculation of Tax Collected When Tax-Inclusive Pricing is Used**

Off-sale spirits, wines and liqueurs sales from records (including GST, LCT, refundable bottle deposit and environmental handling charge)	\$ 5,000.00	
Deduct deposit/environmental charge on sales (excluding resale to permittees)		
25 glass bottles (300 ml or less) @ 17¢ per bottle	\$ 4.25	
150 glass bottles (greater than 300 ml but less than 1 litre) @ 27¢ per bottle	40.50	
20 glass bottles (1 litre or greater) @ 47¢ per bottle	9.40	
15 plastic bottles (under 1 litre) @ 16¢ per bottle	2.40	
10 plastic bottles (1 litre or greater) @ 26¢ per bottle	2.60	
	<u>\$ 59.15</u>	
		\$ 4,940.85
Off-sale bottled beer sales from records (including GST, LCT and refundable bottle deposit)	\$ 7,600.00	
Deduct bottle deposit:		
Sales of off-sale bottled beer	\$7,600.00	
Price per dozen (always use your <u>current</u> selling price)	\$ 19.00	

# of cases sold (\$7,600.00 ÷ \$19.00)	400		
Bottle deposit at \$1.20 per dozen (400 cases x \$1.20)		<u>480.00</u>	
Off-sale bottled beer sales less bottle deposit			\$ 7,120.00
Off-sale canned beer sales from records (including GST, LCT refundable deposit and environmental charge)		\$6,000.00	
Deduct can deposit/environmental charge:			
Sales of off-sale canned beer	\$6,000.00		
Price per dozen (always use your <u>current</u> selling price)	\$ 20.00		
# of cases sold (\$6,000.00 ÷ \$20.00)	300		
Can deposit/environmental charge at \$1.80 per dozen (300 cases x \$1.80)		<u>540.00</u>	
Off-sale canned beer less deposit/environmental charge			\$ 5,460.00
Table beer sales from records			\$ 2,300.00
Draught beer sales from records			1,200.00
Spirits sales from records			1,800.00
Wine sales from records			<u>1,000.00</u>
Total alcoholic beverage sales			\$23,820.85
Multiply by 10/115 to arrive at the tax collected			\$ 2,071.38
Plus: Resale levy collected during the return period		<u>200.00</u>	
Total			<u>\$ 2,271.38</u>

The above total alcoholic beverage sales figure of \$23,820.85, the tax of \$2,071.38 and the resale levy of \$200.00 should be recorded on your LCT return.

**(c) Dining Rooms, Restaurants and Clubs**

The following illustration will assist dining rooms, restaurants and clubs in the completion of their LCT returns. This method may only be used when no segregation is made in your records between sales and tax collected (GST and LCT).

**Calculation of Tax Collected When Tax-Inclusive Pricing is Used**

Table beer sales from records	\$ 4,500.00
Draught beer sales from records	2,400.00
Spirits sales from records	3,600.00
Wine sales from records	<u>1,000.00</u>
Total alcoholic beverage sales	\$11,500.00
Multiply by 10/115 to arrive at the tax collected	\$ 1,000.00

The above total alcoholic beverage sales figure of \$11,500.00 and tax of \$1,000.00 should be recorded on your LCT return.

**F. PERSONAL CONSUMPTION AND PROMOTIONAL DRINKS**

The LCT must be paid on the purchase cost of all liquor consumed by business owners or staff. Drinks that are given away to patrons free of charge or for promotional purposes are considered personal consumption and are also subject to tax on cost. The tax owing is to be recorded as "Net Tax Collected" on the return form. Detailed records of personal consumption and promotional give aways must be maintained for audit verification.

**G. SPILLAGE AND BREAKAGE**

Finance realizes that normal business operations may include a small amount of liquor spillage or breakage. In these limited instances it is considered that no consumption has occurred and consequently no tax is due on the recorded amounts. However, you are required to maintain a record of these instances to provide an account for audit verification.

**H. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)**

Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for LCT, PST, Beverage Container Program fees and other provincial taxes.

SETS allows businesses to:

- file and pay returns or make payments on account;
- file a return and post-date the payment to the due date;
- view account balance and statement information;
- authorize your accountant to file on your behalf; and,
- subscribe to an Email Notification Service that allows the option to be notified by email that a tax return should be filed. This replaces the paper forms normally received in the mail.

**FOR FURTHER INFORMATION**

Write: Ministry of Finance  
Revenue Division  
Box 200  
Regina, Saskatchewan  
S4P 2Z6

Telephone: Toll Free 1-800-667-6102  
Regina 306-787-6645

E-Mail: sask.tax.info@gov.sk.ca

Fax: 306-787-9644

Internet: PST bulletins, forms and information are available on the Internet at:  
<http://www.finance.gov.sk.ca/taxes/pst>

To receive automatic e-mail notification when this or any other bulletin is revised, go to [www.finance.gov.sk.ca/taxes](http://www.finance.gov.sk.ca/taxes), click on the "What's New" information then click on the "subscribe" button.

**LIQUOR CONSUMPTION TAX (LCT)**  
**AUDIT INFORMATION AND RECORD KEEPING REQUIREMENTS**

Establishments registered to collect LCT are required to maintain detailed records for audit verification purposes. This guide will assist you in understanding the record keeping requirements under the provisions of *The Liquor Consumption Tax Act* and *The Revenue and Financial Services Act*. It is a general guide and not a substitute for the legislation.

**LIQUOR AUDITS – WHAT TO EXPECT**

**All alcohol purchased with an SLGA consignee number is purchased tax free - which means the buyer is responsible for keeping records to maintain an accurate account of all the alcohol purchased.**

At the commencement of an audit, the auditor will meet with you to;

- gain an understanding of your business operations and to gather information/data to assist in the audit;
- review internal controls on inventory, method(s) of dispensing liquor etc. to ensure all sales are recorded;
- examine your records and documentation to ensure that the tax is properly being collected and remitted on your liquor sales; and,
- review all purchase information, including purchases made **without** using your SLGA consignee number.

The purpose of the review is to ensure the tax is properly being collected and remitted on liquor sales. With the accumulated data, selling prices are applied to the purchases made in the audit period. A separate calculation is made for off-sale and table sales. If adequate records are not available to distinguish selling prices, or to show a break down between off sale and table sales, the auditor will use estimates based on available information.

Once the total estimated value of sales are determined, the LCT tax rate is applied to arrive at an estimated amount of tax collected on these sales. This estimate is then compared to the actual amount of tax reported. In the event of a discrepancy, the auditor will look for reasonable explanations to account for the variance.

The auditor is aware that variances do occur for a variety of reasons, such as happy hour pricing, spillage, promotional drinks, use of liquor in food preparation, etc. Allowances for these variances may be given if proper documentation is available to support them. When a variance cannot be explained by these methods, it is generally assumed to be unreported sales and an assessment of tax will be raised. Therefore it is very important and beneficial for you to maintain detailed, accurate, complete and up to date records.

**THE FOLLOWING ARE THE MINIMUM RECORDS WHICH MUST BE MAINTAINED:**

**ACCOUNTING RECORDS:**

- Financial statements and/or income tax returns
- Detailed general ledgers
- Chart of accounts
- Detailed sales journals
- Purchase journals

**SOURCE DOCUMENTS:**

- Daily till tapes or point of sale (POS) reports
- Sales records for special occasion permits
- Brewing production records (when applicable)
- Purchase invoices

**OPERATIONAL RECORDS:**

- Deposit slips and bank statements
- Sales price listing of all products including the date and amount of any price changes. This should include happy hour, drink specials and off-sale prices. (i.e. menus or cash register report)
- Liquor used in food preparation (when applicable)

**LCT RETURN BACKUP:**

- Accounting of LCT collected
- Accounting of resale levy collected
- Details of tax self-assessed on promotional drinks/personal consumption
- Details of bottle deposits and environmental handling charges deducted from sales to calculate tax collections (off-sale sales only)

**PROMOTIONAL RECORDS:**

- Detailed unit listing/report of promotional drinks
- Record of any units taken out of inventory for personal consumption

**SPILLAGE & BREAKAGE RECORDS:**

- Detailed accounting of inventory units lost to breakage
- Detailed unit accounting of all spillage
- Replacement drinks – void sales

**INVENTORY RECORDS:**

- Physical count of units in inventory (i.e. monthly, quarterly, annually)
- Records of inventory lost to natural disasters (i.e. insurance claims)
- Police reports for inventory theft

Any other relevant documentation that may have an impact on the review of liquor sales.

Records must be maintained for at least 6 years. You must not destroy records that are less than 6 years old unless you first obtain permission from the Revenue Division.