



# 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.**

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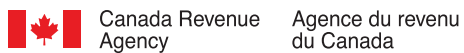
We designed this booklet to help you determine which ones.

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



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ISBN : 978-2-550-83280-5 (Print version)

ISBN : 978-2-550-83281-2 (PDF)

Legal deposit – Bibliothèque et Archives nationales du Québec, 2019

Legal deposit – Library and Archives Canada, 2019



# INTRODUCTION

This document 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 anyone else carrying on activities in the food services sector. It explains how the GST and QST apply to sales of food products and sales of food in certain establishments.

For more information concerning the application of the GST and the QST, see document IN-203-V, *General Information Concerning the QST and the GST/HST*.

You can also refer to GST/HST Memorandum 4.3, *Basic Groceries*, published by the CRA. It is available at [canada.ca/taxes](http://canada.ca/taxes).

## Abbreviations used in this guide

CRA	Canada Revenue Agency
GST	Goods and services tax
HST	Harmonized sales tax
ITC	Input tax credit
ITR	Input tax refund
QST	Québec sales tax



# APPLICATION OF THE GST/HST AND THE QST

The GST and QST are collected on most supplies of property and services. The GST<sup>1</sup> applies to most transactions conducted in Canada 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%. Certain items such as basic groceries and prescription drugs are zero-rated, which means they are 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 tax-exempt, which means they are subject to neither the GST nor the QST.

The harmonized sales tax (HST) applies in the participating provinces (New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island). Generally, the rules applicable to the GST also apply to the HST. Businesses that are registrants<sup>2</sup> 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 our website at [revenuquebec.ca](http://revenuquebec.ca).

Québec businesses that are registrants 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 document. Therefore, unless stated otherwise, we have used the term “GST” to refer to the GST/HST.

Persons that carry on commercial activities (that is, anyone operating a business that makes taxable or zero-rated sales) are generally required to register for both the GST and the QST. As registrants, they are required to collect the GST and the QST on all their taxable sales (other than zero-rated sales). A person that carries on commercial activities that has elected not to register because the person is a small supplier is does not need to collect the 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, registration is mandatory for certain persons (such as retailers of alcoholic beverages or tobacco) even if the retailer is considered to be a small supplier.

As a registrant, you can recover the GST and QST paid or payable by you on goods or services that you acquire for use in your commercial activities. You do this by claiming an ITC under the GST system and an ITR under the QST system. However, certain restrictions with respect to ITRs apply to large businesses (businesses whose taxable sales, excluding financial services, exceeded \$10 million in their most recent fiscal year) until December 31, 2020. For more information, go to our website.

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 or supporting document.

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1. Here the acronym “GST” does not mean GST/HST.

2. Registrants are persons that are registered (or are required to be registered) for the GST and QST.

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





You must complete a GST return and a QST return to report the amount of tax you collected (or should have collected) and the taxes you paid and with regard to which you are claiming ITCs or ITRs. When you complete your returns, you must subtract your ITCs and ITRs, respectively, from the GST and QST that you collected (or should have collected). The difference between the amount you collected and the amount you paid is, if positive, the net tax that you have to remit or, if negative, the refund to which you are entitled. Small businesses may use the Quick Method of Accounting to determine the GST and the QST that they must remit.

In certain instances, you can choose the filing frequency for the GST and QST returns when you register for the taxes. If you do not make an election, we will assign you a filing frequency.

Registrants (excluding charities) whose total annual taxable sales made in Canada 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, see document IN-203-V, *General Information Concerning the QST and the GST/HST*.



# BASIC GROCERIES

The sale of most basic groceries is 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). They include:

- fresh, frozen, canned and vacuum sealed fruits and vegetables;
- breakfast cereals;
- most milk products (unflavoured milk, cheese, butter, cream, sour cream, yogurt);
- fresh meat (beef, poultry, pork, lamb, prepared meats, sausages);
- eggs;
- fresh fish; and
- coffee beans.

However, the sale of certain categories of groceries (for example, carbonated beverages, confections and snack foods) is taxable. They are described below.

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## Heated foods and beverages

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The sale of prepared foods and beverages heated for human consumption is taxable. These products are heated or kept warm to be consumed warm. They are sold, for example, in grocery stores and restaurants.

Examples include:

- French fries
- 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.

### **Example**

A butcher sells heated barbecued chickens. These sales are taxable.

If the same butcher places unsold barbecued chickens in a refrigerated counter, the sale is zero-rated.



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## Alcoholic beverages

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The sale of wine, spirits, beer, malt liquor and other alcoholic beverages (including de-alcoholized products) is taxable. However, the sale of cooking wine, which is sold and represented as a condiment and normally purchased in grocery stores, is zero-rated.

Under the GST system, the sale of grape juice concentrate or grape must that is used by consumers to make wine is zero-rated, as is the sale of beer-making kits containing only the ingredients to make beer (yeast, hops, etc.). Beer-making kits containing more than just ingredients to make beer, such as kits that include equipment or apparatus required to manufacture beer, are taxable.

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, as is the sale of beer-making kits containing more than just ingredients to make beer, such as kits that include equipment or apparatus required to manufacture beer.

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## Carbonated beverages

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All sales of carbonated beverages, including flavoured and unflavoured carbonated mineral water, kombucha and mixers such as tonic and soda water, are taxable, regardless of whether or not they are sold in single servings.

Many establishments use soda fountains. These fountains are operated with a cylinder of pre-mix or post-mix. Pre-mix is a carbonated beverage that contains all the syrups and CO<sub>2</sub> required and its sale is taxable. Post-mix contains all the ingredients for a carbonated beverage but CO<sub>2</sub>, and its sale is zero-rated. The sale of cylinders of CO<sub>2</sub> is taxable.

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## Other beverages

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The sale of fruit juice or fruit-flavoured beverages containing less than 25% by volume of a natural fruit juice or combination of natural fruit juices (reconstituted or not) is taxable, regardless of whether they are sold in single servings. Likewise, the sale of powders or crystals that are mixed with water to make a fruit-flavoured beverage and that contain less than 25% by volume of natural fruit juice is taxable.

However, milk-based beverages and iced tea mixes, including fruit-flavoured iced tea mixes, are zero-rated if they are sold otherwise than in single servings.

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## Beverages served at the point of sale

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The sale of beverages such as milk, coffee, tea, iced tea, hot chocolate and juice are taxable when they are served at the point of sale.



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## Beverages sold in single servings

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The sale of beverages (other than unflavoured milk) in single servings is generally taxable. However, it is zero-rated if the beverages:

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

A single serving of a beverage is considered to be a unit of less than 600 ml.

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## Confections

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Under the GST and QST systems, sales of candies and confections that may be classed as candy are taxable (whether sweetened naturally or artificially), as are sales of 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
- chewing gum
- candy floss

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 tins or 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



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## Puddings sold in single servings

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Puddings are taxable, except in the following cases:

- 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.

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

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## Ice cream and similar products

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The sale of ice cream, ice milk, sherbet, frozen yogurt, frozen pudding and substitutes for these products (for example, frozen tofu-based products), and products that contain any of these products, is 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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## Water

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Bottled water is zero-rated, except when sold in a quantity corresponding to a single serving. However, non-carbonated fruit-flavoured water is taxable regardless of the container size or packaging, as is carbonated water, whether flavoured or not. For more information, see “Carbonated beverages” on page 11.

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.

A single serving of water is a unit of less than 600 ml.

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## Ice

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The sale of ice made only from drinking water is zero-rated regardless of the quantity dispensed.



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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
- salted nuts and seeds
- granola products (except for products sold primarily as a breakfast cereal)
- snack mixtures that contain cereals, nuts, seeds, dried fruit or any other edible product (except for products sold primarily as a breakfast cereal)
- fruit bars, rolls and drops, and similar fruit-based foods

Examples of taxable snack foods

- potato chips
- corn chips
- cheese puffs
- potato sticks
- bacon crisps
- cheese curls
- popcorn (except for unpopped popcorn kernels, salted or otherwise, including microwave popcorn)
- brittle pretzels
- salted peanuts and sunflower seeds
- trail mix
- granola bars
- dehydrated fruit pastes

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## Prepared food platters

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

Examples include:

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

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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 to consumers in quantities of fewer than six single servings; or
- they are not prepackaged for sale to consumers 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.

These products are generally purchased or served as snacks or desserts and are baked, fried, fresh, frozen or otherwise prepared for sale.

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

A mixed supply of six or more single servings of the products listed above (for example, one tart, two muffins, one cookie and two doughnuts) is zero-rated when the products are not individually packaged.

The following are also zero-rated because they are not considered sweetened baked goods or similar products.

- traditional breads
- tortillas and taco shells
- meat pies, chicken pot pies, etc.
- 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
- crackers (other than graham crackers)
- unsweetened rice cakes



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## Salads

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The sale of salads is taxable, unless they are canned or vacuum sealed.

Salads are considered to include ingredients such as chopped, shredded, diced, sliced, or pureed vegetables, meat, fish, egg, or other food supplied with a dressing and/or seasonings, whether or not the dressing is mixed with the other ingredients. A combination of one ingredient mixed with a dressing or seasonings that is sold or represented as a salad is also considered to be a salad. However, a mixture of vegetables cut and prepared without dressing is zero-rated if it is not presented as a salad.

Fruit salads and gelatine salads, which commonly contain fruit and may be formed in the shape of a mould, generally do not need a dressing to be considered a salad.

Packages containing salad ingredients (for example, lettuce, croutons and dressing) in separate containers that require mixing by the consumer are not considered to be salads. As a result, they are zero-rated.

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## Sandwiches and similar products

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Sandwiches and similar products are taxable regardless of where they are sold (for example, in a restaurant, grocery store or bakery or at a convenience store's prepared food counter). However, they are zero-rated if frozen (stored at or below 0°C).

Sandwiches and similar products include:

- hot dogs
- hamburgers
- toasted sandwiches
- submarine sandwiches
- pita bread or tortillas sold with a mixture of prepared food in the pocket or wrapped as a roll

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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 they 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.





# MAPLE PRODUCTS

Some products made from maple sap or from other maple products are taxable, while others are zero-rated.

The following products are taxable:

- maple taffy on snow
- maple butter cones
- maple sugar candy
- maple candy
- maple chocolates

The following products are zero-rated:

- maple syrup
- maple butter
- maple taffy (except when sold as candy)
- soft maple sugar
- granulated maple sugar
- maple syrup jelly

For more information, go to our website.

# FOODS AND BEVERAGES SOLD UNDER A CONTRACT WITH A CATERER

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

# 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 they are consumed as basic grocery items. However, they are taxable if listed in the “Taxable groceries” section on page 10.



# MEAL REPLACEMENTS AND NUTRITIONAL SUPPLEMENTS

Products that constitute meal replacement products, nutritional supplements and formulated liquid diet products and meet the requirements of the *Food and Drugs Act* and the regulations thereunder are considered to be basic groceries and are therefore zero-rated.

## DIETARY SUPPLEMENTS

Dietary supplements are generally consumed for their therapeutic or preventative effects or to achieve specific beneficial effects related to performance or physique. They may be made from natural or synthetic ingredients and include products such as vitamins, minerals, tonics, fibre, protein, amino acids and herbal supplements. They are typically sold in tablet, pill, capsule, powder, liquid, gel, wafer or concentrate form and are generally taxable.

To determine whether a product is a dietary supplement or a food, beverage or ingredient, its labelling, packaging and marketing must be considered.

Generally speaking, products sold as foods or beverages and marketed primarily on the basis of their health benefits are zero-rated if they are not included in the taxable groceries listed above (for example, carbonated beverages, fruit-flavoured beverages and granola products).

## VITAMINS AND ADDITIVES

Vitamins, minerals and additives sold in pill, capsule, tablet or other form are generally taxable. However, those purchased by a manufacturer for use as ingredients in the preparation of foods or beverages for human consumption are zero-rated.

### **Example**

A cereal manufacturer purchases vitamins in bulk to be used as an ingredient in breakfast cereals. In such a case, the vitamins are zero-rated.



# 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 if they 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. If the product is sold 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. If it is packaged and promoted for non-food use only, the sale is taxable.

Products such as carbon dioxide (CO<sub>2</sub>) and alcoholic beverages are always taxable, regardless of their use.

## **Example**

A 500 g box of baking soda is zero-rated when sold as a baking ingredient. The same box, when it is sold to preserve the freshness of refrigerated food, is taxable.

# 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 therefore taxable. On the other hand, dried packaged herbs and spices sold or represented as seasonings for food are zero-rated.

# 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 price, the tax status varies depending on the nature of the resulting product.

## **Example**

The sale of peppercorns in a pepper mill is taxable, given that most of the product's value is related to the mill.



# GIFT BASKETS

A gift basket is zero-rated when 90% or more of the total value of its component parts is zero-rated. If more than 10% of the total value of its component parts is taxable, the gift basket is taxable. The total value of such a product includes the value of the basket and the packaging.

# SUPPLIERS

This section explains how the GST and QST apply in the various types of establishments that serve food and beverages.

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## Grocery stores and supermarkets

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Most of the items sold in grocery stores and supermarkets are zero-rated basic groceries (that is, they are taxed at 0%). However, certain foods and beverages they sell are taxable. See the “Basic groceries” section on page 10 for more information.

Grocery stores and supermarkets also sell products that are neither food nor beverages. These products are generally taxable.

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## Restaurant establishments

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In establishments where 90% or more of food and beverage sales are taxable, the QST and GST apply on all supplies of food and beverages.

In establishments where sales of food and beverages are not the main source of income (for example, a department store with a lunch counter, a hotel with a dining room and room service, or an arena or movie theater with a concession stand), most of the food and beverages sold are taxable.

### Example

The sale of rolls à la carte in a restaurant is taxable.

### Exceptions

If the food or beverage is sold in a form that, given the nature of the product, the quantity sold or its packaging, renders it unsuitable for immediate consumption, it is zero-rated.

### Examples

Coffee beans and uncooked pizza are zero-rated because they cannot be consumed immediately.

A 2 L container of ice cream is likewise zero-rated, since the quantity and the packaging render it unsuitable for immediate consumption.



In establishments that sell sweetened baked goods or similar products, the products are taxable unless they are sold for consumption outside the premises and they are either:

- are prepackaged for sale in quantities of fewer than six single servings; or
- 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.

### **Example**

The sale of an entire cake by a restaurant to be consumed outside the premises is zero-rated.

The rules in this section apply to restaurants, fast food and delivery restaurants, snack bars, bars and mobile canteens.

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## **Vending machine operators**

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All foods and beverages sold from vending machines, including items such as milk and fruit that are generally zero-rated, are taxable. The GST and QST are included in the price of the items sold.

However, the taxes are null on the sale of food and beverages from vending machines that accept a single 25-cent coin (or a coin of lesser value) per transaction.

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## **Educational and healthcare institutions and other public sector bodies<sup>4</sup>**

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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:

- most foods and beverages sold primarily to elementary- or secondary-school students and served in the school cafeteria or at extra-curricular activities organized by the school authority;
- meals sold to students registered at a university or a public college under a plan purchased by the student for a single consideration, 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 (foods purchased by students at a convenience store or any similar establishment are not exempt);
- foods, beverages and catering services sold to a school authority under a contract for providing food and beverages primarily to students in an elementary- or secondary-school cafeteria;
- foods, beverages and catering services sold to a university or public college under a contract for providing, under a plan purchased by the student for a single consideration, 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;
- foods and beverages sold by a public sector body under a program to relieve poverty, suffering or distress;
- foods and beverages sold by a public sector body to aged, infirm, disabled or underprivileged persons in their place of residence under a program established for that purpose (foods and beverages sold to a public sector body as part of such a program are also exempt);
- foods and beverages served to patients and residents of healthcare institutions.

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4. The term “public sector bodies” includes governments, non-profit organizations, charitable organizations, municipalities, school and hospital authorities, and public colleges and universities.



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:

- 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;
- carbonated beverages fruit-flavoured beverages containing less than 25% by volume of fruit juice (whether sold in cans, bottles or boxes), confections, 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 authority;
- foods and beverages served at receptions, private meetings and similar events taking place in educational institutions;
- foods and beverages sold in hospital cafeterias.



# SPECIAL CASES

## Coupons

Coupons are receipts or tickets with a set monetary value (such as a \$2 discount) or without a set monetary value (such as a 10% discount). They entitle consumers to a discount on the purchase price of specific property or services.

The redemption of a coupon is not taxable. However, the services of a coupon clearing house are subject to GST and QST.

See below to find out how to calculate the GST and the QST on various types of coupons.

### Reimbursable coupons

These are generally referred to as manufacturer's coupons. They reduce the total amount of the bill, like a cash payment, and their face value is considered to include the GST and QST payable.

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 to a specific discount (a set amount) at the time of purchase;
- apply only to taxable (other than zero-rated) property and services.

When a customer presents a retailer with this type of coupon and the prices do not include the GST or the QST, the retailer 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 prices, the merchant must total the sale first and then deduct the value of the coupon or coupons.

<b>Example</b>			
A customer has a coupon for a \$10 discount on an item she is purchasing. The retailer must calculate the amount due using one of the following methods.		<b>GST<sup>5</sup> and QST not included in the price</b>	<b>GST and QST included in the price</b>
Price of item		\$25.00	\$28.74
GST (\$25 × 5%)	+	\$1.25	
QST (\$25 × 9.975%)	+	\$2.49	
<b>Subtotal</b>	=	\$28.74	\$28.74
Value of coupon (GST and QST included)	-	\$10.00	\$10.00
<b>Amount to be paid by the customer</b>	=	<b>\$18.74</b>	<b>\$18.74</b>

In its consumption tax returns, the retailer must calculate the GST and QST collected without taking the face value of the coupon into account. When the retailer sends the coupon to the manufacturer for redemption, the manufacturer is normally required to reimburse its full value (including the GST and the QST).

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



The manufacturer will then be able to claim an ITC and an ITR in respect of the GST and the QST that 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 and an ITR equal to 9.975/109.975 of the value of the coupon. For sales in New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island, the ITC is equal to 15/115 of the value of the coupon. In Ontario, it is equal to 13/113 of the value.

Registrants that use coupons to make purchases for their business must keep in mind that the value of the coupon reduces the amount of tax actually paid on the purchases, since the value of the coupon is subtracted after calculating the tax. The amount of the ITC that a registrant can claim is therefore reduced by 5/105 of the value of the coupon. Similarly, the ITR is reduced by 9.975/109.975 of the value of the coupon. In New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island, the ITC must be reduced by 15/115 of the value of the coupon. In Ontario, it must be reduced by 13/113 of the value.

## Non-reimbursable coupons

Non-reimbursable coupons are normally issued by retailers. They:

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

To simplify their accounting, retailers can treat all coupons as a reimbursable coupons (see above). In their returns for the reporting period in which the coupons were accepted, they can claim ITCs and ITRs for the GST and the QST considered to be included in the value of the coupons.

Non-reimbursable coupons can also be used to reduce the price of property or services before the calculation of the GST and the QST, in which case the retailer must subtract their value from the price of the property or service before calculating the GST and QST on the purchase. In this case, the retailer cannot claim an ITC or ITR for the value of the coupon.

<b>Example</b>		
A customer has a coupon reducing the price of a jug of laundry detergent.		
Price of detergent		\$25.00
Value of coupon	–	\$3.00
	<b>Subtotal =</b>	<b>\$22.00</b>
GST <sup>6</sup> (\$22 × 5%)	+	\$1.10
QST (\$22 × 9.975%)	+	\$2.19
	<b>Amount to be paid by the customer =</b>	<b>\$25.29</b>

6. In this example, GST does not include the HST.





## Other coupons

Coupons that are not for a specific discount are considered non-reimbursable coupons whose value is deducted from the selling price of an item before the taxes are calculated. Such coupons:

- entitle the customer to a certain percentage off the price of an item (for example, a 10% rebate on the purchase of five boxes or less, or a 20% rebate on the purchase of six or more boxes);
- 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, \$0.50 off a 1 L bottle of a soft drink or \$1 off a 2 L bottle);
- can be used for taxable or zero-rated property and services.

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## Returnable containers

The GST and QST do not apply to the deposit on returnable containers. For more information, see the CRA's GST/HST Technical Information Bulletin B-089, *Returnable Containers*, at [canada.ca/taxes](http://canada.ca/taxes).

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## Gift cards and gift certificates

Gift cards are a form of gift certificate offered by businesses in the form of swipe or chip cards. An amount of money is stored on the card for use by a customer to purchase goods or services from the issuing business or businesses.

Gift certificates are vouchers that allow you to purchase goods or services for a certain value from one or more designated businesses.

The sale of gift cards and gift certificates is not taxable. However, the GST and QST apply to the total price of the goods or services purchased using a gift card or gift certificate, as in a cash purchase. The value of the gift card or gift certificate is considered to cover all or part of the amount paid for the goods or services purchased.

### Example

For her birthday, a student receives a \$15 gift certificate for the corner store. When she goes to use it, her purchase totals \$16.

Price of item		\$16.00
GST <sup>7</sup> (\$16 × 5%)	+	\$0.80
QST (\$16 × 9.975%)	+	\$1.60
	<b>Subtotal =</b>	<b>\$18.40</b>
Value of gift certificate	-	\$15.00
	<b>Amount due =</b>	<b>\$3.40</b>

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7. In this example, GST does not include the HST.



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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.





# TO CONTACT US

## Online

revenuquebec.ca



## By telephone

### Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

Québec City

418 659-6299

Montréal

514 864-6299

Elsewhere

1 800 267-6299 (toll-free)

### Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.

Wednesday: 10:00 a.m. to 4:30 p.m.

Québec City

418 659-4692

Montréal

514 873-4692

Elsewhere

1 800 567-4692 (toll-free)

### Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

Québec City

418 652-6159

Elsewhere

1 800 827-6159 (toll-free)

### Individuals with a hearing impairment

Montréal

514 873-4455

Elsewhere

1 800 361-3795 (toll-free)

## By mail

### Individuals and individuals in business

#### Montréal, Laval, Laurentides, Lanaudière and Montérégie

Direction principale des relations  
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2017-12

Cette publication est également disponible en français et s'intitule *La TVQ, la TPS/TVH et l'alimentation* (IN-216).