

A return to the PST..... and it ain't NO joke for us business owners this April 1st

For all British Columbians a massive joke is being played on them this April Fool's Day.....the return of the P – S – T. Unfortunately as business owners and operators in 2013, we can't laugh it off and need to be prepared to return to a tax regime that was created in 1948 and should have died in the late '80's. To register, the process is straight forward, the ramifications.....well time will tell.

By now, I'm certain you have been contacted by the Ministry of Finance with instruction to register. You have three options to register: online, in person, or by mail/fax. My recommendation is to register online as you can do this at your own convenience, and you can ensure that you have all of the required information at hand. The other benefit is you can enjoy a glass of wine or pint of beer while you are filling out the online form.

Regarding what the PST is applicable to, the general rule is "hard" items such as bottles, corks, labels, equipment. Service items like the service fee and consulting do NOT need to have PST applied. Of course, your PST "inputs" (PST you pay on items that your store consumes during operations) will no longer be returned to you in the form of a credit. (Travesty!)

Now would be a great time to clear up some confusion in our industry with regard to how the GST needs to be applied to On-Premise beer/wine/cooler sales. Of course there are two "components" of selling an on-premise wine (beer/cooler). The "kit" (juice/wort/yeast) is considered "food stuff" and is zero-rated for GST (Federal) and is therefore of no interest to the provincial tax collectors either. Secondly, the "service" (formerly HST) is GST applicable and will go back to a tax rate of 5%. The provincial tax folks (PST) are not interested in this "service" so this will NOT be taxable (beyond the 5% GST) after April 1st.

That is pretty straight forward, but where it gets somewhat tricky is where and how we sell these items together and thus, this idea of "contract of bailment". Back in the early 1990's, the Federal Government ruled that our industry needed to collect the GST on the gross amount of both the kit and service. Through the lobbying efforts of the C.H.W.T.A., the "contract of bailment" scenario arose

which allows us to collect GST only on the service portion of the sale. Let's use simple numbers to demonstrate. Say we sell a \$110 wine kit and add a standard service fee of \$50 for an on-premise sale (\$160 gross sale). The service fee is GST applicable (5%), therefore you collect \$2.38 for the feds and get to keep \$47.62 (\$50 tot.) for yourself. If we compare this to what the feds originally wanted – 5% GST to be collected on the total gross sale of \$160 – you would be paying \$7.62 in tax. So which one would you rather pay... \$2.38 or \$7.62?

The kicker is, in order to collect the smaller amount of tax; we must enter into a binding contract of bailment with our customer.

To do this we need to do two things:

- 1) The contract has to be in writing, thus the sign-off at the bottom of the invoice, and
- 2) The money for the entire invoice amount has to be paid to complete the contract.

Therefore you **MUST** have the total invoice paid and not carry a receivable or just take a deposit. This has caused confusion and could be a risk. The risk is, if you have **not** been having the contract of bailment complete, and the GST folks audit your store, you could/would be on the hook for a sizable amount of back taxes.

Eg. \$5.24 x 1,000 batches per year x 7 years = *YIKES!*

If you **ARE** audited and the CRA sends you a bill they may offer you a deal to pay over time, but they will never forget or just “write it off”. These fines are a real risk, and you do not want to be left vulnerable. It pays to be informed in all aspects of your business.

I believe the past (& present) confusion has come about because of the following Provincial Regulation:

22 (1) A licensee must ensure that a customer is not allowed to begin producing or manufacturing his or her beer, wine or cider in the U-Brew or U-Vin unless the customer first

(a) pays the licensee

(i) for the ingredients to make the beer, wine or cider, or

(ii) if the customer brings his or her own ingredients into the U-Brew or U-Vin, for the manufacturing facilities or services to be provided, and

(b) provides the licensee with an acknowledgment, signed by the customer, that the beer, wine or cider is being made by the customer for his or her own consumption or consumption at no charge by other persons.

Remember that this is a Provincial regulation for U-Brew operators. The GST is a Federal Tax administered by Canada Revenue Agency (C.R.A.). Federal law supersedes provincial law therefore, if you are going to take a partial payment as the provincial regulations allow, you would need (have needed) to collect and submit GST/HST on the gross amount of your sale.

With this freshly in your mind and the transition back to the GST/PST coming soon, now would be the perfect time to set up your tax collecting properly. If you have and want to continue on taking partial payment, as the Provincial Regulations allow, you are allowed to do that, but you would be required to submit 5% GST on the gross sale.

And speaking of this imminent return, you will need to re-program your POS software after the close of business on March 31st. It should be straight forward to do from the set-ups menus of the system. When you open for business April 1st, you will be ready to satisfy both Federal and Provincial levels of taxation.

And also remember, all the HST tax credits you used to be reimbursed will not be coming back anymore. The cost of operating your business is going up by several thousands of dollars a year. In order to keep your margins (profitability) consumer prices are going to have to increase ... an ugly truth about a tax policy that was created in the '40's. One "nice" thing about this, if your customers aren't happy with your price increase, you can place blame on the wooden shoes of Mr. Vanderzalm, the master of this years April fool's joke.

Back to today, make sure you get your registration in earlier rather than later. The Provincial government has made it very easy to register and even submit payment online. If there are further questions that are still unanswered, feel free to contact me and I'll do my best to help you out and get you up to speed on any of these issues.

Until then.....Happy Fermentations

Jim Mullen

C.C.W.A & Government Liaison F.G.B.C.

jim@cariboubrewmasters.com

250 564-2197