



CDTFA
CALIFORNIA DEPARTMENT OF
TAX AND FEE ADMINISTRATION

Liquor Stores

PREFACE

This publication is designed to help you understand California's Sales and Use Tax Law as it applies to liquor stores. It is not designed to apply to grocery stores, drug stores, department stores selling liquor, or bars having off-sale licenses. Separate publications are available explaining the application of taxes to those businesses. If you cannot find the information you are looking for in this publication, please visit our website, www.cdtfa.ca.gov, or contact our Customer Service Center at 1-800-400-7115 (CRS:711). Customer service representatives are available to answer your questions Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

This publication complements California Department of Tax and Fee Administration (CDTFA) [publication 73](#), *Your California Seller's Permit*. That publication, which is provided to first-time applicants for a seller's permit, includes general information about obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. If you do not already have a copy of publication 73, you may download one from our website at www.cdtfa.ca.gov.

We welcome your suggestions for improving this or any other publication. If you would like to comment, please provide your comments or suggestions directly to:

Audit and Information Section, MIC:44
California Department of Tax and Fee Administration
450 N Street
PO Box 942879
Sacramento, CA 94279-0044

Please note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the back cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, the decision will be based on the law and not on this publication.

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TAXABLE AND NONTAXABLE SALES

Because some of your transactions will not be taxable, it is important to understand which sales are subject to tax. This section answers many of the questions commonly asked regarding liquor store sales.

Taxable and nontaxable sales—an overview

The lists below provide a brief summary of typical sales for liquor stores. The lists are divided according to taxable and nontaxable sales. If you have a question about a product not listed below, or if you would like to know more about a particular product, please contact our Customer Service Center at 1-800-400-7115 (CRS:711).

Information on recycling fees, hot prepared foods, money orders, fees for returned checks, lottery sales, newspapers, and periodicals follows the lists below.

Taxable sales

Sales of the following products are generally subject to tax:

- All alcoholic beverages
- Books and publications
- *Carbonated* water and soft drinks
- Certain hot prepared food products (Please see [Food Products](#) for more information on this topic.)
- Ice
- Kombucha tea (if alcohol content is 0.5 percent or greater by volume)
- Newspapers and periodicals
- Nonprescription medicines such as cough drops
- Other nonfood or beverage items such as automotive supplies, propane, greeting cards, etc.
- Sundry items
- Tobacco products

Nontaxable sales

Sales tax does not generally apply to sales of the following products:

- Candy
- Chips
- Cold meats
- Cold sandwiches
- Dips
- Ice cream
- Kombucha tea (if less than 0.5 percent alcohol by volume and naturally effervescent)
- Milk
- Noncarbonated, nonalcoholic beverages such as water, juice, vitamin water, cocktail mixes (sold in liquid or frozen form), and coffee
- Produce



Carbonated products which are considered 100 percent natural fruit juices, such as Martinelli's Sparkling Cider, qualify as exempt "food products." If the carbonated product includes a preservative, such as sodium benzoate, or any other additive, it will not be considered a natural fruit juice and tax will apply to its sale.

Sales of products such as noncarbonated sports drinks (for example, Gatorade, Powerade, All-Sport, Vitamin Water) are generally not taxable unless they are packaged or labeled as a food supplement, food adjunct, dietary supplement, or dietary adjunct.

Please note: Some foods, such as hot prepared foods, are taxable. See [Food Products](#) for more information.

California Redemption Value (CRV) (recycling fee)

Tax may or may not apply to your California Redemption Value (CRV) charges for nonrefillable containers. If sales tax applies to the sale of the beverage, it also applies to the CRV charge. If sales tax does not apply to the sale of the beverage, the CRV charge is not taxable.

The amount subject to tax on the sale of a taxable beverage includes the combined total selling price of the beverage, container, and CRV.

Please note: If you give the beverage away and charge only the CRV fee, tax still applies to the CRV if the sale of the beverage would have been taxable.

Examples of beverage sales subject to tax:

- Beer, wine, and other alcoholic beverages
- Carbonated mineral and soda waters
- Carbonated soft drinks

Examples of beverage sales not subject to tax:

- Noncarbonated, 100 percent natural fruit juice
- Noncarbonated, noneffervescent bottled water

Please note: The CRV program is administered by the California Department of Conservation, Division of Recycling. If you have questions regarding the fee or how to apply it, contact that department. Visit [Beverage Container Recycling](#) at www.calrecycle.ca.gov/bevcontainer/.

Manufacturer/Third party rebates and coupons

If you participate in rebate or incentive programs (often referred to as "buy-downs") offered by manufacturers or vendors to promote sales of specific products, the rebates may be subject to tax. Payments received from a third party¹ rebate or incentive program are taxable when:

1. The third party *requires* you to reduce the sales price of a particular product such as cigarettes in order to receive the rebate.
2. Conditions for receipt of payment must be *certain* (for example, you are guaranteed a \$1.00 rebate for every pack of cigarettes you sell), and not dependent on other factors outside your control (such as sales quotas or other variable criteria).
3. The payment must be for the *same* amount on every transaction (for example, \$1.00 for each pack of cigarettes sold under the rebate program).

When reporting your *taxable* sales, you must include the total amount you receive from your sales of the particular products—this includes the amount paid by the customer and the amount that will be paid by the third party as reimbursement for the price reduction.

¹ "Third party" means a person other than the retailer or the retailer's customer, such as a manufacturer or the retailer's vendors.

Here are two examples where the value of a buy-down rebate program and a manufacturer coupon are part of your gross receipts from the sale of the product:

1. You purchase bottle openers directly from the manufacturer and you enter into a buy-down rebate program with them. Assume you normally sell the bottle opener for \$5.00, but under a buy-down rebate plan, agree to sell the bottle opener for \$4.50 and receive \$0.50 from the manufacturer. The tax amount due is based on your “gross receipts” for the sale—which includes both the rebate amount and the amount paid by your customer; therefore, tax due is based on the total amount received for the sale, which is \$5.00.
2. A customer clips a coupon out of a newspaper and presents it to you at the time of sale to receive a discounted price on the product purchased. The coupon indicates “Manufacturer Coupon.” Since the manufacturer will compensate you for the amount of the price reduction, the value of the coupon is included in your gross receipts. Tax is based on the full retail selling price of the product—that is, the amount paid by your customer *and* the amount reimbursed by the manufacturer.

Below are two examples where consideration received from a manufacturer is not considered gross receipts from the sale of a product:

1. You receive compensation from a manufacturer for giving its brand of soda preferential shelf space or displaying the soda in a specific area of your store.
2. You receive compensation from a manufacturer for selling a certain amount of its brand of soda during a particular period (for example, July through September).

If you collect an amount for tax from your customer on the entire selling price including the rebate amount, you must disclose this on a receipt or other proof of sale you provide. When applicable, you may also post a notice in a location visible to your customer, or in advertisements, flyers, or brochures sent to customers. The notice must point out that “tax” will be added to the sales price of all items and that the tax includes the amount of any taxable discounts or rebates.

When you participate in a promotional program, the payments you receive from a person other than your customer are presumed taxable until you can present documentation to establish the payments as being nontaxable. Please see [Regulation 1671.1, Discounts, Coupons, Rebates, and Other Incentives](#), for additional examples of documentation that could be used to accomplish this. You may also wish to refer to [publication 113, Coupons, Discounts and Rebates](#), for more information on this topic.

FOOD PRODUCTS

As indicated in [Taxable and Nontaxable Sales](#), the sales of many food products such as milk, bread, and cold meats, are not subject to tax. However, some foods that are tax exempt may become taxable if they are sold in a heated condition or as part of a combination package. The following information is designed to explain how tax applies to specific types of food sales.

Hot prepared foods

Sales of hot prepared food products are generally taxable. However, there are some exceptions. For example, certain foods heated in microwave ovens may be exempt from tax. This is explained in more detail below.

Hot prepared foods defined

Food products that have been prepared for sale in a heated condition and which are sold at any temperature which is higher than the air temperature of the room or place where they are sold are deemed to be hot prepared foods (for example, grilling a sandwich, dipping a sandwich bun in hot gravy, using infrared lights, using steam tables, etc). The sales of these items are subject to tax. On the other hand, the sale of a toasted sandwich which is not intended to be in a heated condition when sold, such as a cold tuna sandwich on toast, is not a sale of a hot prepared food product.

Examples of hot prepared foods include:

- Hot sandwiches
- Hot soup, bouillon, or consommé
- Hot pizza, hot dogs, and nachos
- Hot barbecued chicken

When sellers use heating methods or an apparatus to reheat or keep food hot until the consumer makes a purchase, it is taxable. If the sale of a hot prepared food is taxable, the sale remains taxable whether it is to be eaten on the premises or taken out. In addition, the sale of a hot food is considered taxable even if it has cooled by the time of the sale since it was intended to be sold as a hot food.

Foods heated in a microwave oven

Many liquor stores have microwave ovens that are used to heat food products (such as burritos, individual-size pizzas, soups, and sandwiches). If you are selling a food product that is normally tax exempt (a frozen burrito, for example), the product may become taxable if it is heated in a microwave oven prior to the sale. The location of the microwave oven generally determines whether the sale is subject to tax:

- If the oven is located in a place that is accessible to your customers, the sale of the heated food product is not taxable. It is presumed that the food is not sold in a heated condition and that your customers, rather than employees, will use the microwave oven to heat the food.
- If the microwave oven is accessible only to store employees, the sale is taxable. It is presumed that employees, rather than customers, will heat the food prior to the sale.

Hot beverages

Hot beverages, such as coffee and hot chocolate, are exempt from sales tax if they are sold to go and for a separate price. If they are sold to be consumed on the premises, they are taxable. If they are sold in combination with a cold food product for a single price, they are subject to sales tax.

Please note: Refer to the next section for more information on combining hot and cold food products.

Reminder: Hot soup, bouillon, and consommé are not considered hot beverages. As noted above, they are considered to be hot prepared foods, and these sales are subject to tax.

Combination of hot and cold foods

If you are selling a combination of hot and cold foods for a single price, the sale of the entire package becomes taxable.

Example: You are selling a combination of hot coffee and a doughnut for a single price of \$1.50. Since you are selling a hot food product (coffee) and a cold food product (doughnut) together for a single price, tax would apply to the \$1.50 selling price. If the items were sold separately and to go, they would not be taxable.

Combination package meals

Generally, if a combination package sold to go includes cold food and a carbonated beverage, only the portion of the selling price that represents the sale of the carbonated beverage is subject to tax.

Combination packages

If you sell gift baskets—or any other kind of combination package that includes both food and nonfood items—there is a clear standard for how tax is applied to your product.

1. If you have records that verify the cost of the individual items in the package, and the retail price of the nonfood product is more than 10 percent of the retail value of the entire package (not including the container), you must continue to separate the retail value of the nonfood products. The tax is based on the retail sales price of the nonfood products including the value of the container.
2. If the retail value of the nonfood product exceeds 10 percent of the retail price of the entire package, not including the container, and you *do not* have records to establish the cost of the individual items of the combination package, the tax may be measured by the retail sales price of the entire package, including the value of the container. This would also apply if you are selling prepackaged gift baskets, because you may not have records for the cost of the individual items in the package.

For example, a combination package is sold for \$30 and there are no records to establish the cost of the individual items. The combination package includes the following components:

Meat and cheese, retail value (exempt food products)	\$ 22.00
Serving utensil (nonfood product)	\$ 5.00
Total retail value of contents	\$ 27.00
Tray	\$ 3.00
Total price of combination package	\$ 30.00

In this example, the retail value of the nonfood item, \$5.00, is greater than 10 percent of the retail value of the entire package, not including the container, ($\$27 \times 10\% = \2.70). Since you *do not* have records to establish the cost of the individual items of the combination package, the tax may be measured by the retail sales price of the entire package, including the value of the container ($\$30.00 \times$ appropriate tax rate).

3. The sales price of the package is nontaxable if the retail value of the nonfood products is 10 percent or less of the total package value (not including the container) and the container's retail value is 50 percent or less of the entire package value.

For example, you sell a gift basket for \$60 and the package includes:

Cheeses, retail value	\$ 45.00
Small knife, retail value	\$ 5.00
Total retail value of contents	\$ 50.00
Container, retail value	\$ 10.00
Total price of gift basket	\$ 60.00

The nontaxable combination package meets both conditions explained in number 3. The value of the nonfood items, \$5.00, is 10 percent of the \$50 total value of the contents ($\$50 \times 10\% = \5). The value of the container, \$10.00, is less than 50 percent of the retail value of the entire package ($\$60 \times 50\% = \30). Your sale qualifies as a nontaxable sale.

A "container" is generally considered the box, basket, or any other packaging material that holds the product being sold.

Food and beverages sold for consumption on the premises

If you sell either food or beverages to be consumed on the premises either at tables, chairs, counters, or from trays, glasses, dishes, or other tableware, the sales are taxable. For more information on such food sales, please see [publication 22, Dining and Beverage Industry](#), and [Regulation 1603, Taxable Sales of Food Products](#), available on our website at www.cdtfa.ca.gov. Copies may be downloaded or requested from our Customer Service Center at 1-800-400-7115 (CRS:711).

OTHER TAX/FEE ISSUES

Money order service charges

Service charges for money orders are not taxable. Such charges should not be included on your sales and use tax return as part of your business' gross receipts.

Charges for returned checks

Amounts charged for returned checks are not taxable. Such charges should not be included on your sales and use tax return as part of your business' gross receipts.

Lottery sales

Sales of tickets for California Lottery games are not subject to sales tax and should not be included on your sales and use tax return as part of your business' gross receipts. It is important that you keep your receipts for lottery sales completely separate from receipts for merchandise sales. In the event of an audit, you must be able to clearly identify nontaxable transactions.

Newspapers, magazines, and other periodicals

Newspapers and periodicals that you sell to your customers are taxable. For more information on the application of tax to sales of periodicals, please refer to [Regulation 1590, Newspapers and Periodicals](#).

Prepaid Mobile Telephony Services Surcharge

Beginning January 1, 2017, certain small sellers of prepaid mobile telephony services (MTS) will no longer be required to collect the surcharge from their customers and report and pay those amounts to CDTFA. A small seller of prepaid MTS is a seller (*other than a telecommunications service supplier*) that sold less than \$15,000 in prepaid MTS sales during the previous calendar year. The annual sales threshold is based on the total of all retail locations operated by the seller and is subject to annual adjustment. However, because consumers are still responsible for the surcharge, as a courtesy to their customers, small sellers may voluntarily continue to charge and collect the prepaid MTS surcharge and report the amounts to CDTFA.

For more information about this program, please read our guide, [Prepaid Mobile Telephony Services \(MTS\) Surcharge](#).

Sales of fixtures and equipment

If you sell fixtures and equipment used in your business, the sale is taxable. (Sales of fixtures and equipment used in an activity requiring the holding of a seller's permit are taxable.) Such sales are subject to tax even if they occur as the result of the sale, reorganization, or closure of your business. For more information on this topic, please refer to [Regulation 1595, Occasional Sales—Sale of a Business—Business Reorganization](#).

Sales suppression software programs and devices

It is a crime for anyone to knowingly, sell, purchase, install, transfer or possess software programs or devices that are used to hide or remove sales and to falsify records.

Using these devices gives an unfair competitive advantage over business owners who comply with the law and pay their fair share of taxes and fees. Violators could face up to three years in county jail, fines of up to \$10,000, and will be required to pay all illegally withheld taxes, plus penalties including applicable interest and fees.

TAXABLE AND NONTAXABLE PURCHASES

As a retailer, you make numerous purchases related to your business. Those purchases may be for goods and services you need to operate your business. They may also be for items that you will sell to your customers. This section includes information on how tax applies to purchases related to your business.

Merchandise purchased for resale

When you issue a resale certificate to purchase taxable merchandise for resale, you do not pay sales or use tax at the time of your purchase. Sales tax applies when you sell the merchandise at retail.

However, if you purchase taxable merchandise for resale but use it instead, you must pay use tax to CDTFA (use tax is explained below). Examples of how you may use merchandise for purposes other than for resale include, but are not limited to, the following: merchandise used for donations to certain organizations; merchandise withdrawn from inventory for personal use; merchandise given to friends, associates, or employees; and merchandise used or consumed in your business operations and not sold.

If you know at the time of purchase that the taxable merchandise you are buying will not be resold, you cannot issue a resale certificate and must pay sales or use tax. If you have paid sales or use tax on merchandise and resell it before you have made a use of it, you can take a credit on the tax return in which you report the sale. You can deduct the amount of the purchase price before sales or use tax was added. It is reported on your return under "Cost of Tax-Paid Purchases Resold Prior to Use."

Use tax

As noted above, use tax is due and payable if you purchase taxable property without paying California tax and use the property for a purpose other than for resale. The use tax rate is the same as the sales tax rate. If you purchase taxable property for resale (without tax), and hold it for sale in your regular course of business, you are not required to pay tax for such use. However, if the property is used for any purpose, such as using it or consuming it in your business operations, you are required to report use tax on your purchase price of the property.

To pay use tax, report the purchase price of the taxable items under "Purchases Subject to Use Tax" on your tax return. Those purchases become part of the total amount that is subject to tax. Donations of taxable merchandise to certain charitable organizations may be exempt from tax. The purchase prices of those donations do not need to be reported on your tax return. For more information on donations to charitable organizations that are exempt from tax, please refer to [publication 18, Nonprofit Organizations](#).

Supplies, equipment, and other business expenses

Items you purchase for use in your business (display equipment, advertising materials, bookkeeping supplies, maintenance supplies, storage equipment, refrigeration units, etc.) are subject to sales or use tax at the time you purchase them. Normally such items are purchased from local suppliers who add and report sales tax. However, if you purchase equipment or supplies from an out-of-state seller, the sale is subject to use tax (use tax is explained above).

If the out-of-state seller does not charge California use tax, you should report the purchase price on your tax return (under "Purchases Subject to Use Tax").

Please note: Wrapping and packaging supplies used to wrap merchandise or bags in which you place items sold to your customers may be purchased for resale. All other purchases of supplies, however, are subject to tax.

INVENTORY CONTROLS

Good books and records are the key to early detection of losses. Losses can be expected unless good controls are maintained over merchandise inventory from the time goods are purchased until sold.

Recommended inventory controls

For sales and use tax purposes we recommend that you:

- Keep a record of all merchandise removed from inventory for other use and keep a record of all sales.
- Take a physical inventory at frequent intervals—at least once a year. Be sure the inventory is complete and accurate. In the period between inventories, compute the cost of merchandise sold, add the expected percentage of mark-up, and deduct discounts for the period of time involved. Your computed figure should be very close to the sales made for the same period. The difference between the computed figure and the amount in the sale account may represent the retail value of losses.
- Keep accurate and complete records of sales and purchases.
- Ensure that your records of purchases for resale are accurate and complete and do not include supplies or other items not for resale. (Merchandise received but not yet paid for should be included.)

Common inventory losses

You should look for the following types of losses:

- Money pocketed by employees and covered up by not ringing up the sale or ringing it up at a lesser amount.
- Merchandise pilfered by employees, clean-up crews, or other persons with access to the store.
- Short deliveries or pilferage by delivery persons.
- Shoplifting by customers.

Please note: Robberies of cash are not deductible for sales tax purposes because tax is measured by sales (that is, the sale of the taxable merchandise occurred before the robbery). You still have the responsibility to pay tax on all taxable sales in the usual manner despite a loss of proceeds from sales.

FOR MORE INFORMATION

For additional information or assistance, please take advantage of the resources listed below.

CUSTOMER SERVICE CENTER 1-800-400-7115 (CRS:711)

Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays. In addition to English, assistance is available in other languages.

OFFICES

Please visit our website at www.cdtfa.ca.gov/office-locations.htm for a complete listing of our office locations. If you cannot access this page, please contact our Customer Service Center at 1-800-400-7115 (CRS:711).

INTERNET

www.cdtfa.ca.gov

You can visit our website for additional information—such as laws, regulations, forms, publications, industry guides, and policy manuals—that will help you understand how the law applies to your business.

You can also verify seller's permit numbers on our website (see [Verify a Permit, License, or Account](#)).

Multilingual versions of publications are available on our website at www.cdtfa.ca.gov/formspubs/pubs.htm.

Another good resource—especially for starting businesses—is the California Tax Service Center at www.taxes.ca.gov.

TAX INFORMATION BULLETIN

The quarterly *Tax Information Bulletin* (TIB) includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest. You can find current TIBs on our website at www.cdtfa.ca.gov/taxes-and-fees/tax-bulletins.htm. Sign up for our [CDTFA updates](#) email list and receive notification when the latest issue of the TIB has been posted to our website.

FREE CLASSES AND SEMINARS

We offer free [online](#) basic sales and use tax classes including a tutorial on how to file your tax returns. Some classes are offered in multiple languages. If you would like further information on specific classes, please call your local office.

WRITTEN TAX ADVICE

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if we determine that we gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction.

For written advice on general tax and fee information, please visit our website at www.cdtfa.ca.gov/email to email your request.

You may also send your request in a letter. For general sales and use tax information, including the California Lumber Products Assessment, or Prepaid Mobile Telephony Services (MTS) Surcharge, send your request to: Audit and Information Section, MIC:44, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0044.

For written advice on all other special tax and fee programs, send your request to: Program Administration Branch, MIC:31, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0031.

TAXPAYERS' RIGHTS ADVOCATE

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through normal channels (for example, by speaking to a supervisor), please see [publication 70, Understanding Your Rights as a California Taxpayer](#), or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-888-324-2798. Their fax number is 1-916-323-3319.

If you prefer, you can write to: Taxpayers' Rights Advocate, MIC:70, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0070.

Regulations, forms, and publications

Lists vary by publication

Selected [regulations](#), [forms](#), and [publications](#) that may interest you are listed below. Spanish versions of our publications are also available online.

Regulations

- 1590 *Newspapers and Periodicals*
- 1595 *Occasional Sales-Sale of a Business-Business Reorganization*
- 1602 *Food Products*
- 1603 *Taxable Sales of Food Products*
- 1671.1 *Discounts, Coupons, Rebates, and Other Incentives*
- 1700 *Reimbursement for Sales Tax*

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