

What Caterers Should Know about Vermont Business Taxes

Any private person, entity, institution, or organization selling meals, serving alcohol, or renting rooms to the public must collect the applicable Vermont business taxes from their customers on their *gross receipts* and remit the tax to the Vermont Department of Taxes. As a caterer, you should know the Vermont business taxes that apply to your business so that you collect and remit the right amount of tax. This fact sheet provides information on the business taxes that apply and general guidelines for caterers. More information on Vermont taxes for businesses also is available on the Department's website at www.tax.vermont.gov.

Catering Service Billed as a Package

Similar to a restaurant, caterers provide more than just food as part of their service to customers. Tableware, linen, decorations, and the labor involved to prepare and serve the meal all contribute to the dining experience. If the catering service you offer is presented and billed as a "package," you must collect and remit the 9% Vermont Meals and Rooms Tax on all items and services that are components of the package. You may choose to itemize components of your catering service on the bill for the customer, but costs for the meal, labor, and other components are subject to the meals and rooms tax even when itemized. These components include the following (non-inclusive list):

- Food and beverage
- Labor for preparing, delivery, serving, and cleaning up after the meal
- Tableware, such as dishware, cutlery, glassware, linens, and other items necessary for serving the meal
- Flowers and any other decorative items provided as part of the service
- Room, banquet hall, building, or any space where the meal will be served

Please note:

Alcoholic beverages sold by holders of a First or Third Class Liquor License are subject to the 10% Vermont Alcoholic Beverage Tax.

If you present the bill for the package plan to the customer *with the meals and rooms tax included*, then the you must state "tax included" on the bill. Charges and tax should be properly allocated in the accounting records of your business, and the tax must be reported and remitted accordingly.

Sales Tax on Rentals

If you rent items such as tableware or linens, you should pay the applicable 6% Vermont Sales Tax to the vendor. You then may choose to pass on the sales tax as a markup in the final bill to the customer.

When Use Tax Applies

You may rent or purchase items subject to sales tax in Vermont from a vendor not licensed to collect tax in Vermont. In this situation, you should remit the 6% Vermont Use Tax to the Vermont Department of Taxes. This most often occurs when making purchases via the internet or from vendors located in states which do not impose sales tax.

Are Tips Taxable?

Generally, tips are not taxable, but there are exceptions. "Tip" means either:

1. a sum of money gratuitously and voluntarily left by a customer for service, or
2. a charge for service that is indicated by the seller on the bill, invoice or charge statement that:
 - a. does not exceed 20% of the total charges and
 - b. is separately accounted for and fully distributed to service employees, in addition and supplemental to normal salary and wages, which must meet or exceed state and federal minimum wage requirements.

The exceptions

Tips in excess of 20% must be reported as taxable, even if fully distributed to service employees. If any portion of the tip is retained by the operator, rather than by service employees, the portion retained becomes a part of the charge to the customer and is thus subject to tax. For meals and rooms tax purposes, business owners and operators are not service employees, even when they perform functions typically performed by service employees.

Local Option Tax

In addition to the state-imposed business taxes, you may be required to collect and remit a 1% local option tax imposed by some Vermont municipalities. A municipality may choose to levy a local option tax on 1) meals and alcohol; 2) rooms; and/or 3) any items subject to sales tax. Local option tax is destination-based. Please note that you should always calculate the local option tax as 1% of the taxable (net) sales for each town. Do **not** make the mistake of calculating use tax as 1% of 6%, the sale tax rate, which will result in collecting too little local option tax.

Businesses are responsible for collecting and remitting local option taxes along with state business taxes. If you are subject to local option tax and have not been collecting and remitting it, you may have a tax liability. A current listing of municipalities who impose local option taxes can be found at www.tax.vermont.gov.

Know Tax Law and Regulations

Business owners are expected to be familiar with state tax laws and regulations applicable to their businesses. For

more information, please see the following:

32 V.S.A. Chapter 225

<http://legislature.vermont.gov/statutes/title/32>

Regulations for Meals and Rooms Tax & Sales and Use Tax

www.bit.ly/vttaxregs

Technical Bulletins on Meals and Rooms Tax

www.bit.ly/vttechbulls

Fact Sheets:

www.bit.ly/vtfactsheets

Vermont Meals and Rooms Tax for Businesses, Vermont Meals Tax for Businesses, Vermont Rooms Tax for Businesses, Vermont Sales and Use Tax for Businesses, Local Option Tax: What is It and When Does It Apply?, How to Register Online for a Business Tax Account, and more fact sheets on a variety of topics

To learn more about Vermont business taxes, visit www.tax.vermont.gov or contact the Department's Business Tax Section at tax.business@vermont.gov or (802) 828-2551, option 3.

