Vermont Meals and Rooms Tax for Businesses

Businesses need to know the circumstances in which the Vermont Meals and Rooms Tax applies to them. This overview provides information on the tax and general guidelines. For more detailed information, you should refer to Vermont tax law and the Vermont Department of Taxes website at tax.vermont.gov for regulations, technical bulletins, and fact sheets on the topics presented here.

What is Vermont Meals and Rooms Tax?
Any private person, entity, institution, or organization selling meals, serving alcohol, or renting rooms to the public must collect the Vermont Meals and Rooms Tax from their customers on their gross receipts and remit the tax to the Vermont Department of Taxes.

Meals and rooms tax rates in Vermont
Following are rates for meals and rooms tax:
- 9% on sales of prepared and restaurant meals
- 9% on sales of lodging and meeting rooms
- 10% on sales of alcoholic beverages served in restaurants

Which types of businesses must collect and remit tax?
Following is a list (noninclusive) of types of businesses which must charge, collect, and remit tax:

Meals Tax
- Restaurants, including cafes, cafeterias, dining rooms, diners, lunch counters, salad bars, private or social clubs, bar or tavern, theater concessions, street vendors, street cart, food truck, and catering businesses
- Grocery and convenience stores if they offer prepared foods (Note: food sold at a snack bar with no seating is not subject to tax)
- Vending machines
- Transient vendors

Rooms Tax
- Hotels, motels, inns, bed and breakfasts
- Cottages, cabins, condominiums, campsites, and ski lodges
- Rooms in homes, primary homes, vacation or second homes
- Other types of sleeping accommodations owned by private individuals for which a rental fee is charged, such as treehouses and yurts

Definition of a restaurant and taxable meal
All food is taxable when sold by a restaurant. The type of sales and amount of sales determine if a business is a restaurant. A restaurant is defined as:
- an establishment that charges for food or beverage intended for immediate consumption; or
- an establishment that has made total sales of food or beverage in the previous taxable year of at least 80% taxable food and beverage; or
- a new establishment that projects its total sales for the first year to be at least 80% taxable food and beverage.

Alcoholic beverages sold on the premises of a restaurant are subject to the 10% alcoholic beverage tax.

Note: Some items are taxable even when sold by a business not defined as a restaurant, such as sandwiches (except frozen), heated food or beverages, items from a salad bar, and party platters and prepared food.

Definition of a hotel
Hotel accommodations are subject to tax. A hotel is broadly defined as an establishment that holds itself out to the public by offering sleeping accommodations for a charge. Any charge by a hotel that gives a person the right to use rooms, furnishings, or services of the hotel is subject to the rooms tax.

Note: The tax applies whether or not the room contains sleeping accommodations, as long as it is located in an establishment that is defined as a “hotel.” For example, the rental of a conference room in a hotel is subject to rooms tax.

Coupons and gift certificates
If you honor a coupon at your place of business and receive reimbursement from the coupon issuer in the amount of the discount, tax is due on the full cost. If you honor a coupon and are not reimbursed by the coupon issuer, then the tax is due on the final cost to the customer. The same is true if you offer a special or reduced price to customers.
Are tips taxable?
“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.

Any service charge (not voluntary but added to the bill as part of the total charge) that is more than 20% of the bill must be reported as taxable, even if fully distributed to service employees. Any portion of the service charge retained by the business owner or operator rather than by service employees, becomes a part of the charge to the customer and thus is 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.

Vermont Meals and Rooms Tax: Taxability of Tips and Charges for Service

<table>
<thead>
<tr>
<th>Tips left voluntarily by customers</th>
<th>Charges for service added to bill by owner-operator and distributed to service employees</th>
<th>Charges for service retained by owner-operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>No meals and rooms tax applies but may be subject to withholding for income tax.</td>
<td>The portion distributed to employees that is more than 20% of the bill is subject to meals and rooms tax.</td>
<td>Entire charge for service is subject to meals and rooms tax.</td>
</tr>
</tbody>
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To learn more about Vermont business taxes, visit tax.vermont.gov or contact the Department’s Business Tax Section at tax.business@vermont.gov or (802) 828-2551.