TN Department of Revenue

Liquor-by-the-Drink Tax Notice

Notice #18-02 **February 2018**

Drink Taxes Included on Menu or in Final Bill

An LBD Taxpayer May Include the LBD Tax in the Drink Price Listed in the Menu or on the Final Bill

Due to a change in state law, taxpayers are no longer required to include the liquor-by-the-drink tax (LBD tax) and state and local sales tax in the sales price listed in the drink menu. Tennessee law now gives taxpayers the option to include the LBD tax on the final bill to the customer instead of in the sales prices listed on the menus.

Taxpayers Should Include State and Local Sales Tax on a Drink in the Same Manner They Include LBD Tax

Sellers of alcoholic beverages for consumption on the premises also must collect and remit state and local sales tax on their sales. Taxpayers should include state and local sales tax on alcoholic beverages in the same way they include the LBD tax – either in the listed drink price on the menu or on the final bill.

Taxpayers Who Include the LBD Tax and Sales Tax on the Final Bill Must State Taxes Will Be Added

If a taxpayer chooses to include the LBD tax and state and local sales tax on the customer's final bill and exclude the taxes from the drink menu list prices, it must state on the menu that a 15% LBD tax and the sales taxes will be included on the final bill.

Taxpayers Who Include the LBD Tax and Sales Tax in the Menu Price Must State Taxes Are Included

If a taxpayer chooses to include the LBD tax and state and local sales tax in the listed menu prices, it must state on the menu that the sales price includes LBD tax and state and local sales tax.

If a taxpayer includes the taxes in the drink list price, it will need to determine the taxable base, which is the net sales price. You determine the net sales price by backing out the LBD tax and state and local sales tax from the list price. This is done by dividing the total sales price by 1.15 plus your state and local sales tax rate.

Example:
A restaurant menu lists the price of a cocktail at $12. Of that $12, the net selling price of the cocktail is $9.66.

$12 / 1.2425 (1.15 + .0925*) = $9.66 Net sales price

You would then apply the LBD tax rate to the net sales price to arrive at the amount of LBD tax due and apply the applicable sales tax rate to the net sales price to arrive at the amount of sales tax due.

$9.66	$9.66
x .15	x .0925
$1.45	$0.89

The LBD tax is $1.45, and the state and local sales tax is $0.89.

*Note, the local sales tax rate will change according to jurisdiction. Visit our sales tax page on www.tn.gov/revenue for a list of local tax rates.

Disclaimer: The information provided here is current as of the date of publication but may change as a result of new statutes, regulations, or court decisions. While this notice is intended to be comprehensive, events and situations unanticipated by this notice may occur. In such cases you should contact the department or your tax professional for further guidance.

Reporting

It is important to note that the LBD return should reflect the gross sales, with both LBD tax and sales taxes included. This is true whether the taxpayer includes the taxes in the drink menu price or on the final bill.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 57-4-301(c)(2); Public Chapter 338 (2017)

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