



STATE BOARD OF EQUALIZATION

September 22, 1953

Your letter of July 1, 1953

Attention: Mr. REDACTED TEXT

Gentlemen:

Your client, a country club, proposes to sell alcoholic beverages at its bar at a price of 55¢ per drink. This price breaks down to 50¢ for the drink, 3¢ for a service charge in lieu of a tip, and 2¢ for sales tax. All service charges collected will be divided among the waitresses and other employees each month.

The sales tax applies to the entire price the purchaser is required to pay in order to obtain the drink. Since the 3¢ service charge is required to be paid, it is part of the measure of tax. Tips and services charges are exempt from the tax only if the payment is voluntary on the part of the customer. See Section C of Sales and Use Tax Ruling 53 (copy enclosed).

Accordingly, tax applies to the entire 55¢ charge, less the deduction for "tax included".

Your client must in some manner indicate to customers that the customer is paying sales tax reimbursement. This may be done by a posted notice or notice on the menu that sales tax reimbursement will be added. It may also be done, as you have suggested, by showing either on the menu or on a posted notice a breakdown of the total price. Otherwise, the sale will not be regarded as tax included.

Very truly yours,

Bill Holden
Junior Counsel

BH:ph

cc: San Jose – Tax Administrator