



## **Q&As: CRAFT BREWERS – NEW REMITTANCE MODEL**

---

These Questions & Answers pertain to the new remittance model that will take effect in October 2016. A glossary is provided on page 10 of this document.

### **Important dates:**

#### **What are the key dates I need to know about?**

- Sept. 16, 2016: Your Pre-Authorized Debit Agreement (PAD) is due to the LDB.
- Oct. 1, 2016: The last batch date for batches to be reported and proceeds to be remitted under the current model.
- Oct. 2, 2016: Brewers who have met the requirements will officially onboard the new model.
- Oct. 3, 2016: Last submission date for batches under the current model (batches must be dated Oct. 1, 2016 or prior).
- Oct. 5, 2016: Earliest batch date for batches to be reported and submitted under the new model.

For more information about these dates and the transition, please refer to the [Transition Instructions](#) document.

#### **What happens if I miss the deadline to submit my PAD agreement? What if I'm not ready to onboard the new model for Oct. 2?**

Transition to the new model is a requirement for all craft brewers. If you miss the Sept. 16, 2016 deadline to submit your PAD agreement to the LDB, or if you do not feel prepared to onboard the new model by Oct. 2, 2016, please inform the LDB as soon as possible by emailing: [regemail@bcldb.com](mailto:regemail@bcldb.com).

### **Pre-Authorized Debit (PAD) Agreement:**

#### **Is a PAD agreement with the LDB a requirement for the new model?**

Yes, a PAD agreement is a requirement for all craft breweries for this new remittance model. There is not an option to opt-out.

#### **How will I be informed about the amount that will be debited?**

You will receive a PAD Settlement Notification via email before the money is withdrawn. The PAD Settlement Notification email outlines the sales and returns of packaged products, cost of sales and returns and mark-up due on pipeline sales, if applicable. Please refer to the Timelines and Notifications document for more information and for an example of the PAD Settlement Notification.

---

<sup>1</sup>Although the LDB has tried to ensure the accuracy of the information provided, this document and all of the information it contains is provided "as is" without warranty of any kind, whether express or implied. It may not be comprehensive and may be subject to change. The LDB does not provide tax, legal or accounting advice. You are solely responsible for ensuring your full compliance with all laws. You should inform yourself of the changes to the remittance model and make sure you obtain appropriate tax, legal, and accounting advice.



**Under the new model, what are the various notifications I will receive?**

You will receive four reports/notifications to support your accounting and reconciliation tasks:

- **Batch Control Summary** – a summary of your direct sales and returns reported in each batch.
- **LDB Cost Details for Direct Sales Report** – information on the supplier cost of all your sales and returns, GST on supplier cost and container deposits (if applicable). This will be produced for each batch reported in DSWR.
- **Pre-Authorized Debit (PAD) Settlement Notification** – notification of the amount to be debited from your PAD bank account.
- **Statement of Account** – a monthly statement that incorporates all transactions reported in the month, for your reconciliation purposes.

For more information about these dates and the transition, please refer to the [Transition Instructions](#) document.

**Can the bank account I choose only be debited, or can I also receive credit from the LDB for returns?**

For the purpose of the remittance of direct sales reported, the LDB will only be debiting your PAD account.

If a submitted batch only contains return transactions, or if the net total of the batch is negative, the LDB will decrease your balance owing to the LDB on the next batch you report.

**Will the account I choose for my PAD agreement be debited for any other government purposes?**

No – the PAD agreement only provides the LDB with permission to withdraw, following written notice, the funds as outlined in your Sales Agreement. Any other debts owed to government or other government agencies may not be withdrawn from this account without your permission.

**What type of bank account will be required for the PAD agreement?**

In the [PAD agreement](#), you will provide the LDB with your choice of bank or credit union account from which the LDB will be withdrawing the funds via PAD.

**What exactly is a PAD agreement?**

A pre-authorized debit agreement (PAD) refers an agreement to provide direct withdrawal of funds from a payor's bank account. The payor (in this case, the brewery) and payee (in this case, the LDB) enter into an agreement whereby the payor authorizes the payee to make such withdrawals.

**Keg Deposits:**

**Will I still have to collect keg deposits from customers, or will this process be eliminated?**

Keg deposits will still show up when you report your sales, as the \$30 amount is connected to each SKU that is reported in our systems. Also, if you choose to use the LDB's DSWR system to print invoices for your customers, the keg deposit will still be calculated on the Order Document and will be included in the total. However, the keg deposit amount due to the LDB will be offset by the keg deposit amount paid back to you – this means **the net cash impact to your brewery will be nil**. The overall process may be reviewed at a later date.



**How will the 'Malt Levy' be handled?**

The mark-up payable on reporting of pipeline sales will be reported the same way as today and the payment will be withdrawn from the brewery's bank account via PAD in the same way as payment for reported sales of packaged product.

**Reporting and Batching:**

**Are there any changes to my reporting frequency?**

No – you will still be required to report your sales **weekly** to the LDB.

**Do I need to change the day on which I report my sales?**

No – other than during the transition black-out dates, you will be able to report your sales on the same day of the week as you do today.

For the purpose of transitioning between the current model and the new model, all reports for the batch dated Oct. 1, 2016 will need to be reported by Oct. 3, 2016 which is a Monday. After the transition date, the brewery may go back to reporting their batches on the day of the week they report today.

For more information about these dates and the transition, please refer to the [Transition Instructions](#) document.

**Will there be changes to my reporting process through DSWR?**

Although this is a significant change in the way that breweries remit their funds to the LDB, there are no changes in the way that the breweries will report.

The new remittance model requires all sales reporting to be done online using DSWR. Breweries will not be required to deposit the sale immediately into the LDB bank account. Instead, LDB will withdraw the net funds from the brewery's designated bank account under the PAD agreement.

**In addition to my brewery licence, I am also licensed as another type of manufacturer. Can I report my winery/cider/spirit sales using the new remittance model?**

No – currently the only licence type that will be moved to the new remittance model is breweries/brewpubs. If you also have another licence type to sell winery/cider/spirit products, these product sales will continue to be reported under the current model. We will keep you informed as to any potential changes to the remittance model for other licence types.

**Transition:**

**In the graphic from the PowerPoint slides provided during the Aug. 18 webinar, page 6 outlines Days 1 through 5. What date does Day 1 refer to – batch date or submission date?**

Day 1 refers to the date on which your batch is submitted. Therefore, Day 1 is the system submission date and not the batch date.

For more information about these dates and the transition, please refer to the [Transition Instructions](#) document.



**If the last batch date closes on Oct. 1, 2016, does that batch still include all the sales from that day?**

Please 'batch date' your last DSWR batch of reported sales under the old model as Oct. 1, 2016. Include within this batch all outstanding transactions up to and including Oct. 1. You have until Oct. 3 to submit this batch. Again, please note that if you submit the batch on Oct. 3, it needs to be dated Oct. 1.

**What happens if I don't submit and deposit my batches by Oct. 3?**

If you foresee problems with submitting and depositing batches reported under the current model by the deadline of Oct. 3, please contact the LDB as soon as possible: [regemail@bcldb.com](mailto:regemail@bcldb.com).

**Will my deposit need to be up-to-date and deposited by Oct. 3?**

We strongly encourage all deposit and batches to be up to date by Oct. 3 as this will allow for a smoother transition process.

**What if I am currently working with LDB to clear overdue balances?**

The LDB will continue to work with those breweries who are not compliant with their Sales Agreements and have outstanding debts to the LDB on an individual basis.

**Government Sales:**

**Will the LDB credit my PAD account for my sales to BC Liquor Store sales?**

No – while a brewery may choose to use the same bank account for other business with the LDB, such as for sales of product to BC Liquor Stores, these transactions will not be offset against each other.

**I currently receive funds from the LDB for my sales to BC Liquor Stores through Electronic Funds Transfer (EFT) – can I use this same account for my PAD agreement?**

Yes – breweries who currently receive funds from the LDB through EFT payments may choose to use this same bank account when they submit the PAD agreement. Please contact your financial institution to ensure they are able to support your new PAD agreement with the LDB.

**I am not set up to receive funds from the LDB for my BC Liquor Store sales through EFT – how can I move from receiving cheques to receiving the funds via EFT?**

The LDB encourages any brewers who are currently receiving funds via LDB-issued cheques for their BC Liquor Store sales to transition to EFT, which is a simpler and quicker way to receive funds. Using EFT, the LDB will deposit the money owed to you for BC Liquor Store sales directly into your nominated account. You may choose to use the same bank account as you use for the PAD agreement, if you wish. Please contact [accounts.payable@bcldb.com](mailto:accounts.payable@bcldb.com) to sign up.

**How will the new remittance model affect the overall process for breweries who direct deliver beer to BC Liquor Stores (BCLS) in terms of ordering, payment and remittance details?**

For breweries who direct deliver beer to BC Liquor Stores, the overall process will remain unchanged. If the brewery receives payment via cheque, they will continue to receive their payments via cheque. If the brewery receives payment via EFT, they will receive their deposit into their designated EFT account.

The new remittance model only covers direct sales to customers as identified in each brewery's Sales Agreement: Licensee Retail Stores, Rural Agency Stores, the brewery's On-site Retail Store, the



brewery’s On-site Brewery Lounge and/or special event endorsement, and any Hospitality Customers, including pipeline sales to their adjacent, licensed establishment for holders of Brewpub agreements.

**How will the new remittance model affect the process for breweries who directly deliver beer to the LDB’s Distribution Centres in terms of ordering, payment and remittance details?**

For breweries who deliver beer to the LDB’s Distribution Centres, the overall process will remain unchanged. The new remittance model only covers direct sales to customers identified in each brewery’s Sales Agreement, as outlined above.

**GST:**

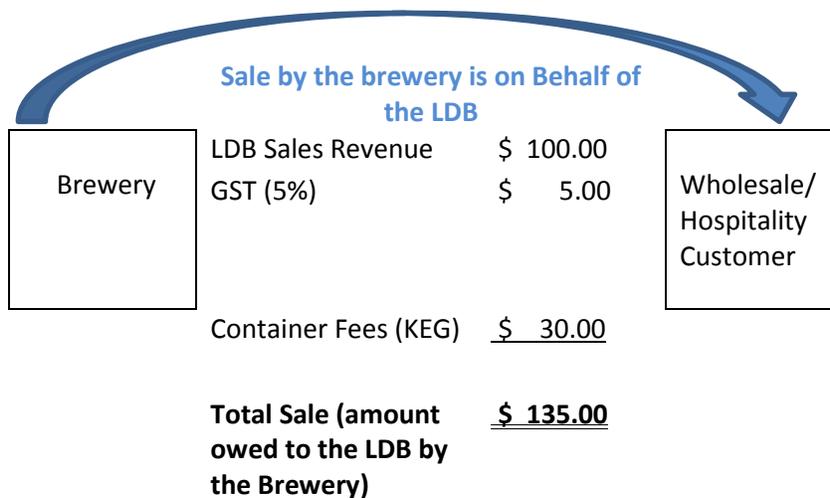
**How will GST be handled?**

It is important to note that changes to the remittance model only impact the payment portion of the transaction between the LDB, and the breweries. As per the *Liquor Distribution Act*, the LDB will continue to operate as the sole wholesaler of beverage alcohol in the Province of BC. Breweries will continue to be appointed as agents of the LDB and collect proceeds on sales from customers on behalf of the LDB. The timing of the payment by the LDB back to the brewery will be significantly reduced by offsetting the amount the LDB owes to the brewery (cost of product) against the amount the brewery owes to the LDB (sales proceeds). The remaining balance will be collected from the brewery’s account.

The GST will still be accounted for and reported the same way in the new model as it is in the current model. The brewery will still be liable for the GST amount applicable to the cost of products they sell to the LDB as part of direct sales to their customers. Please see the explanations and diagrams below for further information, and seek your own accounting and tax advice as you deem necessary.

**EXAMPLE:**

**Sale of beer to a wholesale or hospitality customer by a brewery:**

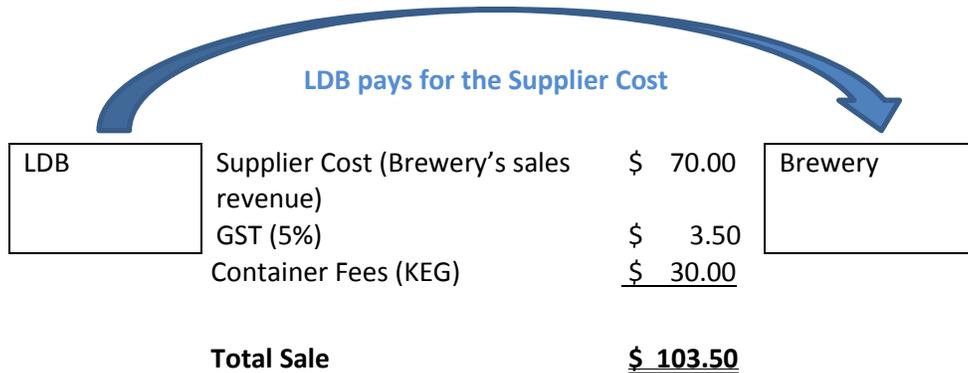


When the brewery reports a sale of a keg of beer for \$100 to the LDB, the LDB records the \$100 sales revenue in its financial statements. The \$5 GST is recorded as payable to Canada Revenue Agency (CRA)

and the \$30 deposit is recorded by the LDB as payable to the brewery.

**Purchase of the beer sold to the customer by the LDB from the brewery:**

At the same time, the LDB generates a purchase order to create the liability payable to the brewery, which includes the supplier cost of the product at duty paid cost, GST, and any refundable container deposits. This transaction corresponds to the sale transaction in the brewery's books and the brewery must record the GST applicable to this sale as a liability. In our example, the brewery would record \$70 as their sale and \$3.50 as their GST payable to the CRA.



Please see the summary of the transactions for this example below. The brewery collects \$135 from the customer on behalf of the LDB, but will only remit to the LDB the mark-up portion of this payment and the GST on this mark-up. Therefore, the GST on the remaining amount (cost of the product) is payable to the CRA by the brewery, not by the LDB.

<b>LDB:</b>		<b>Brewery:</b>	
		<i>On the day of the sale:</i>	
<i>On sales batch submission:</i>		Sales proceeds payable to the LDB:	\$105.00
LDB Sales Revenue	\$100.00	Sales proceeds payable to the LDB:	(\$105.00)
GST Payable to CRA	\$5.00	Sales Revenue	\$70.00
Purchase of product from supplier (LDB COGS)	(\$70.00)	GST Payable	\$3.50
GST paid to supplier	(\$3.50)	Keg deposit remitted to the LDB	(\$30.00)
Keg deposit received from the brewery	\$30.00	Keg refund received from the LDB	\$30.00
Keg refund back to the brewery	(\$30.00)		
Mark-up (\$30) plus net GST (\$1.50):	\$31.50	Supplier cost (\$70) plus GST (\$3.50)	\$73.50



The total amount of GST on the above transaction is \$5 reported to the CRA. This comprises of \$3.50 GST paid to the brewery on the duty paid cost, and the net \$1.50 GST (\$5 - \$3.50) paid by the LDB.

**Note:**

In the above example, we used a beer keg as a product type. For sale of the products that have non-refundable container types (an aluminum can or a non-refillable bottle), a container recycling fee (CRF) and GST on CRF will also apply and will be added to the amount retained by the LDB. This process does not change.

Also, the above example is only applicable to wholesale and hospitality sales, including sales to your on-site endorsement, and does not consider tax collection and reporting responsibilities for your retail sales.

**Wholesale/Hospitality Customers:**

**I am one of the 23 breweries with hospitality/wholesale customers on a pre-authorized payment (PAP) agreement with the LDB for my sales. Will the LDB be communicating with these customers that this service will no longer be provided?**

Yes, LDB communicated with affected wholesale/hospitality customers. This information was also [posted on the LDB's Wholesale Website](#). However, many wholesale/hospitality customers do not have up-to-date email addresses with the LDB. The LDB strongly encourages you to get in touch with your wholesale/hospitality customers to set up your own pre-authorized payment arrangements directly with these customers, if desired.

**Changes to Your Sales Agreement**

**When will I receive my new Sales Agreement?**

Following the Sept. 16 deadline, once your completed PAD agreement has been received by the LDB, you will receive Notice that will amend your Sales Agreement. You will not be required to sign a new document.

**What will be the key changes to my Sales Agreement with the LDB?**

- **Payment process** – under your current Sales Agreement, you are required to deposit, each business day, into the LDB's bank account all cash and monetary equivalent of all non-cash forms of payment you accept (e.g. credit card and debit card receipts). Under the amended Sales Agreement, you will be required to, **at least once per week**, deposit into your PAD account the net sale proceeds due and owing to the LDB (i.e. the mark-up, container deposits, container recycling fees and GST on the mark-up and container recycling fees) in respect of **product sold during that week**.
- **PAD requirement** – under the amended Sales Agreement, you will be required to have in place and maintain a PAD bank account, as specified in your PAD agreement.
- **Reporting requirements** – under the amended Sales Agreement, *Appendix A* will be updated to reflect the payment process changes. In addition, a small number of clean-up amendments will be made. For example, you will no longer be required to report your sales of non-alcoholic beer.
- **Increased transparency regarding the consequences of non-compliance** – the amendments will confirm that, in an event of default, the LDB has a flexible range of options it can use, such as:



## LIQUOR DISTRIBUTION BRANCH

- give you notice of a set period of time in which to remedy non-compliance;
- seek reimbursement for expenses (e.g. for NSF) the LDB incurs as a result of an event of default;
- charge interest on overdue accounts, in accordance with applicable laws;
- seek reimbursement for any expenses incurred as a result of your non-compliance;
- report non-compliance to the Liquor Control and Licensing Branch;
- withhold registration of any new products;
- require a letter of credit;
- pursue any other available remedies in law or equity;
- suspend or terminate your Sales Agreement.

### **Background:**

#### **What is this new “cash flow” model or “remittance model”?**

The new model will change the way B.C. craft brewers (those who produce less than 350,000 hectolitres) remit mark-up on direct sales to the LDB. Instead of giving the LDB the total proceeds from their sales and waiting approximately two weeks to get their supplier’s cost back from the LDB, the LDB will only be collecting the net mark-up amount, GST on this mark-up and applicable container recycling fees and container deposits from the brewery.

#### **Are we obligated to transition to the new model, even if we’re fine with the current system?**

Yes – it is mandatory that all B.C. craft brewers will be transitioning to the new model this fall. This new model addresses one of the concerns raised by craft brewers, which is that the LDB’s current remittance model doesn’t allow them to keep their hard-earned money on hand to operate and invest in their business. This new model will streamline the process both for the industry and for the LDB.

#### **Are other manufacturers, such as large-scale breweries, eligible for this new model?**

Currently, the new model is only applicable to the brewers who produce less than 350,000 hectolitres. Those brewers who produce above 350,000 hectolitres and other manufacturer types will continue on the current model of reporting and remitting funds.

#### **Why is this new model being put into place?**

The Province, following requests from the craft beer industry, announced this new model as a way of improving cash flow for B.C. craft brewers, helping them fund operations and invest in new equipment.

#### **Who can I contact if I have questions?**

If you have questions about the information provided so far, please email: [regemail@bcldb.com](mailto:regemail@bcldb.com).



Glossary of terms:

<b>Terminology</b>	<b>General Description</b>
DSWR	Direct Sales Web Reporting
Batch Control Summary	A summary of your direct sales and returns reported in each batch
EFT	Electronic Funds Transfer
LDB Cost Details for Direct Sales Report	Report you will receive with information on the supplier cost of all your sales and returns, GST on supplier cost and container deposits (if applicable). This will be produced for each batch reported in DSWR.
Malt Levy	Old name used for the mark-up payable on reporting of pipeline sales by brewpubs
Net funds	The final amount that is being withdrawn from the brewery's bank account is the net amount between the sales that the breweries used to deposit into the LDB bank account and the amount that the LDB used to pay back to the breweries for the supplier cost.
NSF	Non-sufficient funds
PAD account	Pre-Authorized Debit agreement bank account
PAD agreement	Pre-Authorized Debit Agreement
PAD Settlement Notification	An electronic notification of the settlement amount that will be deducted from the brewery or brewpub's nominated bank account per the PAD agreement.
PAP	Pre-Authorized Payments
Reported batch	All transactions submitted as one batch on the Direct Sales Web Reporting
Sales Agreement	Your agreement with the LDB relating to the direct sales and delivery of British Columbia manufactured product, as may have been amended from time to time.
Statement of Account	A statement of account from the LDB that will show all transactions processed during the month
Transition	The process for closing off the old model and moving from the old payment model to the new payment model