



Coupons and Food Stamps

When coupons and food stamps are used to make purchases, or when they are used in combination with cash or other forms of payment, it affects the way sales tax is computed. This bulletin explains:

- how sales tax is calculated when using manufacturers' coupons,
- how sales tax is calculated when using store-issued coupons, and
- how sales tax is calculated when food stamps are used to make purchases subject to sales tax.

A *coupon* is an instrument entitling the holder to a reduced purchase price based on the amount of the coupon. A coupon also includes customer "loyalty cards" which may include both manufacturer and store discounts. In general, there are two types of coupons: *manufacturers' coupons* and *store-issued coupons*. Although both reduce the final purchase price, they affect the amount subject to sales tax differently, and the tax is calculated differently for the two types of coupons. A store-issued coupon generally reduces the amount of sales tax due, while a manufacturer's coupon generally does not, as explained below.

Manufacturers' coupons

A manufacturer's coupon is a coupon imprinted with the abbreviation *Mfr.* or similar code to show that the discount is a manufacturer's promotion. When a customer uses a manufacturer's coupon, sales tax is due on the full price of the item, not on the discounted price. Since the seller will receive reimbursement from the manufacturer for the amount of the coupon, the actual selling price is not reduced, even though the amount paid by the purchaser is reduced. The amount of the coupon is part of the selling price of the item and is subject to tax if the item purchased is taxable.

Example: A customer purchases a taxable item that is being sold for \$1.00 and uses a 25-cent manufacturer's coupon. The tax rate is 8%. The tax and amount due from the customer are computed as follows:

<i>Selling price of the item</i>	<i>\$1.00</i>
<i>Sales tax (.08 x \$1.00)</i>	<i>.08</i>
<i>Subtotal</i>	<i>\$1.08</i>
<i>Less amount of the manufacturer's coupon</i>	<i>-.25</i>
<i>Amount due from customer</i>	<i>\$.83</i>

When a coupon does not show a manufacturer's discount but the seller is reimbursed by the manufacturer, the seller collects tax from the customer on the reduced price. However, the tax must be reported on the seller's return based on the full price of the item, without subtracting the amount of the coupon.

Store-issued coupons

Store-issued coupons also entitle a customer to a discount on the price of an item. These coupons are offered as incentives to customers to shop at the vendor's establishment, and the amount of the discount is not reimbursed by a third party. Since the seller will not

be reimbursed for the amount of the coupon, the actual amount received is reduced, and tax is calculated on the reduced price.

Example: A customer purchases a taxable item that is being sold for \$1.00 and the customer uses a 25-cent store-issued coupon. The tax rate is 8%. The tax and amount due from the customer are computed as follows:

<i>Selling price of the item</i>	<i>\$1.00</i>
<i>Less amount of the store coupon</i>	<i>- .25</i>
<i>Subtotal</i>	<i>\$.75</i>
<i>Sales tax (.08 x \$.75)</i>	<i>.06</i>
<i>Amount due from customer</i>	<i>\$.81</i>

Double coupons

When a customer redeems a manufacturer’s coupon, and the store also gives its own store discount equal to the amount of the manufacturer’s coupon (double coupons), the tax is computed on the cost of the item, less the store discount.

Example: A customer purchases an item for \$2.00 and uses a 50-cent manufacturer’s coupon. The store matches the amount with its own 50-cent discount. The tax rate is 8%. The tax and amount due from the customer are computed as follows:

<i>Selling price of the item</i>	<i>\$2.00</i>
<i>Less: store discount (equal to the value of manufacturer’s coupon)</i>	<i>- .50</i>
<i>Subtotal</i>	<i>\$1.50</i>
<i>Sales tax (.08 x \$1.50)</i>	<i>.12</i>
<i>Subtotal</i>	<i>\$1.62</i>
<i>Less amount of the manufacturer’s coupon</i>	<i>- .50</i>
<i>Amount due from customer</i>	<i>\$1.12</i>

Purchases using food stamps

Food stamps* can be used to purchase any food, food product, or nonalcoholic beverage intended for human consumption (eligible items). If a food or beverage item is ordinarily subject to sales tax, the purchase will be nontaxable if the item is purchased with food stamps. Some examples of items that are generally taxable, but not taxable when they are purchased with food stamps are:

- bottled water
- candy and confections (e.g., candy bars, lollipops, chewing gum, etc.)
- sandwiches
- fruit drinks containing less than 70% natural fruit juice
- fruit plants and seeds
- vegetable plants and seeds
- sodas (regular and dietetic)
- soft drinks (regular and dietetic)
- ice

*Beginning in 2008, the federal government food stamp program changed its name to the Supplemental Nutrition Assistance Program.

Purchases using food stamps with cash, credit cards, or debit cards

If a customer purchases taxable and nontaxable food stamp eligible items and pays with a combination of food stamps and cash, credit card, or debit card, the vendor must apply the food stamps to the eligible taxable items first, and then any remaining food stamps to the eligible nontaxable purchases.

Only the balance of the taxable purchases paid for with cash, credit card, or debit card is subject to tax.

Example: A customer purchases the following items in a grocery store (in each example, a T next to an item indicates that the purchase of that item is ordinarily subject to sales tax):

Bottled water - T	\$ 3.56
Meat	15.50
Canned vegetables	5.90
Frozen vegetables	3.78
Diet soda - T	3.89
Potato chips	2.09
Fruit punch drink - T	<u>5.00</u>
Total purchases	\$39.72
Taxable purchases	\$12.45

The customer uses \$20.00 in food stamps. The cashier must first apply the food stamps to the taxable purchases (bottled water, diet soda, and fruit punch drink). Since the total of these taxable items (\$12.45) is less than the amount of food stamps given, (\$20.00), no sales tax is due on this transaction.

Example: Assume the same facts as in the previous example, except that the customer uses \$10.00 in food stamps. The tax rate is 8%. The tax and amount due from the customer are computed as follows:

Total purchases		\$39.72
Taxable eligible purchases:		
Bottled water - T	\$ 3.56	
Diet soda - T	3.89	
Fruit punch drink - T	<u>5.00</u>	
Total taxable purchases	\$12.45	
Less: Food stamps	<u>-10.00</u>	
Balance subject to tax	2.45	
Sales tax (.08 x \$2.45)		<u>.17</u>
Total amount due from customer		\$39.89
<i>(including \$10.00 in food stamps)</i>		

Purchases using coupons and food stamps with cash, credit card, or debit card

When a customer uses coupons, food stamps, and cash, or a credit card or debit card to purchase food and beverages, the vendor must complete the transaction as follows:

1. Total any taxable items that can be purchased with food stamps.
2. Subtract any store coupons that apply to the taxable items that are included in the total from step 1 above. This will lower the amount subject to tax.
3. Subtract the amount of food stamps used by the customer from the total computed in step 2 above. Any remaining balance is the amount of eligible food stamp purchases subject to sales tax.
4. Add any taxable items that cannot be purchased with food stamps to the total from step 3 above.
5. Calculate the sales tax due by multiplying the amount calculated in step 4 above by the sales tax rate.

6. Add the sales tax due to the total purchases.
7. Subtract all manufacturers' and store-issued coupons from the total computed in step 6 above.

This total is the amount due, including food stamps, that must be collected from the customer.

Example: A customer makes the following purchases in a grocery store:

Bottled water - T	\$ 3.56
Diet soda - T	3.89
Potato chips	2.09
Fruit punch drink - T	5.00
Batteries - T	6.97
Canned fruit and vegetables	16.98
Fresh fruit and vegetables	<u>9.02</u>
Total purchases	\$47.51

The customer gives the cashier a store coupon for \$1.00 toward the purchase of the diet soda, and a manufacturer's coupon for 50 cents toward the purchase of the batteries. The customer pays \$10.00 with food stamps and the balance with cash. The tax rate is 8%. The tax and amount due from the customer are computed as follows:

Calculation of sales tax:

Bottled water - T	\$3.56	
Diet soda - T	3.89	
Fruit punch drink - T	<u>5.00</u>	
Subtotal	\$12.45	
Less: store coupon for soda	<u>- 1.00</u>	
Total taxable food stamp eligible items		\$11.45
Less: food stamps		<u>-10.00</u>
Subtotal:		\$1.45
Plus: Taxable ineligible items (batteries)		<u>+\$6.97</u>
Amount subject to sales tax		\$8.42
Sales tax (.08 x \$8.42)		\$.67

Total amount due from the customer:

Total purchases	\$47.51	
Plus: Sales tax	<u>.67</u>	
Amount due before coupon deduction		\$48.18
Less:		
Store coupon	1.00	
Manufacturer's coupon	.50	
		<u>- 1.50</u>
Amount due from customer		\$46.68
<i>(including \$10.00 paid in food stamps)</i>		

See also Tax Bulletin [Taxable Receipt \(TB-ST-860\)](#).

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. They are accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

References and other useful information

Tax Law: Sections 1101(b)(3) and 1115(k)

Regulations: Sections 526.5 and 528.27

Bulletins: [Taxable Receipt \(TB-ST-860\)](#)