

COUPONS, DISCOUNTS, PREMIUMS

The following subparagraphs of Regulation 526 are reproduced for distribution due to the widespread interest in these three subjects.

The Department's policy regarding the use of coupons used to purchase tangible personal property has been as follows:

- (1) If the coupon is redeemable by a manufacturer or a third party, the original price is subject to tax.
- (2) If the coupon is issued by the retailer, it is a method of advertising and the reduced price is subject to tax.

There is no change in this policy. However, Regulation 526.5(c), effective September 1, 1976, stipulates that if a store issues a coupon involving manufacturer's reimbursement, and does not disclose that fact to the purchaser on the coupon or in the advertisement, the vendor will collect from the purchaser only on the reduced price, but will be required to pay the tax on the entire receipt--the amount of the price and the reimbursement received from the manufacturer or distributor.

COUPONS
(SALES TAX REGULATION PART 526.5(c))

(c) Coupons. (1) Where a manufacturer issues a coupon entitling a purchaser to a credit on the item purchased, the tax is due on the full amount of the receipt. The receipt is composed of the amount paid and the amount of the coupon credit. The coupon credit reflects a payment or reimbursement by another party to the vendor.

Example 1: A manufacturer issues coupons entitling the holder to credit allowance of 12¢ on the purchase of its products from a retailer. The tax is computed as follows by the retailer:

Regular price	63¢
Tax at 7% rate	<u>5¢</u>
	68¢
Credit for Mfr. coupon	<u>12¢</u>
Amount due from purchaser	56¢

(2) Where a store issues a coupon, entitling a purchaser to a credit on the item purchased, for which it is reimbursed by a manufacturer or distributor, the tax is due on the full amount of the receipt. The receipt is composed of the amount paid and the amount of the coupon credit. The coupon must indicate, by "mfr" or some other code, that reimbursement is made. The reimbursement from the manufacturer or distributor to the store may be made in any form, such as cash or a credit against purchases or in additional merchandise.

Example 2: A store issues a coupon, labeled "mfr" entitling the holder to a credit allowance of 12¢ on the purchase of its products from a retailer. The purchaser is billed as follows by the retailer:

Regular price	63¢
Tax at 7% rate	<u>5¢</u>
	68
Credit for Mfr. coupon	<u>12¢</u>
Amount due from purchaser	56¢

(3) Where a store issues a coupon entitling a purchaser to a discounted price on the item purchased, and receives no reimbursement, the tax is due from the purchaser on only the discounted price, which is the actual receipt.

Example 3: A store issues coupons entitling the holder to credit allowance of 12¢ on the purchase of its products from a retailer. The purchaser is billed as follows by the retailer:

Regular price	63¢
Store coupon	<u>12¢</u>
	51¢
Tax at 7% rate	<u>4¢</u>
Amount due from purchaser	55¢

(4) Where a store issues a coupon involving manufacturer's reimbursement, but does not disclose that fact to the purchaser on the coupon or in the advertisement, the vendor will collect from the purchaser only the tax due on the reduced price, but will be required to pay the tax on the entire receipt--the amount of the price and the reimbursement received from the manufacturer or distributor.

DISCOUNTS
(SALES TAX REGULATION PART 526.5(d))

(d) Discounts: (1) Discounts which are granted by a vendor, for the purpose of encouraging prompt payment on an account, known as "early payment discounts" are not deductible from receipts.

Example 1: A vendor grants a purchaser a 2% discount for paying the price of a \$100.00 camera within ten days, and expects payment of the full price if paid within thirty days. The sales tax, in a 7% area, is \$7.00 on the taxable receipt of \$100.00, whichever method of payment the customer chooses.

DISCOUNT METHOD	FULL PRICE METHOD
\$100.00 Price	\$100.00
<u>7.00 Tax</u>	<u>7.00</u>
\$107.00	\$107.00
<u>2.00 Discount</u>	
\$105.00 Due	

(2) Discounts which represent a reduction in price, such as a trade discount, volume discount or cash and carry discount are deductible in computing receipts.

Example 2: A vendor grants a purchaser a 30% discount for purchasing 1,000 light bulbs. The taxable receipt will be the discount price. The billing in a 7% area, should be similar to:

1,000 Bulbs at 50¢	\$500.00
Less 30%	<u>150.00</u>
	\$350.00
Tax at 7%	<u>24.50</u>
Due	\$374.50

Example 3: A vendor grants a purchaser a 10% cash and carry discount. The taxable receipt will be the discounted price. The billing in a 7% area should be similar to:

Merchandise	\$50.00
Less 10%	<u>5.00</u>
	\$45.00
Tax at 7%	<u>3.15</u>
Due	\$48.15

PREMIUMS

(SALES TAX REGULATION PART 526.6(c)(4))

(4)(i) Tangible personal property which is purchased and given away without charge, for promotion or advertising purposes is not purchased for resale. It is a retail sale to the purchaser thereof, and is not a sale to the recipient of the property. (ii) Tangible personal property which is purchased for promotional or advertising purposes and sold for a minimal charge which does not reflect its true cost, or which is not ordinarily sold by that person in the operation of his business, is a retail sale to the purchaser thereof, and not a sale to the recipient of the property. (iii) A resale certificate may not be used by the person making the purchases described in subparagraphs (i) or (ii) for such purchases.

Example 2: A bank has purchased premiums which will be given to depositors upon the opening of an account in a new branch. As the bank is not in the business of selling such items, and as it in fact does not sell such items to its customers, the sale to the bank of such items of tangible personal property is a retail sale which is taxable at the time of purchase. The bank has not purchased these items for resale.

Example 3: A vendor purchases catalogs and distributes them to his potential customers for a minimal charge, which does not reflect the cost to him. He is the retail purchaser of the catalog, and is required to pay the tax thereon. He cannot charge his customer tax on the charge for the catalog.