

Coupons, Discounts, and Other Forms of Payment

This fact sheet explains how to properly calculate sales tax when the following affect the price of an item:

- coupons
- rebates
- discounts
- trade-ins
- gift certificates
- scrip
- barter

Coupons

A coupon is a certificate entitling the holder to a reduced purchase price based on the value of the coupon.

Manufacturer coupons. The manufacturer reimburses the seller for the value of the coupon. Since the seller *will receive reimbursement*, the value of these coupons is considered to be part of the selling price of the item and is subject to sales tax if the item purchased is taxable.

Retailer coupons are considered to be advertising discounts or reductions given by a retailer at the time of sale. They are offered as incentives to have customers buy at the retailer's establishment. Since the retailer *is not reimbursed* for this amount, the selling price of the item being purchased is reduced. Deduct the value of the coupon from the sales price of the item and then charge sales tax.

Example 1: A customer uses a 25 cent *manufacturer's coupon* and 50 cents cash to buy soap selling for 75 cents. The seller must charge sales tax on the 75 cent selling price, since the seller will be reimbursed by the soap manufacturer.

Example 2: A *retailer* distributes coupons that offer 10 percent off the price of toys. Tax is calculated on the reduced sales price of the toys.

Example 3: A grocery store advertises that it will honor its competitors' coupons. A customer presents another grocer's coupon for 50 cents off a certain brand of detergent. Since the grocer will not receive any reimbursement for the coupon amount, the tax is calculated on the reduced sales price.

Example 4: A retailer advertises "double coupons" and will double the face value of manufacturers' coupons. A customer presents a \$1 manufacturer coupon to buy laundry detergent priced at \$5, and receives \$2 credit. Sales tax is calculated as follows:

Detergent price	\$5.00
Less store credit	<u>- 1.00</u>
Taxable price	4.00
Tax @ 6.5%	<u>+ .26</u>
	4.26
Less manufacturer coupon	<u>- 1.00</u>
Total charge to customer	<u>\$3.26</u>

Example 5: A customer uses a coupon for one free meal with the purchase of another meal. Charge sales tax only on what the customer actually pays. The tax does not apply to the free meal.

Coupon books. The sale of coupon books, such as Happenings, is not taxable.

Rebates

Rebates for all taxable items are taxable (except motor vehicles—see note below). Rebates sometimes reduce the purchase price, or they may be sent to customers after the sale has taken place.

Sales tax is due on the full purchase price of the item when a rebate is used at the time of sale to reduce the purchase price. Since the rebate amount will be reimbursed by the manufacturer, it is part of the price of the item sold and is taxable. Sales tax is also due on the full purchase price of an item when the rebate is sent to the customer after the sale.

Note: *Motor vehicle rebates* are treated differently than other rebates and are not taxable. There is specific wording in the law (M. S. 297B.01, Subd. 8) that excludes motor vehicle rebates from sales tax.

Discounts

A **discount** given by the retailer reduces the selling price and is not taxable. Sales tax is due on the discounted selling price.

Quantity discounts are offered to urge customers to buy larger quantities. These discounts may increase with the size of the order. Quantity discounts reduce the price of the items purchased and are not taxable. Sales tax is due on the discounted selling price.

Cash discounts are granted to credit customers as an incentive to pay early. These discounts are commonly referred to as **2/10, net 30**—a two percent discount may be subtracted from the bill if paid within ten days; otherwise, the full amount is due within 30 days. Tax is calculated on the discounted selling price if the discount is taken. The seller must keep records documenting that the discount has been taken and must account for the discount in one of two ways:

1. Record the full sales price without any deduction for the discount offered. If the customer pays within the period allowed and takes the discount, the seller reduces the sales reported.
2. Assume customers will take the discount and record the reduced sales price. If the customer does not take the discount, the seller must add the additional amount paid to the sales reported.

Trade-ins

A trade-in allowance is deducted from the sales price before the tax is calculated if both of the following conditions are met:

- the item is a taxable item
- the item is normally sold in the regular course of the seller's business.

Note: Special rules apply to *motor vehicles trade-ins*. Request Fact Sheet 125, Motor Vehicles, for more information.

Example 1: A dealer sells a new boat with a list price of \$3,000 to a customer. The dealer accepts the customer's used boat in trade and gives the customer a trade-in allowance of \$1,000. Tax is calculated on the reduced sales price of \$2,000.

Example 2: A new and used equipment dealer sells a new table saw for \$3,000. The dealer gives the customer a trade-in allowance of \$300 for a drill press and \$200 for a band saw. Tax is calculated on the reduced sales price of \$2,500.

Example 3: A heavy equipment dealer sells a backhoe to a contractor for \$10,000. A trade-in allowance of

\$2,000 is given to the contractor for a boat. Since the dealer is not in the business of selling boats, the conditions above are not met and tax is calculated on \$10,000.

Example 4: A new and used discount store sells a used TV to a customer for \$200. The customer trades in two ski jackets and is given a trade-in allowance of \$50. Since the ski jackets are nontaxable clothing, the conditions above are not met and tax is calculated on \$200.

Gift certificates

A gift certificate is an alternate form of currency issued by a specific seller for the purchase of goods or services. No tax is charged on the sale of gift certificates. *A gift certificate should be handled the same as cash.* Charge sales tax when the gift certificate is redeemed for taxable goods or services.

Example: A customer buys a \$50 gift certificate to give to a friend as a gift. Later the friend uses the certificate to buy a lamp costing \$100. Sales tax is calculated on the entire \$100 value of the lamp without any deduction in sales price for the value of the gift certificate.

Scrip

Scrip is an alternate form of currency to be used for the purchase of goods or services. Common forms of scrip are certificates, trading stamps, points, or "funny money." Scrip must have an assigned value. It may be purchased or earned by the recipient, or may be given free to the recipient. *Scrip should be handled the same as cash.*

Example 1: A youth group sells scrip redeemable at various local merchants. The scrip is sold at face value, and the youth organization receives 10% of the value of all scrip sold. A customer buys \$100 worth of taxable items from a participating merchant using the scrip. Tax is charged on the full \$100.

Example 2: A customer earns points for every \$20 worth of books purchased at a book store. These points may be accumulated and used to pay for, or partially pay for, other books. The bookstore must charge tax on sales of books, whether paid for in whole or in part by the points.

Trading stamps that may be redeemed for premiums are a form of scrip. When a customer redeems trading stamps for a taxable item, sales tax applies. Sales tax is calculated on the fixed value of the trading stamps plus any cash required to redeem a particular premium.

Trading stamp companies must pay sales or use tax on the trading stamps, booklets, or similar materials.

Trading stamp companies should buy premiums that will be exchanged for trading stamps exempt for resale by giving the supplier a Resale Exemption Certificate, Form ST-5.

An amount charged by a trading stamp company to a seller for the privilege of distributing redeemable trading stamps is not taxable.

Barter

Barter (or trading) is the exchange of goods or services between two or more parties. If the goods or services are subject to sales tax, the sales tax must be figured in as part of the exchange. This can be done either by including the sales tax when determining the reasonable value of the goods or services being exchanged or by directly billing the other party for the tax.

Example 1: Mary owns a building cleaning service, and Tom owns a department store. Tom supplies Mary with shirts, jackets and hats embroidered with Mary's company logo in exchange for six month's cleaning service for Tom's store. The value of the cleaning service is \$100.00 per month, for a total of \$600 plus \$39 for sales tax. The value of the clothing (which is not taxable) is \$600. Mary can bill Tom for \$39 sales tax, or take an additional \$39 worth of clothing. In either case, Mary must report a sale of \$600 and \$39 tax due on her sales tax returns.

Example 2: Same as above, except Tom trades \$600 worth of light fixtures, which are taxable. Both Mary and Tom must report a sale of \$600, and \$39 tax due on their sales tax returns.

References

M. S. 297A.01 Subd. 8, Sales price

M. S. 297B.01, Subd. 8, Purchase price

Minnesota Rules:

8130.0600, Consideration

8130.1500, Reduction in sales price for property taken in trade

8130.1600, Deductions not allowable in computing sales price

8130.1700, Deductions allowable in computing sales price

Revenue Notice 96-20, Sales Tax on Motor Vehicles - Exemption for Rebates Used to Purchase Motor Vehicles

Sales and use tax recodification. A bill was passed to recodify the sales and use tax law effective July 1, 2001. This restructures and clarifies the law, but does not change the meaning of the law. For more information, call our office or go on line to: <http://www.house.leg.state.mn.us/comm/taxes/taxeshome.htm>

Internet access!

Sales tax fact sheets and most tax forms are available to you immediately by accessing our website. Links to federal forms are also available.

Internet address: <http://www.taxes.state.mn.us>

This fact sheet is a tax information bulletin intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the tax laws. Nothing contained in this fact sheet supersedes, alters, or otherwise changes any provisions of the Minnesota tax laws, administrative rules, court decisions, or revenue notices.