
COUPONS, DISCOUNTS, AND PROMOTIONAL ITEMS

The *Arvada Municipal Code* imposes a sales tax on the purchase price for tangible personal property and certain taxable services sold at retail. Certain discounts reduce the purchase price and, therefore, decrease the amount of the sales subject to tax. Businesses offering promotional give-aways and complimentary items must pay City sales/use tax on the cost of the items.

Sales, Trade Discounts, and Store Coupons

In an effort to entice customer to make purchases, retailers may reduce their prices through sales, clearances, special pricing and store coupons. Similarly, some retailers will offer trade discounts or volume discounts to customers who make regular purchases. Such discounts are at the discretion of the retailer and actually reduce the purchase price of the goods/services sold. As such, the sales tax should be proportionally reduced and computed on the discounted purchase price.

Manufacturer's Coupons or Rebates

In the case of manufacturer's coupons or rebates, either the purchaser or the retailer is reimbursed for the amount of the discount. This means that the manufacturer is, in effect, paying part of the purchase price on behalf of the purchaser and/or refunding part of the purchase price to the purchaser. As such, the purchase price is not being reduced and tax should be computed on the full purchase price before coupon or discount, even if the actual amount paid by the customer is zero.

Cash Discounts

Retailers who sell goods on account sometimes offer a small discount for expedited payment of an invoice. These discounts, often referred to as cash discounts, represent financing options separate from the sales transaction and contingent upon a future event. As such, they do not reduce the purchase price and tax should be computed on the full purchase price before the cash discount.

Promotional or Complimentary Items

Occasionally, businesses offer promotional items in an effort to attract customers or introduce new products. Such promotional items may be advertising items, such as t-shirts, calendars, or other novelties, or free samples. When such items are given to customers without requiring any purchase, the purchaser is required to pay sales/use tax on their cost.

Similarly, restaurants that offer complimentary food or beverages to customers or employees must pay sales/use tax on their cost. Generally, such payment is remitted in the form of use tax, as restaurants will likely utilize food from inventory which was properly purchased without the payment of sales tax.

Buy one get one free, gifts with purchase, or punch cards

In cases where customers receive a second item at no charge for buying the first, the customer is actually receiving a 50% discount off the price of both items. As such, sales tax is only on the full purchase price of one item (i.e. on 50% of the purchase price of both items). Moreover, the retailer does not need to pay a use tax on their cost of the items because the "free" item is not truly complimentary. Similarly, retailers that offer a "free gift" with purchase is not require to pay sales/use tax on their cost of the gift. This treatment also applies to retailers that offer punch cards or other similar frequent purchaser discounts whereby the purchaser receives a "free" item after making a number of purchases. Because receipt of the free item is contingent upon the purchase of one or more other items, the free item is not truly complimentary as contemplated above.

Deal-of-the-day

Under a typical business model involving these vouchers, an online company (deal site) solicits customers to purchase vouchers through its website. The deal site collects the purchase price of the voucher from the customer. The voucher sold by the deal site can be redeemed by the customer for products or services from a local business. The voucher is typically priced lower than the usual selling price of the product or service obtained when the voucher is redeemed (i.e. a customer may purchase a voucher from a deal site for \$25.00 that can be redeemed for products or services that normally sell for \$50.00). The customer who has purchased a voucher will present the voucher to the local business as payment for the advertised product or service. Typically, the deal site retains a portion (usually about 50%) of the price paid by the customer for the voucher and pays the remaining portion of the price paid for the voucher to the local business. The deal site that sold the voucher may describe the amount it retains as its charges to the business for advertising.

Sales tax is not due on the sale of the voucher by the deal site. However, if the voucher is redeemed for taxable products or services, sales tax is due at the time the voucher is redeemed by the customer and is based on the consideration paid by the customer.

Product or Service Voucher

A product or service voucher is a voucher that may be redeemed for a specific product or service or combination of products and/or services. When the voucher is redeemed the local business should ring up the sale at the full value of the product or service being sold, and then take a store discount on the amount being discounted to bring the amount of the purchase down to the amount of the voucher (total price that the customer paid the deal site for the voucher). Sales tax should be collected on any taxable products or services.

If a customer is purchasing more products or services than the deal-of-the-day offer covered by the voucher, then additional amounts will be due from the customer for the product and/or services and sales tax.

When a voucher can be redeemed more than once for a specifically taxable product or service (i.e. a voucher that can be redeemed for two automotive oil changes), the amount subject to sales tax on each redemption is determined by dividing the total amount that the customer paid for the voucher by the number of times the voucher may be redeemed.

EXAMPLES

1. XYZ Auto Parts offers a 10% trade discount on all tools purchased by mechanics. This discount reduces the taxable purchase price. Tax should be computed on the discounted total.
2. XYZ Auto Parts often sells tools to mechanics on account with the terms 2/10 net 30 (offering a 2% discount if the invoice is paid within 10 days). This cash discount does not reduce the taxable purchase price. Tax should be computed on the full purchase price of the goods sold.
3. Sally visits the Arvada Natural Foods Store, a local grocer, and purchases a can of soup for \$1.00. She presents the cashier with a manufacturer's coupon for \$0.25 off. Tax should be computed on the full \$1.00 purchase price.
4. Sam is purchasing a vehicle from a local car dealer for \$25,000. The dealer informs Sam that a \$5,000 manufacturer's rebate is available for this vehicle. Tax should be computed on the full \$25,000 purchase price.
5. The manager of the Arvada Bar & Grill offers a customer a complimentary dessert, as the customer's food took a long time to prepare. The Bar & Grill should compute and remit use tax on their cost of the dessert.

6. A customer has paid \$10.00 for a Deal-of-the-day voucher for “two pizzas” (Specific Product) that has a value of \$20.00 at Joe’s Pizza. The customer prints the voucher and takes it with them to redeem the voucher at Joe’s. The restaurant only receives \$5.00 from the web-site, but must report sales of \$10.00 of the full amount the customer paid. The customer purchases two beers for the additional price of \$5.00. The local restaurant must ring up the pizza, beer and voucher sale as:

2 - Pizza	\$20.00	
<u>Discount (\$10.00)</u>		
<u>2 - Beers</u>	<u>\$ 5.00</u>	
Subtotal	\$15.00	
Tax	\$ 1.19	(7.96% x \$15.00) Tax is calculated before voucher is
<u>Voucher (\$10.00)</u>		redeemed.
Amount Due	\$ 6.19	

The local pizza restaurant receives 100 Deal-of-the Day vouchers with the total value of \$2,000.00, but will only receive \$1,000.00 (100 x \$10.00) in cash from the web-site, but also must report \$1,000.00 (100 x \$10.00) as advertising expense for the amount that the web-site retained.

ARVADA MUNICIPAL CODE – Chapter 98 - Taxation

Sec. 98-61. Definitions.

Price or purchase price means the price to the consumer, exclusive of any direct tax imposed by the federal government or by this article, and, in the case of all retail sales involving the exchange of property, also exclusive of the fair market value of the property exchanged at the same time and place of the exchange, if such exchanged property is:

- (1) To be sold thereafter in the usual course of the retailer's business; or
- (2) A vehicle and is exchanged for another vehicle and both vehicles are subject to licensing, registration, or certification under the laws of this state, including, but not limited to, vehicles operating upon public highways, off-highway recreation vehicles, watercraft, and aircraft. Any money or other consideration paid over and above the value of the exchanged property is subject to tax.

“Price” or “purchase price” includes:

- (1) The amount of money received or due in cash or credits.

“Price” or “purchase price” shall not include:

- (3) Discounts from the original price if such discount and the corresponding decrease in sales tax due is actually passed on to the purchaser. An anticipated discount to be allowed for payment on or before a given date is not an allowable adjustment to the price in reporting gross sales.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.