

# Discounts, Rebates & Coupons

The application of the sales tax can become confused on items which carry a "refund", "discounted price", or are purchased with "cents-off coupons". Michigan law requires a sales tax on a retailer's "gross proceeds" or the actual amount of money they collect as payment for the item. Treasury uses this concept as the basis to determine the correct tax level when dealing with rebates, discounts, and coupons. The following explains how the sales tax is calculated for each pricing system.

## REBATES

### Definition

Rebates are usually offered by a manufacturer of a product as a mail-in refund of some of the purchase price. The rebate is not a reduction of the retailer's gross proceeds and the full purchase price is subject to the sales tax.

### Example involving rebates

An individual purchases a vehicle for \$10,000 for which the manufacturer offers a \$1,000 rebate. Tax is computed as follows:

Original price of vehicle	\$	10,000.00
Sales tax due to state (6%)		<u>+600.00</u>
		10,600.00
Less rebate from manufacturer		<u>-1,000.00</u>
Total due from customer \$		9,600.00

## DISCOUNTS

### Definition

Discounts are a reduction of the sale price to the customer. If the discount reduces the retailer's gross proceeds from the sale, then the sales tax is computed using the actual amount paid by the consumer.

### Examples involving discounts

A store liquidates inventory and offers a 20% discount on all merchandise sold. A customer purchases an item with an original price of \$100. Tax is computed as follows:

Original price of item	\$	100.00
Less 20% discount		<u>-20.00</u>
Gross proceeds received from seller		80.00
Sales tax due to state (6%)		<u>+ 4.80</u>
Total due from customer	\$	84.80

A customer purchases a vehicle with a sticker price of \$10,000. The buyer and the dealer (seller) negotiate a lower price of \$9,700. Tax is computed as follows:

Original price of vehicle\$	\$	10,000.00
Less dealer discount		<u>-300.00</u>
Gross proceeds received by seller		9,700.00
Sales tax due to state (6%)		<u>+582.00</u>
Total due from customer	\$	10,282.00

## COUPONS

Coupons are distributed by both manufacturers and by retailers. If an item is purchased with a manufacturer's coupon, sales tax is charged on the full price of the item. This is because the retailer will be reimbursed for the face value of the coupon, bringing the gross proceeds of the sale up to the original price. If an item is purchased with a retailer's coupon, sales tax is charged on the discounted price because this represents the final gross proceeds of the sale to the retailer.

## STORE COUPONS

A "store coupon" is distributed by a retailer for use in the retailer's store. A particular retailer's store coupon is generally of no value at another store. When a store coupon is redeemed, the redemption amount is considered to be a reduction of the gross proceeds and thus reduces the sales tax based on the items being sold. [See Michigan Sales and Use Tax Rule, 1979 AC R 205.22. See example below.]

### Example with store coupon.

A customer purchases a box of laundry soap for \$3.00. The customer presents a "store coupon" redeemable for 50 cents off the purchase price of the laundry soap. The amount of gross proceeds that is subject to sales tax is computed as follows:

Original price of laundry soap	\$ 3.00
Less store coupon	<u>-.50</u>
Gross proceeds received by seller	2.50
Sales tax due to State (6%)	<u>+.15</u>
Total due from customer	\$ 2.65

When a store coupon is accepted by another store, the coupon amount is considered to be a reduction of the gross proceeds and thus reduces the sales tax base of the item being sold.

## MANUFACTURER'S COUPON.

A "manufacturer's coupon" is usually distributed by the item through newspapers and circulars for use at any retail store that accepts coupons. When a manufacturer's coupon is redeemed, the manufacturer will reimburse the retail seller for the amount of the coupon. This is, in effect, a sharing of the purchase price with the purchaser. Therefore, the seller's gross proceeds from the sale are not reduced by the coupon amount because the seller receives the full purchase price for the item.

### Example with manufacturer's coupon

A customer purchases a box of laundry soap for \$3.00. The customer presents a "manufacturer's coupon" redeemable for 50 cents off the purchase price. The amount of gross proceeds that is subject to sales tax is computed as follows:

Original price off laundry soap	\$ 3.00
Less manufacturer's coupon	<u>-.50</u>
	2.50
Manufacturer's rebate to retailer	<u>+.50</u>
Gross proceeds from sale	3.00

Sales tax due to state (6%)	<u>+.18</u>
	3.18
Manufacturer's Contribution	<u>-.50</u>
Total due from customer	2.68

## DOUBLE COUPONS

" Double coupon" offers from retailers represent additional discounts to consumers that are funded by retailers. The retailer's allowance for the double value is not subject to tax because that portion reduces the gross proceeds. However, the manufacturer's portion of the discount is subject to sales tax. For example: an item cost \$1-the manufacturer's coupon reduces the price by 25 cents and the retailer doubles that value for a final product price to the consumer of 50 cents. Sales tax will be charged on the 50 cent cost of the product plus the 25 cent return that the retailer will get from the manufacturer for the redemption of that coupon.

### Examples with double coupons

A customer purchases a box of laundry for \$3.00. The customer presents a "manufacturer's coupon" redeemable for 50 cents off the purchase price. The seller is offering double the value off on manufacturer's coupons. The amount of gross proceeds that are subject to sales tax is computed as follows:

Original price of laundry soap	\$ 3.00
Less retailers discount (doubled portion)	<u>-.50</u>
Gross proceeds from sale subject to sales tax	2.50
Manufacturer's coupon	<u>-.50</u>
	2.00
Manufacturer's rebate	<u>+.50</u>
Gross proceeds from sale	2.50
Sales tax due to state (6%)	<u>+.15</u>
	2.65
Manufacturer's contribution	<u>-.50</u>
Total due from customer	\$ 2.15

Sales tax is due on the redemption of a manufacturer's coupon entitling the bearer to a free item. (See example below)

Selling price of a bar of soap	\$ .39
Sales tax due to state (6%)	<u>+.02</u>
	.41
Manufacturer's contribution	<u>-.39</u>
Total due from customer	\$ .02

A manufacturer may reimburse the retailer a certain amount for handling the sale in addition to the face value of the coupon. This additional amount received by the retailer is not considered to be gross proceeds of the sale and does not add to the sales tax base. This amount represents compensation to the retailer for the service provided to the manufacturer.

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