

MINNESOTA DEPARTMENT OF REVENUE

Revenue Notice # 05-06: Sales and Use Tax – Sales Price – Discounts

Minnesota Statutes, section 297A.61, subdivision 7, defines “sales price” for purposes of imposing the Minnesota sales and use tax. “Sales price” means the total amount of consideration for which personal property or services are sold, leased or rented. The definition provides that, among other things, discounts allowed by the seller on a sale that are not reimbursed by a third party are not included in the sales price.

Issue

When and what discounts are included in the sales price?

Department Position

“Sales price” includes consideration received by the seller from third parties if:

1. The seller actually receives consideration from a party other than the purchaser and the consideration is directly related to a price reduction or discount on the sale;
2. The seller has an obligation to pass the price reduction or discount through to the purchaser;
3. The amount of the consideration attributable to the sale is fixed and determinable by the seller at the time of the sale of the taxable item to the purchaser; and
4. One of the following criteria is met:
 - a. The purchaser presents a coupon, certificate or other documentation to the seller to claim a price reduction or discount where the coupon, certificate or documentation is authorized, distributed or granted by a third party with the understanding that the third party will reimburse any seller to whom the coupon, certificate or documentation is presented;
 - b. The purchaser identifies himself or herself to the seller as a member of a group or organization entitled to a price reduction or discount (a “preferred customer” card that is available to any patron does not constitute membership in such a group), or
 - c. The price reduction or discount is identified as a third party price reduction or discount on the invoice received by the purchaser or on a coupon, certificate or other documentation presented by the purchaser.

Retailers sometimes use coding systems such as “MC” for manufacturer’s coupon and “SC” for store coupon on the invoice or cash register tape provided to the customer. These codes are acceptable for identifying whether the discount is included in the sales price of the item.

This notice applies to sales made at retail business locations as well as purchases made on-line where discounts are offered electronically. However, this notice does not apply to manufacturer’s rebates on purchases of motor vehicles. Refer to Revenue Notice 96-20 for details on the exemption allowed for rebates on purchases of motor vehicles.

Examples

- A. Seller’s in-store coupon. The purchaser presents a coupon to the seller at the time of sale entitling the purchaser to a \$1.00 reduction in the sales price. The amount of the consideration is certain at the time of the sale. The discount is not included in sales price, however, because the seller is not reimbursed for the \$1.00 discount by any third party.
- B. Manufacturer’s coupon. The facts are the same as in Example A, except the seller is entitled to receive \$1.00 in cash or credit from the product manufacturer on presentation of the coupon. The coupon is issued by the manufacturer and the manufacturer will reimburse any retailer who accepts the coupon from the purchaser. The \$1.00 discount is included in sales price.
- C. Manufacturer’s coupon – special deal. The facts are the same as in Example B, except the manufacturer has authorized a specific retailer to distribute 1,000 coupons in its stores pursuant to a special marketing promotion. The \$1.00 discount is identified on the cash register tape provided to the purchaser, but it is not specifically identified as a manufacturer’s discount. The manufacturer will not honor the coupons if presented to it by another retailer. The \$1.00 discount is not includable in the sales price under paragraph 4.a. because the coupon is not generally negotiable by any retailer. If, however, the discount is identified as a manufacturer’s discount on the invoice or cash register tape, or on the coupon itself, the \$1.00 discount is includable in sales price under paragraph 4.c.
- D. Group discounts. A seller offers a 10% discount to all members of a particular credit union. The credit union member must present an identification card or other evidence of membership in the credit union to claim the discount. If the seller is reimbursed by the credit union for the discount, the discount is included in the sales price. If the seller is not reimbursed by the credit union, the amount is not included in the sales price. Because the purchaser has taken action to claim the discount, it is not necessary that the purchaser know the terms of reimbursement between its organization and the seller. Failure to include the discount on the sales invoice or cash register tape, however, will not relieve the seller of liability for collecting the proper amount of sales tax.
- E. Volume discounts. A seller purchases appliances from a manufacturer for \$1,000 each and resells them to customers at \$1,500. If the seller sells more than 100 appliances in a month, the manufacturer will provide a rebate of \$100 per item sold. In-store advertising indicates that “sales prices are slashed due to manufacturer’s incentives.” The amount of the rebate is not shown on the purchaser’s invoice or cash register tape and all purchasers receive the reduced price. The rebate amount is not included in the sales price.

- F. Seller's "loyalty" cards – no reimbursement. A grocer offers a "loyalty" or "preferred customer" discount card to its customers at no cost that they can present at the cash register for selected discounts and savings whenever they patronize the grocer. The "preferred customer" card is available on request to any customer. The discounts are identified on the cash register tape, either on an item-by-item basis, or as a "total savings" amount at the end of the tape. None of the discounts are reimbursed by manufacturers or other third parties. Because a "preferred customer" card that is available to any patron does not constitute "special status" under paragraph 4.b, and there is no third party reimbursement under paragraph 1, the discounts are not included in the sales price subject to tax.
- G. Seller's "loyalty" cards – reimbursement. The facts are the same as in Example F, except some of the discounts are based on the grocer's agreement with a manufacturer, pursuant to which the discount is reimbursed. As noted above, a "preferred customer" card that is available to any patron does not constitute "special status" under paragraph 4.b. Thus, although the seller is actually reimbursed by a third party, the discounts are not included in the sales price unless the discount is actually identified on the invoice or cash register tape as a "manufacturer's discount" as provided by paragraph 4.c.
- H. Advertising incentives. A manufacturer agrees to pay seller \$5.00 per case that must be used to cover the cost of advertising, shelf space and other promotional costs, but does not require or specify that the payment be in any way used to reduce the retail price of the product. The seller runs an in-store promotion discounting the product using the seller's purchase discount card. Because the consideration is not directly related to the seller's promotional discount to the consumer, the consideration is not included in the sales price.

JOHN H. MANSUN, Assistant Commissioner
for Tax Policy and External Relations

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