

Coupons, Discounts, Rewards, Rebates, and Other Forms of Payment

167

Fact Sheet

Sales Tax Fact Sheet 167

What's New in 2018

We clarified when sellers are required to collect the local sales taxes. See Local Sales and Use Tax on page 3.

This fact sheet explains how to calculate sales tax when the price of an item is affected by the following:

- Coupons
- Discounts
- Rewards
- Rebates
- Trade-ins
- Gift cards and certificates
- Scrip
- Barter

Coupons and Discounts

A coupon allows customers to purchase goods or services at a reduced price. Manufacturer, retailer or store, and deal-of-the-day coupons or discounts are issued as part of a sales promotion.

Manufacturer Coupons

Retailers or stores that accept a manufacturer (or third party) coupon are reimbursed for the value of the coupon. Because the total consideration received for the product is the original retail price, charge sales tax on the full retail price before applying the coupon amount.

Retailer or Store Coupons

Retailer or store coupons redeemable at their retail locations reduce the price of the item and are not reimbursed. Charge sales tax after applying the coupon or discount.

If a retailer honors a competitor's coupon, it reduces the price of the item since the retailer will not be reimbursed. Charge sales tax after applying the coupon or discount.

Other discounts that may be given by a retailer reduce the selling price and are not taxable. Sales tax is due on the discounted price. This includes:

- Quantity discounts
- Cash discounts
- Daily deal website vouchers and coupons

Quantity Discounts

Quantity discounts are offered to urge customers to buy larger quantities. They reduce the price of the items purchased. Charge sales tax on the discounted price.

Cash Discounts

Cash discounts are commonly given if you pay for an item prior to the payment being due. Charge sales tax on the discounted price.

The seller must keep records that document and account for the discount.

Daily Deal Website Vouchers and Coupons

Discount vouchers and group coupons are purchased online and brought to the retailer for the discount. The purchase of a discount voucher is not taxable.

If the item (or service) is taxable, charge sales tax when the voucher or coupon is redeemed.

Note: The retailer's records must support the tax calculation.

Do you know how much the customer paid for the group discount voucher?	Charge sales tax on
Yes	Amount the customer paid for the discount voucher
No	Face value of the discount voucher

Rewards

A “rewards program” is an incentive to encourage customer loyalty. The incentive can include points, checks, discounts, rebates, coupons, or any similar items in return for certain customer behavior.

The facts and circumstances of the specific program determine how sales tax is applied. The retailer’s records must support the tax calculations.

When Are Rewards Considered Discounts?

Retailer rewards programs are discounts – and therefore not taxable – when they:

- give a “reward” for simply enrolling or buying certain products and services; and
- are refunded only in store credit.

When a reward is a discount, charge sales tax after the price reduction is made.

A reward is a discount when it:

- is not purchased
- is not provided in exchange for services
- cannot be redeemed for cash
- is not reimbursed by a third party

Charge sales tax **after** the discount is applied in the following rewards programs:

- **Rewards Cards** – When a retailer offers rewards cards that have a barcode and the customer receives a greater discount the more they use the card.
- **Punch Cards** – When a retailer offers rewards in the form of punch cards and receives a price reduction or free item after the punch card is filled.
- **Seller’s Cash** – When a retailer offers rewards by running promotional events where a customer earns seller’s cash for spending a certain amount.

- **Store Credit Card** – When a retailer offers an incentive for customers to open a new store credit card or use an existing store card by giving them a percentage discount.

When Are Rewards Subject to Sales Tax?

Retailer rewards are taxable if they:

- require the customer to pay cash (or other consideration) for the reward
- require the customer provide services in exchange for the reward
- are reimbursed by a third party
- can be redeemed for cash

The reward’s value is subject to sales tax when the reward is used to purchase taxable goods or services.

Charge sales tax **before** the reward is applied in the following rewards programs:

- **Secret Shoppers** – A retailer hires individuals who agree to “act” as customers to evaluate services provided by employees. They receive a reward (such as a gift card) in exchange for their service.
- **Hostess Rewards** – A seller offers rewards to customers who help sell merchandise by “hosting” parties or gatherings at their homes. The “host” earns rewards that can be used to purchase merchandise based on sales generated at the party.
- **Credit Cards Points** – A credit card company or financial institution issues points to its customers to redeem for different types of rewards. These rewards are reimbursed by a third party.
- **Bundled Rewards** – When a taxable reward is combined with a nontaxable reward (discount), the whole reward is taxable unless the seller can provide documentation showing otherwise.

Rebates

Rebates can reduce the purchase price or be sent to customers as cash or credit after the sale has taken place.

When rebates are issued in the form of a check, they are treated the same as cash.

When rebates are issued in the form of a voucher to be used on subsequent purchases with the same retailer or store who provided the rebate, the rebate is not treated as

cash and reduces the selling price of the subsequent purchase.

Note: Motor vehicle rebates are not taxable. For more information, see the Motor Vehicle Industry Guide.

Trade-Ins

A trade-in allowance is deducted from the sales price before sales tax is calculated if the trade-in item is:

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

Note: Special rules apply to motor vehicle trade-ins. For more information, see the Motor Vehicle Industry Guide.

Gift Cards and Gift Certificates

Gift cards and gift certificates, purchased directly with cash or credit, are a form of currency issued by a seller for the purchase of goods or services.

Do not charge sales tax on the sale of gift cards and certificates. They should be handled the same as cash.

Charge sales tax when the gift card or certificate is redeemed for taxable goods or services.

The issuer must pay sales or use tax on any inputs used to produce gift cards and certificates (printing, paper, card stock, etc.), and on any packaging for the gift cards and certificates (envelopes, boxes, bags, etc.).

Barter

Barter (or trading) is the exchange of goods or services between two or more parties. If the goods or services are taxable, sales tax must be figured into the exchange in one of two ways:

1. Include the sales tax as part of the reasonable value of the goods or services being exchanged.
2. Directly bill the other party for the sales tax.

Miscellaneous

Scrip

Scrip is an alternate form of currency used to buy goods or services. Scrip should be treated the same as cash.

Bitcoin

Bitcoin is another alternate form of currency that can be used and traded online. Bitcoin should be treated as cash.

Coupon Books

Sales of coupon books are not taxable.

Local Sales and Use Tax

If you are located in or make sales into an area with a local tax, you may owe local sales or use tax. For more

information, see Fact Sheet 164, *Local Sales and Use Taxes*.

How to Report Sales and Use Taxes

You can report state, local, and use taxes electronically at www.revenue.state.mn.us. If you do not have internet access, you can file by phone at 1-800-570-3329.

For more information on how to file:

1. Go to www.revenue.state.mn.us
2. Under Businesses, select Sales and Use Tax.
3. Under File and Pay, select Filing Information.

Legal References

Minnesota Statutes 297A.61, Definitions:

subd. 7, Sales price

subd. 28, Purchase price

Minnesota Rules 8130.0600, subp. 3, Coupons

Revenue Notices

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

03-15, Taxation of Incentive Items

Other Fact Sheets

146, *Use Tax for Businesses*

164, *Local Sales and Use Taxes*

Industry Guides

Motor Vehicle