

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

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Sales Tax Fact Sheet 167

Fact Sheet

**What's New**

We've clarified coupons, rewards, rebates, and retail discounts.

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

- Coupons, rewards, and rebates
- Retailer discounts
- Daily deal website vouchers and coupons
- Trade-Ins
- Miscellaneous forms of payment

## Coupons, Rewards, and Rebates

**Definitions**

**Coupon** – allows customers to purchase goods or services at a reduced price.

**Reward** – a prize or other incentive given to a customer to encourage customer loyalty. Rewards are typically obtained through a reward program offered by a seller or third party.

**Rebate** – A discount given at the time of purchase, or money sent to a customer after they've paid full price. Rebates can reduce the purchase price or be sent to customers as cash or credit after the sale has taken place.

**Sales Price** – the amount subject to sales tax is based on the total amount of consideration received for the personal property or services sold. Consideration may be valued in money, or otherwise. For example, reward points used to purchase items does not reduce the sales price but are part of the total consideration received on the transaction.

**Applying Sales Tax**

The type of coupon or reward will determine when sales tax is charged. The tax treatment of any reward program will depend on the facts and circumstances of the specific program and does not depend on how the rewards program provider characterizes the program.

Retailers must maintain records to support their tax calculations.

**Charge Sales Tax Before Reducing the Price**

Sales tax is charged on the full retail price before applying the coupon, reward, or rebate in the following situations:

- Manufacturer Coupons (or third party) coupons
- Reward program discounts that are refunded in store credit (enrollment discounts or discounts for buying certain products and services)
- Rebates issued as a voucher to be used on later purchases with the same retailer or store.
- Rewards are taxable when they are used to purchase taxable goods or services, including when the rewards are purchased, provided in exchange for services, redeemed for cash, or reimbursed by a third party.

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

## Charge Sales Tax After Reducing the Price

Sales tax is charged after the coupon or discount is applied in the following situations:

- Retailer or store coupons redeemable at specific retail locations and not reimbursed by a third party.
- Competitor coupons

## Bundled Rewards

When a taxable reward is combined with a nontaxable reward (discount), the whole reward is taxable unless the retailer can provide documentation showing otherwise.

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## Retailer Discounts

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Retailers may offer other discounts that reduce the selling price and are not taxable.

## Quantity Discounts

Quantity discounts are a reduction in the price of a product if the buyer choose to purchase a large quantity of the item. Quantity discounts reduce the price of the items purchased. Sales tax is charged on the discounted price.

## Cash Discounts

Cash discounts are a deduction allowed to customers who pay a bill either in a specified time or payment method, often by cash or check. Sales tax is charged on the discounted price.

## Promotional Discounts

Promotional discounts are different from rewards programs as they are not offered on a continual basis.

Promotional discounts are typically offered as a percentage discount or a dollar value for use only at the sellers' store. Certain promotions may provide the customer with a promotional discount for use on future purchases or reduces the sales price of the current transaction. When the discount is applied will determine what price to charge sales tax on.

### Discount Given on Future Transactions

When a customer is provided a promotional discount for use on future purchases, this does not reduce the sales price of the original transaction. Charge sales tax on the full sales price on the transaction.

When the promotional discount is used on a following transaction, charge sales tax on the discounted price.

### Discount Given on Present Transaction

When a customer is offered a promotional discount that is applied to the current transaction, charge sales tax on the discounted price.

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## Daily Deal Website Vouchers and Coupons

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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.

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

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## Trade-Ins

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

- a taxable item
- 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.

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## Miscellaneous Forms of Payment

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### Gift Cards and Gift Certificates

Gift cards and gift certificates are a form of currency issued by a retailer. The sale of gift cards and certificates are not taxable. Treat them like cash.

If the gift card or certificate is redeemed for taxable goods or services, charge sales tax on the full sales price before subtracting the gift card or certificate amount.

The issuer owes sales or use tax on any inputs used to produce and package the gift cards and certificates. For example, printing, paper, card stock, 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:

- Include the sales tax as part of the reasonable value of the goods or services being exchanged.
- Bill the other party for the sales tax.

### Alternate Forms of Currency

All alternate forms of currency used to buy goods or services are treated the same as cash. Examples include: scrip and cryptocurrency.

### Coupon Books

Sales of coupon books are not taxable.

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## Local Sales and Use Tax

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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 the Local Sales and Use Taxes Fact Sheet.

### 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, Exemption for Rebates Used to Purchase Motor Vehicles

03-15, Taxation of Incentive Items

### Other Fact Sheets

Local Sales and Use Taxes

Use Tax for Businesses

### Industry Guides

Motor Vehicle