

Coupons, Discounts and Rebates

Manufacturers, vendors, and other third parties often offer incentive programs for credits or payments based on your purchases of inventory or sales of products to your retail customers. These payments and credits include offers such as purchase and cash discounts, coupon reimbursements, ad or rack allowances, buy-downs, scanbacks, voluntary price reductions, and other incentives, promotions, and rebates. “Third party” means a person other than the retailer or the retailer’s customer, such as a manufacturer or retailer’s vendor. Please refer to [Regulation 1671.1](#), *Discounts, Coupons, Rebates, and Other Incentives*, for additional information.

Sales and Use TAX FACTS

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For additional information you may download regulations, forms and publications from our website or you may call our Taxpayer Information Section to talk to a Board of Equalization representative.

BOE website and Board Member contact information:
www.boe.ca.gov

Taxpayer Information Section
800-400-7115
TTY: 711

Taxpayers’ Rights Advocate
888-324-2798

Taxable discounts and coupons

Manufacturer coupons

Manufacturer coupons are paper or paperless coupons allowing customers to receive a percentage or amount off the advertised selling price when purchasing the manufacturer’s product. If you accept manufacturer coupons, amounts paid by manufacturers to reimburse you for the value of the manufacturer’s coupons are included in your total taxable sales when the sale is subject to tax.

Double discount

As a retailer, you may offer a “double discount” to customers for certain manufacturer coupons. For example, your customer presents a manufacturer’s coupon offering \$1 off the purchase of a specific product. In turn, you also allow an additional \$1 off the selling price. In this case, the value of the manufacturer’s coupon is included in your total taxable sales. The additional \$1 discount you provide to your customer is not subject to tax.

Nontaxable discounts and coupons

Prompt payment cash discounts

As a retailer, your total taxable sales are reduced by the amount of cash discounts you offer your customers for prompt payment by that customer. If the customer does not make prompt payment, your taxable sales are the amount billed.



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Excess tax reimbursement for cash discounts

If you allow discounts for prompt payment, but charge customers sales tax computed upon the prices before the discount is deducted you are collecting excess tax reimbursement. For example:

A sale is made for \$100 plus \$8.25 sales tax. Upon prompt payment for the item the purchaser is allowed a discount of two percent of the sales price of \$100. Since you are deducting the amount of the discount, \$2, from taxable gross receipts, you are charging tax of \$8.09 (8.25 percent of \$98) to your customer.

When a discount of two percent is offered for prompt payment and an error is made and the discount of two percent is excluded from the computation, excess tax reimbursement of \$0.16 will be collected from your customer ($\$8.25 - \$8.09 = \$0.16$). The excess tax reimbursement should be returned to your customer or must be paid to the state.

Please refer to [Regulation 1700](#), *Reimbursement for Sales Tax*, for additional information on excess tax reimbursement.

Note: While this example shows tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. Please see [publication 71](#), *California City and County Sales and Use Tax Rates*, for current tax rates.

Purchase discounts

Purchase discounts are given to you by both manufacturers and wholesalers and are based on the amount of your prior or future purchases. These discounts are not included in your total taxable sales because they are based on the number of products you purchase, not the number of products sold. Agreements with a third party to sell products for a specific price and period of time are also “purchase discounts” and are excluded from your total taxable sales when the discount is based on the number of products you purchase from your vendor and are not otherwise tied to the amount of product sold.

Ad or rack allowances

Ad or rack allowances are contracts between you and a manufacturer to advertise a product, or to give that product preferential shelf space. Ad or rack allowances are also known as “Local Pay,” “Display Shelf Payments,” or something similar. Such allowances are not related to the retail sale of a product and are excluded from your total taxable sales.

Discount club card

You may offer a discount club card for your store. Your customer uses the club card when purchasing various products. The price reductions associated with the club card are not part of your total taxable sales if you are not receiving compensation from a third party. Amounts paid by a third party such as a manufacturer to reimburse you for the club card discount are subject to tax.

Retailer coupons

You may issue retailer coupons in paper or paperless form. When presented to you by your customers, these coupons allow your customers to buy products at a certain amount or percentage off the regular selling price. Retailer coupons do not result in compensation from a third party and are excluded from your total taxable sales unless your customer has previously given you compensation for the coupon. For example, the coupon was purchased as part of a coupon booklet sold by you to your customer, the pro rata share of the cost of the booklet represented by the purchase for which the coupon was given must be included in your total taxable sales.

Please refer to [Regulation 1671.1](#), *Discounts, Coupons, Rebates, and Other Incentives*, for additional information.

Rebates and incentive programs

The following definitions apply *only* to rebates and incentives offered to you by third parties:

- “Discount” is a reduction in the purchase price your customer is required to pay in order to receive the merchandise. Discounts are the result of consideration promised to, or received by you, from a third party.
- “Retailer’s vendor” is a person from whom you purchase resale inventory.
- Beginning October 1, 2007, a “third party” is defined as a person other than the retailer or the retailer’s customer, such as a manufacturer or retailer’s vendor.

It is presumed that any third party consideration received by you related to promotions for sales of specified products is subject to tax *until the contrary is established*. You are required to disclose to your customer the amount of any third party rebate revenue upon which sales or use tax is collected, including the amount of any taxable discounts, rebates, or incentives offered or paid to you by third parties.

Please note: You may itemize this amount on the customer’s receipt, sales invoice, or other proof of sale. When applicable, you may also post, in a location visible to your customer, or in advertisements, flyers, or brochures sent to customers, a notice to the effect that “tax” will be added to the sales price of all items and that the amount on which tax is calculated includes the amount of any taxable discounts or rebates.

Rebates and incentives issued directly to you as a retailer

Rebates and incentives issued directly to you by manufacturers or other third parties result in additional taxable revenue when certain conditions are satisfied. These rebate and incentive programs are also known as “Buy-Down Rebates,” “Voluntary Price Reductions,” “Promotions,” “Flex” (Flex Extensions), “Coupon Redemptions,” “Scanbacks,” “Instant Rebates,” or by a similar name.

Rebates issued to your customers

Rebate checks issued by manufacturers directly to your customers following their purchase of the manufacturer’s products are not part of your total taxable sales. Your customers are generally required to submit a rebate application form along with any required documentation, such as a sales receipt, to the manufacturer or manufacturer’s representative directly or through you. In this situation, your customer pays you the full selling price and receives a subsequent rebate directly from the manufacturer.

Three conditions must exist for discounts or rebate programs to be taxable

Payments received from a third party for discounts or rebate programs are part of your total taxable sales when *all* three of the following conditions exist:

1. The third party *requires* you to reduce the sales price of particular products in order to receive payment from the third party.
2. Conditions for receipt of payment must be *certain*, not dependent on other factors outside your control. (The term “certain” reflects conditions in the agreement that you have control over. For example, you will receive payment from the third party if you place product signs in your store). An example of a factor “outside your control,” would be that you receive payment only if you meet a sales quota for the discounted products within a specific time period.
3. The payment must be for a *like* amount on a transaction-by-transaction basis (payment must be tied to the specific sale of the particular product in the agreement). The third party reimburses you for the specified price reduction in the agreement.

Taxable rebates and incentives

Invoice listing the discount

You maintain an online sales website. You enter into buy-down programs with manufacturers in which the manufacturers require you to offer their products at a reduced price. The amount of the discount is subject to tax because all three conditions exist. When your customer purchases a discounted product, the customer's invoice lists the selling price less the amount of the manufacturer's discount. Since you have itemized the buy-down rebate on the invoice, you may collect sales tax from the customer for the full taxable amount.

Buy-down program

You enter into a buy-down program with a manufacturer in which you are required to reduce the selling price of the manufacturer's products. In turn, the manufacturer agrees to compensate you for the amount of the price reduction. You purchase the manufacturer's products directly from the manufacturer. The rebate revenue is subject to tax.

Coupon on package

Coupons on dog food bags indicate \$2 off at register. The coupon also indicates "payable by Big Bad Dog Food Co. (BBDF Co.)" or "All promotional costs paid by BBDF Co." The store clerk removes the coupon from the dog food bag and enters the amount of the discount into the register. The discount amount is included in your total taxable sales.

Rebate agreements

You enter into a rebate agreement with a soda distributor that allows you to receive payments from the distributor based on the number of 12-packs of soda you sell at a required discounted price during the month of September. The distributor determines the amount of the sales discount and you receive 50 cents for every 12-pack of soda that you sell in September at the required discounted price.

At the end of the promotional period, after verifying the number of 12-pack units sold, the distributor will issue a rebate check to you. The payment of 50 cents for every 12-pack of soda that you sell in September at the required discounted price is subject to tax.

Nontaxable rebates and incentives

Preferential shelf space

You enter into a written agreement with a manufacturer to advertise the manufacturer's products and to provide the products preferential shelf space. You agree to the manufacturer's terms and receive compensation from the manufacturer at the end of the promotional period. Assuming you can document that the agreements were not based on a selling price reduction, the payments from the manufacturer are not included in your taxable gross receipts.

Threshold agreements

You enter into graduated rebate agreements with a soda distributor that allows you reimbursement from the distributor based on the number of 12-packs of soda sold at a required discounted price during the month of July. The amount of the sales discount is dictated by the distributor as follows: It is certain that you will receive 50 cents for every 12-pack of soda sold in July at the required discounted price. However, after surpassing a minimum threshold of 12-pack units sold, you will receive an additional 50 cents for each additional 12-pack units sold over the minimum threshold. At the end of the promotional period, after verifying the number of 12-pack units sold, the distributor issues a rebate check to you. Only the certain payment of 50 cents for every 12-pack of soda that you sell in July at the required discounted price is subject to tax. Any additional contingent rebates received for exceeding the minimum threshold are not included in your total taxable sales.

Compensation based on your sales

A soda distributor enters into written agreements with you that allow you to receive payment from the distributor based on your sales of 12-packs of soda during the month of July. You retain copies of the agreements. In the agreement there is no requirement to reduce the selling price of the 12-packs of soda. At the end of the promotional period, the distributor issues you a rebate check. Provided you can document that the distributor did not require you to reduce the selling price of the product, the additional revenue is not included in your total taxable sales.

Compensation resulting in a reduced cost to you

You enter into an agreement with a manufacturer's representative that allows you to receive payment from the manufacturer if your sales of the manufacturer's automobile care products exceed a specific amount during the month of July. You offer the products at a reduced price and provide the automobile care products with preferential shelf space. Your sales for July exceed the specified amount and the manufacturer issues a check to you, as agreed. The rebate payment is not subject to tax.

Rebate based on the number of products you purchased

You buy products from either a wholesaler or the manufacturer. Retail sales of these products are generally subject to tax. An agreement may be entered into with either party for a rebate based upon the number of products purchased from the manufacturer or the wholesaler, if you agree to sell the products at a "target" price for a specified period. Typically, a target price is used to establish a general price range for a particular geographic area or demographic market. The rebates received either directly from the manufacturer or from the wholesaler are not subject to tax since they are tied to your wholesale purchases of the products, not to the number of retail sales made at the target price.

Documenting nontaxable agreements

The types of documentation that will generally support that the third party consideration received is not subject to tax include, but are not limited to, a copy of an agreement or contract between you (the retailer) and a third party that:

1. Requires you to give specified products preferential shelf space in exchange for the payment received.
2. Provides you with an advertising allowance, equal to or in excess of the payment received, to advertise the third party's products.
3. Provides that payment will be received only if you sell a certain quantity of the products within a specified price range during a particular period, or if you purchase a certain quantity of the products during a particular period.

In the absence of a written agreement or contract, you may use any verifiable method of establishing that the consideration received from the third party was not subject to tax, such as a signed and dated letter provided by the third party that meet the nontaxable rebate requirements.

Reference Table

	Required reduction in selling price	Payment to retailer is certain	Payment is for like amount on a transaction-by-transaction basis	Taxable	Not taxable
Multiple threshold agreement-increase in rebate for each threshold exceeded	Yes	No	Yes		Not taxable
Manufacturer (MFG) coupon – retailer receives amount listed on coupon	Yes	Yes	Yes	Taxable	
Store discount club card	N/A (Not by third party)	N/A (No payment, only reduction in price given to customer)	N/A		Not taxable
Store discount club card with third party reimbursement	Yes	Yes	Yes	Taxable	
Display in store indicates a reduction in selling price. Retailer agrees to reduce price and receives reimbursement from the distributor	Yes	Yes	Yes	Taxable	
Retailer purchases directly from MFG. They enter into a buy-down program. Retailer is required to reduce price and will be reimbursed for the amount from MFG	Yes	Yes	Yes	Taxable	
Retailer offers a “double discount” for certain MFG coupons. If MFG coupon states \$1, the retailer discounts selling price by \$2	Yes	Yes	Yes	Only the \$1 reimbursement from the MFG	Amount reduced by retailer is considered an adjustment to the retail selling price

Reference Table (continued)

	Required reduction in selling price	Payment to retailer is certain	Payment is for like amount on a transaction-by-transaction basis	Taxable	Not taxable
MFG has written agreement with retailer to advertise and give preferential shelf space. Retailer will receive compensation at the end of the promotional period. Retailers can document that agreements were not based on selling price reduction	No	Yes	Yes		Not taxable – the agreements were not based on a selling price reduction

Note: Sellers of cigarettes and tobacco products at retail must have a separate California Cigarette and Tobacco Products Retailer’s License for each retail location. This is true even if you have a seller’s permit or other permits or licenses issued by the BOE. For more information, see [publication 78](#), *Sales of Cigarettes and Tobacco Products in California*, available at www.boe.ca.gov.

For more information

Additional information, including copies of referenced publications and law sections and the location of BOE field offices, are available on our website at www.boe.ca.gov or from our Taxpayer Information Section at 800-400-7115.

Regulations

- [1671.1](#) *Discounts, Coupons, Rebates, and Other Incentives*
- [1700](#) *Reimbursement for Sales Tax*

Publication

- [71](#) *California City and County Sales and Use Tax Rates*
- [78](#) *Sales of Cigarettes and Tobacco Products in California*

Note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, decisions will be based on the law and not on this publication.