



COLORADO • SINCE 1878

Coupons, Gift Certificates and Trade Discounts

The Louisville Municipal Code (LMC) imposes sales tax on the purchase price paid for tangible personal property and certain taxable services sold at retail. In some cases, the use of coupons, gift certificates and trade discounts will decrease the amount of the sale subject to tax.

Coupons

There are two types of coupons by which a customer may receive a discount from the original selling price.

A Store Coupon is one that is issued by the retailer where the goods are being purchased. With this type of coupon, the retailer is not being reimbursed from any outside source. The face amount of the coupon should be deducted from the original selling price and sales tax should be collected on the reduced price to the consumer.

A Manufacturer's Coupon is one that is issued by a manufacturer of a product and may be presented to any retailer which sells the item sought. The retailer is reimbursed by the manufacturer for the face value of the coupon. In this case, sales tax should be charged on the full original selling price and then the coupon deduction taken.

Trade Discounts and Sales Events

Trade discounts, volume discounts or sales events are sometimes offered by retailers on products to entice sales, eliminate stock or to reward repeat customers. Such discounts are at the discretion of the retailer and should actually reduce the purchase price to the customer. Sales tax should be charged on the reduced price charged to the customer.

Gift Certificates

Gift certificates are not subject to sales tax on the selling price of the gift certificate. Sales tax should be charged on the full selling price of the merchandise or taxable services purchased with use of the gift certificate.

Promotional Items and Giveaways

Promotional items given away by a retailer or business as a "free gift" to potential customers are subject to the payment of use tax on the cost of the goods by the retailer or business. Such goods include T-Shirts, coffee mugs, pens, calendars, and other promotional items as well as food and beverages. Free gifts given away with the purchase of another item are also subject to use tax on the cost of the item given away.

Buy One Get One (BOGO) and Punch Card or Loyalty Cards

Sometimes retailers will offer specials or loyalty cards to reward their repeat customers. In the case of BOGO's, sales tax should be charged on the actual reduced price charged to the customer. No use tax is due by the retailer for the "free" item. When a punch card or loyalty card is used and results in a free item or discount, sales tax is due on the reduced price to the consumer. No use tax is due by the retailer for the "free" items purchased using a loyalty card discount but all sales tax should be collected from the customer for all prior purchases that qualify them for the free item.

The information contained in the Tax Guide publications is intended to offer general guidance in layman's terms, for this topic, industry or business segment, and is not intended for legal purposes to be substituted for the full text of the Louisville Municipal Code rules and regulations. This guide does not constitute a city tax policy.

Department of Finance – Sales Tax and Licensing Division
749 Main Street - Louisville, CO 80027
Office (303) 335-4514 – Fax (303) 335-4529
www.LouisvilleCo.gov

Cash Discounts

Some retailers sell goods on account and offer a small cash discount off an invoice amount for expedited payment. This is a financing option and does not reduce the full selling price subject to sales tax.

Hostess Credits/Dollars

Direct sales companies that utilize distributors often reward them with credit towards the purchase of company merchandise based on the performance and or sales made by the distributor “hostess” during a party. The direct sales company is required to charge sales tax based on the full selling price of the items purchased by the hostess and then any discount or credit is applied. This is because the hostess is performing or selling for the company in exchange for the goods. See the “Direct Sales Companies” publication in this Tax Guide for additional information.

Examples

Retailer A offers a \$10 store coupon on the purchase of all 20” ceramic garden pots. The coupon reduces the taxable purchase price to the customer and sales tax should be calculated on the reduced price.

Manufacturer B publishes clip-out coupons in an area newspaper that offers a 20% discount on all Manufacturer B’s vacuum cleaners through the end of the month. Customer A takes the coupon to an area retailer that carries the product and purchases a vacuum using the manufacturer’s coupon. Sales tax should be charged to Customer A on the full original price of the vacuum and the 20% discount is subtracted after tax.

Retailer C buys and sells books. Customers can bring in used books and receive a \$1.00 trade-in discount towards future purchases of books. Customer B brings in four books and purchases one book retailing for \$21. Sales tax should be calculated and remitted on the discounted price of \$17.

Retailer D is a coffee shop that utilizes loyalty punch cards and annually hosts a customer appreciation day. Customer C buys a latte and receives one punch on their card. Sales tax should be calculated and remitted on the full price of the latte. The same Customer C buys a latte the following week and has a full punch card to present for payment. No sales tax is due on the latte and no use tax is due by the retailer. On customer appreciation day, Customer C comes in for the free 8oz. coffee. Use tax must be paid by Retailer D on all product consumed throughout customer appreciation day.

Retailer E is an auto parts store that sells tools to mechanics on account with the terms 2/10 net 30 (which is a 2% discount if the invoice is paid in 10 days). The 2% cash discount is not a reduction in the taxable purchase price and sales tax should be collected and remitted on the full retail price by Retailer E.

The information contained in the Tax Guide publications is intended to offer general guidance in layman’s terms, for this topic, industry or business segment, and is not intended for legal purposes to be substituted for the full text of the Louisville Municipal Code rules and regulations. This guide does not constitute a city tax policy.