

STATE OF MICHIGAN



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REVENUE ADMINISTRATIVE BULLETIN 1995-6

Approved: June 27, 1995

EFFECT OF COUPONS, REBATES AND DISCOUNTS
ON THE SALES TAX BASE

(Replaces RAB 1990-9)

RAB-95-6. This bulletin describes how coupons, discounts and rebates affect the sales tax base when they are used with a sale at retail. This bulletin updates RAB 1990-9 by replacing the former sales tax rate with the 6% sales tax rate that became effective May 1, 1994, subsequent to an amendment to the Michigan Constitution 1963, art 9, §8. The sales tax rate was also increased statutorily by 1993 PA 325 which amended MCL 205.52(1); MSA 7.522.

INTRODUCTION

The Michigan Sales Tax Act, MCL 205.52(1); MSA 7.522, levies a 6% sales tax on the "gross proceeds" of most sales at retail. The Act defines gross proceeds as ". . . the amount received in money, credits, subsidies, property, or other money's worth in consideration of a sale at retail . . ." [MCL 205.51(h); MSA 7.525(8) and Treasury Sales and Use Tax Rule, 1979 AC, R 205.10.] Therefore, the total amount received by a retailer in consideration for a retail sale is subject to the 6% sales tax. This bulletin explains and provides examples of the impact various coupons, discounts and rebates have on the gross proceeds used for the computation of the tax.

DISCOUNTS

For purposes of this bulletin, a discount is a reduction of an item's price from the full or standard amount. A discount reduces the retailer's gross proceeds from the sale and, therefore, reduces the base for computing the tax. [See Michigan Sales and Use Tax Rule, 1979 AC, R 205.22.] Examples 1 and 2 illustrate the effect of a discount on the sales tax base.

Examples Involving Discounts

1. A store liquidates inventory and offers a 20% discount on all merchandise sold. A customer purchases an item with an original price of \$100. The store must compute the tax as follows:

Original price of item	\$ 100.00
Minus 20% discount	<u>20.00</u>
Gross proceeds received by seller	80.00
Sales tax due to State (6%)	<u>+ 4.80</u>
Total due from customer	\$ 84.80

2. A customer purchases a vehicle with a sticker price of \$10,000. The buyer and dealer (seller) negotiate a lower price of \$9,700. Tax is computed as follows:

Original price of vehicle	\$10,000.00
Minus the dealer discount	<u>- 300.00</u>
Gross proceeds received by dealer/seller	9,700.00
Sales tax due to State (6%)	<u>+ 582.00</u>
Total due from customer	\$10,282.00

COUPONS

For purposes of this bulletin, a coupon is a certificate, ticket, voucher or other document that the purchaser presents to the seller at the time of sale to reduce the purchase price of a particular item. The coupon amount may or may not reduce the gross proceeds subject to sales tax depending on the type of coupon the purchaser redeems. The relevant question is whether the coupon represents the seller's cash discount offer or the manufacturer's offer to share in a portion (or all) of the item's purchase price.

Store Coupons

Retailers distribute "store coupons" for use in their stores. A particular retailer's store coupon is generally of no value at another store. When a purchaser redeems a store coupon, the redemption amount reduces the transaction's gross proceeds and thus reduces the sales tax base of the purchased item. [See Michigan Sales and Use Tax Rule, 1979 AC, R 205.22. See example 3 below.] Similarly, when a retailer accepts a competitor's store coupon, the coupon amount reduces the gross proceeds of the transaction and thus reduces the sales tax base of the item being sold.

Manufacturer's Coupons

Manufacturers sometimes distribute "manufacturer's coupons" through newspapers and circulars for use at any retail store that accepts coupons. When a purchaser redeems a manufacturer's coupon, the manufacturer will reimburse the retail seller for the coupon amount. This is, in effect, a sharing of the purchase price with the purchaser. Therefore, the coupon amount does not reduce the seller's gross proceeds from the sale, because the seller receives the item's full purchase price. [See example 4 below.]

A retailer who offers "double coupons" for manufacturer's coupons reduces gross proceeds and the sales tax base by the amount the retailer added to value of the coupon. However, the face value of the coupon remains subject to tax as discussed above. [See example 5 below.]

Purchasers must pay sales tax for items obtained free of charge in exchange for a manufacturer's coupon. [See example 6 below.]

Besides paying the retailer the coupon's face value, a manufacturer may reimburse the retailer a certain amount for accepting its coupons. This reimbursement represents the retailer's compensation for providing this service to the manufacturer. It is not included as part of the gross proceeds of the sale and does not add to the sales tax base.

Examples Involving Coupons

Store Coupon

3. A customer purchases a box of laundry soap for \$3.00. The customer presents a "store coupon" redeemable for 50 cents off the purchase price of the laundry soap. The amount of gross proceeds that is subject to sales tax must be computed as follows:

Original price of laundry soap	\$3.00
Minus store coupon amount	<u>- .50</u>
Gross proceeds received by seller	2.50
Sales tax due to State (6%)	<u>+ .15</u>
Total due from customer	\$2.65

Manufacturer's Coupon

4. A customer purchases a box of laundry soap for \$3.00. The customer presents a "manufacturer's coupon" redeemable for 50 cents off the purchase price. The amount of gross proceeds that is subject to sales tax is computed as follows:

Original price of laundry soap	\$3.00
Minus the manufacturer's coupon amount	<u>- .50</u>
Gross proceeds from sale	2.50
Manufacturer's rebate to retailer	<u>+ .50</u>
Gross proceeds from sale	3.00
Sales tax due to State (6%)	<u>+ .18</u>
Manufacturer's contribution	3.18
Manufacturer's contribution	<u>- .50</u>
Total due from customer	\$2.68

5. A customer purchases a box of laundry soap for \$3.00. The customer presents a "manufacturer's coupon" redeemable for 50 cents off the purchase price. The seller is offering double the value off on manufacturer's coupons. The amount of gross proceeds that are subject to sales tax is computed as follows:

Original price of laundry soap	\$3.00
Minus retailer's discount (coupon face value)	<u>-.50</u>
Gross proceeds from sale subject to sales tax	2.50
Manufacturer's coupon	<u>-.50</u>
	2.00
Manufacturer's rebate	<u>+.50</u>
Gross proceeds from sale	2.50
Sales tax due to State (6%)	<u>+.15</u>
	2.65
Manufacturer's contribution	<u>-.50</u>
Total due from customer	\$2.15

6. A customer is entitled to receive a free bath size bar of soap when presenting a coupon issued by the soap manufacturer.

Selling price of the bar of soap	\$.39
Sales tax due to State (6%)	<u>.02</u>
	.41
Manufacturer's contribution	<u>-.39</u>
Total due from customer	\$.02

REBATES

For purposes of this bulletin, a rebate is a partial return of an item's purchase price. After the purchaser buys the product, the manufacturer refunds the rebate amount. A rebate does not reduce the amount of gross proceeds received by the retailer and, therefore, does not reduce the amount that is subject to sales tax.

Example Involving Rebates

7. An individual purchases a vehicle for \$10,000 for which the manufacturer offers a \$1,000 rebate. Tax is computed as follows:

Original price of vehicle	\$10,000.00
Sales tax due to State (6%)	<u>+ 600.00</u>
	10,600.00
Minus the rebate received from manufacturer	<u>- 1,000.00</u>
Total due from customer	\$ 9,600.00

Unjust Enrichment

The Michigan Sales Tax Act, MCL 205.73; MSA 7.544, provides: "[n]o other person other than the state may enrich himself or gain benefit from the collection or payment of such tax." Retailers who do not deduct the correct amount when offering a store or manufacturer's coupon incorrectly charge too much tax. The retailer must remit this amount to the Department of Treasury.