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STATE OF MICHIGAN

**DEPARTMENT OF TREASURY**

TREASURY BUILDING

LANSING, MICHIGAN 48922

JAMES J. BLANCHARD, Governor  
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**REVENUE ADMINISTRATIVE BULLETIN 1990-9**

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

RAB-90-9. The purpose of this Bulletin is to describe the effect of coupons, discounts and rebates on the sales tax base when they are used in conjunction with a sale at retail.

**INTRODUCTION**

The Michigan Sales Tax Act, MCL 205.52(1), levies a 4% sales tax on the "gross proceeds" of most sales at retail. Gross proceeds are defined in the Act 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) 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 4% 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 the purpose of this Bulletin, a discount is a reduction in the price of an item 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. Tax is computed as follows:

Original price of item	\$100.00
Less 20% discount	<u>-20.00</u>
Gross proceeds received by seller	80.00
Sales tax due to State (4%)	<u>+ 3.20</u>
Total due from customer	\$ 83.20

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
Less dealer discount	<u>-300.00</u>
Gross proceeds received by dealer/seller	9,700.00
Sales tax due to State (4%)	<u>+388.00</u>
Total due from customer	\$10,088.00

### COUPONS

For the purpose of this Bulletin, a coupon is a certificate, ticket, voucher or other document presented to the seller by the purchaser at the time of sale to reduce the purchase price of a particular item. A coupon amount may or may not reduce the gross proceeds subject to sales tax depending on the type of coupon that is being redeemed. The threshold question is whether the coupon represents a cash discount offer by the seller or an offer by the manufacturer of the item to share in a portion (or all) of the purchase price.

#### Store Coupon

A "store coupon" is distributed by a retailer for use in the retailer's store. A particular retailer's store coupon is generally of no value at another store. When a store coupon is redeemed, the redemption amount is considered to be a reduction of the gross proceeds and thus reduces the sales tax base of the item being sold. [See Michigan Sales and Use Tax Rule, 1979 AC, R 205.22. See example 3 below.]

When a store coupon is accepted by another store, the coupon amount is considered to be a reduction of the gross proceeds and thus reduces the sales tax base of the item being sold.

#### Manufacturer's Coupon

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

When a retailer offers double value on a manufacturer's coupon, the amount of the retailer's addition is considered to be a reduction of gross proceeds and does reduce the sales tax base. However, the amount representing the manufacturer's portion of the coupon remains subject to tax as discussed above. [See example 5 below.]

Sales tax is due on the redemption of a manufacturer's coupon entitling the bearer to a free item. [See example 6 below.]

A manufacturer may reimburse the retailer a certain amount for handling the sale in addition to the face value of the coupon. This additional amount received by the retailer is not considered to be gross proceeds of the sale and does not add to the sales tax base. This amount represents compensation to the retailer for the service provided to the manufacturer.

### 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 is computed as follows:

Original price of laundry soap	\$3.00
Less store coupon	<u>-.50</u>
Gross proceeds received by seller	2.50
Sales tax due to State (4%)	<u>+.10</u>
Total due from customer	\$2.60

#### 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
Less manufacturer's coupon	<u>-.50</u>
Manufacturer's rebate to retailer	2.50
	<u>+.50</u>
Gross proceeds from sale	3.00
Sales tax due to State (4%)	<u>+.12</u>
Manufacturer's contribution	3.12
	<u>-.50</u>
Total due from customer	\$2.62

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
Less retailer's discount (doubled portion)	<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 (4%)	<u>+.10</u>
	2.60
Manufacturer's contribution	<u>-.50</u>
Total due from customer	\$2.10

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 bar of soap	\$ .39
Sales tax due to State (4%)	<u>+.02</u>
	.41
Manufacturer's contribution	<u>-.39</u>
Total due from customer	\$ .02

#### REBATES

For the purpose of this Bulletin, a rebate is a return of a portion of an amount paid for an item after the time of sale. A rebate is considered to be a refund to the purchaser of the item by the manufacturer after the product has been purchased. 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.