



# **FOR ASSISTANCE VIEWING OR READING ANY CITY DOCUMENTS,**

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## **DISCOUNTS, COUPONS, REBATES, AND OTHER PROMOTIONS**

This tax guide is prepared and published for the information of the general public and all persons in business pursuits who would be required to make payment of Sales Tax or Use Tax under provisions of Chapter 25, Article III of the Code of the City of Fort Collins (the "Tax Code"), as well as for the guidance of the City employees whose responsibility it is to collect the taxes imposed by the Tax Code and the enforcement thereof. The following guide is exactly as it says, a GUIDE, and not to be relied upon as an official interpretation of the Tax Code applicable in all circumstances. Instead, specific reference should be made to the Tax Code and related ordinances for what is required in any particular circumstance.

### **DISCOUNTS**

*Discounts:* When a retailer reduces the price of an item or offers a discount on merchandise, sales tax applies to the reduced selling price if the discount is applied at the time of sale.

*Early Payment/Cash Discounts:* An anticipated (future) discount to be allowed for payment on or before a given date is not an allowable adjustment to the price in reporting sales tax. It is a financing option separate from the sale. Whenever a discount of this type is offered, sales tax is charged on the full selling price, whether or not the customer chooses to take advantage of the discount.

### **COUPONS**

*Store Coupons/Retailer's Coupons:* When a transaction includes the use of a store coupon, tax is charged on the discounted price of the item being purchased if the discount is applied at the time of the sale.

*Manufacturer's Coupons:* When a retailer accepts a manufacturer's coupon, the manufacturer ultimately reimburses the retailer for the face value of the coupon. The coupon is used like cash. Because the retailer is recovering the full selling price of the merchandise, sales tax applies to the full selling price before the deduction for the coupon.

### **REBATES**

Unlike coupons, discounts and other price reductions, rebates require some action by purchasers after the sale has been completed. Also unlike coupons, rebates result in cash payments to customers after the sales have been completed. The initial purchase of the item and the honoring of the rebate are two separate and distinct transactions. Therefore, the rebate does not reduce the sales price paid for the item at the time of the transaction, and sales tax applies to the total price without any deduction for the rebate.

### **OTHER PROMOTIONAL ITEMS**

*Buy one/get one free:* In promotions where a customer purchases an item and receives an other item at no additional charge, the retailer is actually selling both products at the full sale price and offering a retailer's discount equal to the price of one of the items. Sales tax applies to the actual sales price paid by the customer.

*Free gifts to customers:* A business may provide free gifts to customers. Sales tax is not charged in these situations. However, the business is responsible for use tax on their purchase price of the items.

## EXAMPLES

1. Gocar Distributors is a distributor of auto parts. They make retail sales to some large fleet customers and give those customers a trade discount of 20% off the list price. The net selling price, which is 80% of list price, is the taxable amount.
2. Gocar Distributors offers normal payment terms of 30 days to its customers. It also offers a cash discount of 2% off invoice price if the invoice is paid within 10 days of the invoice date. If Gocar sells an item for \$800 the cash discount would be \$16 for a net price of \$784. The taxable amount is \$800 whether the customer takes the discount or not. The cash discount is not an allowable reduction in the selling price for sales tax purposes.
2. Stop Mart issues its own store coupon for soap. When the store coupon is redeemed at the time of purchase, the sales tax is calculated on the net price (sales price less coupon amount).
3. Smart Manufacturing issues a manufacturer's coupon for \$5 off the price of their new product. This coupon is for the retailer to receive a \$5 reimbursement from Smart Manufacturing when a customer presents it at the time of the sale. Since the retailer receives reimbursement for the \$5 reduction in sales price, the sales tax is calculated on the full selling price before the \$5 is deducted.
4. Big A Motors advertises that their cars sell for \$9,000 after the application of a \$500 rebate from the manufacturer. Sales tax is due on the full selling price of \$9,500.
5. On Tuesday nights, Beggar's Buffet offers a special of buy an adult entrée and get a free kid's meal. The price charged for the adult entrée would be the taxable amount.
6. AAA Super Store takes a non-grocery item off the shelf and gives it away free as a way to celebrate its grand opening. Use tax is due from AAA Super Store on the purchase price of the item.
7. Kraig's Grocery starts a promotion for customer appreciation. A bucket of chicken is given away to the first 50 customers who enter the store each day for a week. Use tax is due from Kraig's Grocery on the cost of the chicken.

## CITY OF FORT COLLINS SALES AND USE TAX ORDINANCE

Section 25-71	Definitions.
Section 25-73	Imposition of the Sales Tax.
Section 25-74	Imposition of the Use Tax.

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