

THE RETAIL SALES TAX ACT

DISCOUNTS, COUPONS AND CASH REBATES

Note: Revisions to contents of previous Bulletin (July 2019) have been identified by revision bar (I) in the right margin.

This bulletin outlines the retail sales tax application on sales where discounts, coupons and cash rebates are used to reduce the selling price of goods or services, or to provide free merchandise.

Section 1 - DISCOUNTS

- Cash discounts**
- When taxable goods or services are sold at a discount, the tax generally applies to the reduced price paid by the purchaser.
 - When a vendor issues a cash refund or a credit note as a volume discount on goods/services for which tax has been collected, the vendor may also refund the amount of tax applicable to the discount given to the customer on the taxable goods/services.
 - When a vendor issues a cash refund or a credit note for prompt payment of an account, the purchase price of the goods or services is deemed to be the amount on the invoice with no reduction. Any credit issued by the vendor should not include tax.
 - When a vendor charges late payment fees, the purchase price of the goods or services is deemed to be the amount on the invoice with no increase. Any late payment surcharges are not subject to tax.
 - See Section 3 – “Promotional Distribution” in this bulletin for situations where a discount, coupon or any other incentive offered by a retailer reduces the selling price of an item below the retailer’s cost of the item.

Section 2 – COUPONS

- Retailers’ coupons**
- Coupons issued by retailers are considered to be the same as a cash discount, if the retailer redeeming these coupons does not receive reimbursement from a third party and records the sale price of the taxable goods/services at the reduced (discounted) amount. In this case, the tax applies to the net amount paid by the customer for the purchase.
 - When a coupon is issued by a retailer for a fixed amount (e.g. \$30)

which may be redeemed against the purchase of a combination of both taxable and exempt items, the coupon cannot be used to reduce the purchase price of the taxable items unless the coupon value is apportioned to the respective taxable and exempt items. In this case, the tax is payable on the net amount recorded on the bill of sale of each taxable item.

For example: If the total taxable and exempt purchases before redeeming the coupon is \$300 (taxable \$100 and exempt \$200) and the coupon value is \$30, the tax is calculated as follows:

- The equivalent apportionment of the coupon is equal to a 10 per cent reduction of all purchases (i.e. $\$300 \div \$30 = 10\%$),
- The taxable item before the coupon reduction equals \$100, therefore the net purchase amount of the item is \$90 (i.e. $\$100 - 10\% = \90),
- Therefore if the net purchase amount is recorded on the invoice as calculated above, the tax payable is $\$90 \times 7\% = \6.30 .

Retailer dollars/money coupons

- When a retailer redeems a coupon, and does not record the coupon as a discount or a reduction of the selling price, but rather as a cash payment toward the total purchase, the retailer must apply the tax on the total taxable purchase amount before deducting the amount of the coupon.
- When at the time of a sale the retailer does not reduce the purchase price of an item but issues what is referred to as “money”, to be applied against future purchases, the tax must be collected on the full amount paid by the customer.
- When the retailer’s “money” is presented for redemption on subsequent purchases, it is considered for sales tax purposes to be like any other retailer coupon. Therefore:
 - If a retailer redeems the “money” as cash received toward the total invoice amount payable, the retailer must collect the tax on the total taxable purchase before deducting the value of the “money”.
 - If the retailer redeems the “money” by reducing the purchase price of the taxable goods/services and records the reduced amount on the invoice, the “money” is considered to be a discount and the tax applies on the net purchase amount.

Buy one, get one free

- When a “free” item is conditional on the purchase of the first item, the tax is collectible on the net amount actually charged to the customer for both items. The tax applies the same on other variations of this promotion, for example, “buy one, get the next one for half price” or “buy ten, get the next one free”. These types of promotions are considered to be equivalent to a discount, providing they are not a promotional distribution as described later in this bulletin.

Competitor's coupons • When a retailer redeems coupons issued by a competitor, the tax applies the same as described above for coupons issued by the retailer.

Manufacturer's coupons and/or rebates • Many manufacturers and distributors (e.g. soap companies) issue coupons through the mail, newspaper, etc. which the customer can take to a retailer and use as cash on the purchase of certain goods. The acceptance of those coupons by the retailer does not reduce the taxable selling price of the goods because the retailer is reimbursed by the manufacturer for value of the coupons.

For example: Where a 50¢ coupon is presented on a \$5 taxable item, the customer pays \$4.50 and the manufacturer pays the retailer 50¢. In total the retailer receives \$5, the full selling price of the goods. Therefore, the tax must be charged by the retailer on the total selling price of the goods before deducting the amount of the coupon.

- Manufacturer's rebates are considered similar to other cash coupons. Manufacturers generally pay the amount of the rebate to the purchaser upon proof of purchase, or if the purchaser has assigned the amount of the rebate to a retailer, the manufacturer will reimburse the retailer. In any event, similar to the above example on coupons, the rebate does not reduce the selling price charged by the retailer for the purpose of taxation. If an item sells for \$100 and a cash rebate of \$10 is offered by the manufacturer, the retailer will receive the full selling price of \$100 (from the purchaser and/or the manufacturer). Therefore, the retailer must charge tax on the total selling price of a taxable product before deducting the rebate.

Coupon books • Coupon books of a type sold by various organizations primarily for fund raising, are not subject to tax. Publishers of the coupon books are required to pay tax on all costs connected with the printing and production of the books.

- Retailers who distribute coupon books to the public at no charge are required to pay tax on all costs connected with the printing and production of the books.

Section 3 – PROMOTIONAL DISTRIBUTIONS

Promotional distribution • The provision of taxable goods or services by retailers and other businesses to a person without charge or at a nominal charge (usually without condition to purchase other goods or services) is a promotional distribution. Refer to the Act for a complete definition of "promotional distribution". While the overall reason for a promotional distribution is to promote or encourage the purchase of other goods and services, promotional distributors (retailers) are required to pay the tax on their purchases (including the value of items manufactured by them) for promotional distribution.

For example: If the distributor's cost of a promotional distribution provided "free" to a customer is \$20, the applicable tax payable by the distributor is \$1.40.

- When the redemption of a coupon reduces the selling price of a taxable

item below the retailer's cost, the amount of the difference between the retailer's cost and the price paid by the customer for the item is considered to be a promotional distribution.

For example: Upon the presentation of a retailer coupon, a customer purchases an item for \$50 that normally sells for \$100. The retailer's cost of the item is \$75. The retailer must collect \$3.50 tax from the customer on the selling price of \$50 (i.e., $\$50 \times 7\%$), and pay \$1.75 tax on the promotional distribution portion of the discounted item (i.e., $\$75 - \$50 = \$25 \times 7\%$). In total, the retailer shall remit \$5.25 tax to the Taxation Division on this item.

Free goods with sale

- When a customer receives taxable goods free as a condition of purchasing other taxable goods or services from a retailer, the customer is required to pay tax on only the net amount paid. Retailers are not required to pay any tax on the goods that are sold "free", unless the retailer's total cost of the goods sold and given away free is more than the amount paid by the customer.

For example, if a dealer gives away a television (cost to the dealer is \$500) with the sale of each new car for \$30,000 (cost to the dealer is \$28,000), the customer pays tax on \$30,000. Since the dealer's cost of both items (\$28,500) is less than the \$30,000 selling price, the dealer may purchase the T.V. exempt of tax.

- When a customer receives taxable goods free from a retailer when purchasing goods or services that are tax exempt or when the purchase involves both taxable and exempt items, the customer is required to pay tax on the full selling price of the taxable items purchased. The retailer is responsible for paying the tax on the total cost of the taxable goods given away.

For example: If a customer receives a free shirt (cost to retailer is \$20) with a \$200 grocery purchase, the customer pays tax on the taxable grocery items while the retailer pays tax on the cost of the shirt ($7\% \times \$20 = \1.40).

Points/Airmiles programs

- Points, Airmiles, etc. issued on purchases and redeemable for merchandise, travel and (in some cases) cash dividends are not equivalent to a discount. The tax applies on the full selling price of taxable purchases at the time of sale as the programs do not reduce the selling price charged by the retailer. Program administrators are required to pay tax on the cost of the taxable items awarded to the purchaser upon redemption of the points, etc.

FURTHER INFORMATION

This bulletin is intended to serve as a guideline and is not all-inclusive. For the specific wording of the law, please refer to *The Retail Sales Tax Act and Regulations*. Further information may be obtained from:

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ONLINE SERVICES

Our Web site at manitoba.ca/finance/taxation provides tax forms and publications about taxes administered by Taxation Division, and a link to Manitoba's laws and regulations. Forms and publications can also be obtained by contacting the Taxation Division.

Our online service at manitoba.ca/TAXcess provides a simple, secure way to apply for, and to file, pay and view your Taxation Division tax accounts.