
Tax Compliance Guide

Coupons, Discounts, & Promotional Items Topic 330

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The *Westminster Municipal Code* imposes a sales tax upon the purchase price paid for tangible personal property and certain taxable services sold at retail. Certain discounts reduce the purchase price and, therefore, decrease the amount of the sale subject to tax. Businesses offering promotional and complimentary items must pay City sales/use tax on the cost of the items.

Sales, Trade Discounts, and Store Coupons

In an effort to entice customers to make purchases, retailers may reduce their prices through sales, clearances, special pricing, and store coupons. Similarly, some retailers will offer trade discounts or volume discounts to customers who make regular purchases. Such discounts are at the discretion of the retailer and actually reduce the purchase price of the goods/services sold. As such, the sales tax should be proportionally reduced and computed on the discounted purchase price.

Manufacturer's Coupons or Rebates

In the case of manufacturer's coupons or rebates, either the purchaser or the retailer is reimbursed for the amount of the discount. This means that the manufacturer is, in effect, paying part of the purchase price on behalf of the purchaser and/or refunding part of the purchase price to the purchaser. As such, the purchase price is not being reduced and tax should be computed on the full purchase price before the coupon or discount, even if the actual amount paid by the customer is zero.

Cash Discounts

Retailers who sell goods on account sometimes offer a small discount for expedited payment of an invoice. These discounts, often referred to as cash discounts, represent financing options separate from the sale transaction and contingent upon a future event. As

such, they do not reduce the purchase price and tax should be computed on the full purchase price before the cash discount.

Promotional or Complimentary Items

Occasionally, businesses offer promotional items in an effort to attract customers or introduce new products. Such promotional items may be advertising items, such as t-shirts, bumper stickers, or other novelties, or free samples. When such items are given to customers without requiring any purchase, the purchaser is required to pay Westminster City sales/use tax on their cost.

Similarly, restaurants that offer complimentary food or beverages to customers or employees must pay Westminster City sales/use tax on their cost. Generally, such a payment is remitted in the form of use tax, as the restaurant will likely utilize food from inventory which was properly purchased without the payment of City sales tax for resale.

Buy one get one free offers, gifts with purchase, punch cards

In cases where customers receive a second item at no charge for buying the first, the customer is actually receiving a 50% discount off of the price of both items. As such, sales tax is only due on the full purchase price of one item (i.e. on 50% of the purchase price of both items). Moreover, the retailer does not need to pay a City sales/use tax on their cost of the items because the "free" item is not truly complimentary.

Similarly, retailers that offer a "free gift" with purchase are not required to pay City sales/use tax on their cost for the gift. This treatment also applies to retailers that offer punch cards or other similar frequent purchaser discounts whereby the purchaser receives a "free" item after making a number of purchases. Because receipt of the free item is contingent upon the purchase of one or more other items, the free item is not truly complimentary as contemplated above.

Examples

1. Seller A, and auto parts dealer, offers a 10% trade discount on all tools purchased by mechanics. This discount reduces the taxable purchase price. Tax should be computed on the discounted total.
2. Seller A often sells tools to mechanics on account with the terms “2/10 net 30” (offering a 2% discount if the invoice is paid within 10 days). This cash discount does not reduce the taxable purchase price. Tax should be computed on the full price of the goods sold.
3. Customer B visits Grocery Store C, a local grocer, and purchases a can of corn for \$1.00. She presents the cashier with a manufacturer’s coupon for \$0.25 off. Tax should be computed on the full \$1.00 purchase price.
4. Customer D is purchasing a vehicle from a local car dealer for \$25,000. The dealer informs Customer D that a \$5,000 manufacturer’s rebate is available for this vehicle. Tax should be computed on the full \$25,000 purchase price.
5. The manager of the Restaurant E offers a customer a complimentary dessert, as the customer’s food took a long time to prepare. Restaurant E should compute and remit a use tax on their cost for the dessert.

Related Topics

Properly Exempted Purchases Converted to Taxable Use
 Restaurants & Bars
 Samples, Demonstrations, & Displays
 Trade-Ins

Citations

Westminster Municipal Code
 § 4-2-2. Definitions
 § 4-2-3. Rate; Imposition and Collection; Distribution

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