

# City and County of Denver, Colorado

## TAX GUIDE

### *Topic No. 16*

# COUPONS AND PROMOTIONAL ITEMS

## COUPONS

1. Store coupons are issued by the retailer for a reduction in the price of a product sold by that retailer. Because there is no reimbursement to the retailer for the price reduction, the sales tax applies only to the reduced selling price of the product.
2. Manufacturers' coupons allow the customer a reduction in the sales price of a product upon presentation of the coupon to the retailer. Because the retailer receives reimbursement by the manufacturer for the amount of the reduction, sales tax applies to the full selling price before deduction for the coupon.

Retailers should be aware of the differences in how sales tax is applied to store coupons versus manufacturers' coupons. The taxable basis for the purchase of any taxable item, when a coupon is used, is the total value of money, credits, and property received, including any reimbursement from the manufacturer.

Coupons where a restaurant gives one meal or food item free with the purchase of one are treated as store coupons when the restaurant does NOT receive reimbursement for the coupon.

The sale of coupon books is not considered a retail sale and is not a taxable transaction for sales tax purposes when sold to the general public. However, sales/use tax is due from the publisher and should be collected by the printer based on the cost of the book itself.

## EXAMPLES

1. 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 (shelf price less coupon amount).
2. Smart Manufacturing issues a manufacturer's coupon for \$5 off the price of their new product. This coupon is for the retailer to receive \$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.
3. Big A Motors advertises that its cars sell for \$8599 after the application of a \$500 rebate from the manufacturer. Sales tax is due on the full selling price of \$9099.

## PROMOTIONAL ITEMS

When a business offers an item free with a purchase of another taxable item, and if the item purchased is subject to sales/use tax as described in the DRMC, tax is due on the total consideration received but no tax is due on the free item because the free item is considered part of the total sales transaction. However, if an item (tangible personal property) is given free with the purchase of a non-taxable item or is given free as a promotion, use tax is due from the business based on the cost of the article given away free.

## EXAMPLES

1. 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.
2. A gas station gives a "free" key chain with the purchase of five gallons of gas. The key chains are subject to sales/use tax at the time of purchase by the gas station.
3. Mack'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 Mack's Grocery on the food cost.

\* DRMC Section 53-53(a)(21) Definitions- Purchase Price.

\* DRMC Section 53-54 Imposition of tax.

\* DRMC Section 53-103(a)(23). Definitions – Purchase Price.

\* DRMC Section 53-104 Imposition of tax.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT DENVER TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE DRMC AND APPLICABLE RULES AND REGULATIONS.

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