TRADE OR QUANTITY DISCOUNT

A trade discount or quantity discount is a reduction of the selling price, usually expressed as a percentage of a list price. It may be offered to customers making quantity purchases. It is not contingent upon any future event. Since a trade discount is a reduction in the selling price, it is not included in the taxable amount provided the discount appears on the invoice at the time of sale. The net selling price is the taxable amount.

EXAMPLE

XYZ 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.

CASH DISCOUNT

A cash discount is a reduction in the amount to be paid if the invoice is paid by a certain earlier date than the stated due date. It is a financing option, separate from the sale. A cash discount is contingent upon the future event of early payment of the invoice. It is not an allowable adjustment to the selling price in determining taxable sales. The possibility of a cash discount does not change the taxable selling price even if the option is exercised.

EXAMPLE

XYZ 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. The cash discount is not an allowable reduction in the selling price for sales tax purposes.

* DRMC Section 53-53(a)(14) & (21). Definitions.
* DRMC Section 53-103(a)(15) & (23). Definitions.

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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