

**Florida Department of Revenue
Tax Information Publication**

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**COUPONS, DISCOUNTS, REBATES, FREE MERCHANDISE, AND
OTHER PROMOTIONAL GIFTS**

Florida law provides that "discounts allowed and taken by sellers at the time of sale" are excluded from the definition of "sales price". When a seller offers a discount on the sale of tangible personal property, the discount is deducted from the sales price before computing the amount of sales tax due on the sale.

COUPONS

Coupons are issued at no charge by a manufacturer of the product (or another third party) or by a retailer. A coupon entitles a purchaser to an immediate reduction in the sales price of an item when the coupon is presented to a retailer. No additional action is required of the seller. Generally, **sales tax treatment of purchases made, or items obtained, using coupons that result in a reduced price to the consumer is based on whether the retailer can be reimbursed by the manufacturer or a third party for the coupon.** The application of sales tax in each case differs, as described below.

Manufacturers' Coupons. When the retailer accepts a manufacturer's coupon, the retailer does not recognize any loss in the profit made on the sale. The manufacturer or another third party reimburses the retailer for the face value of the coupon. In other words, the purchaser uses the coupon like cash and the retailer receives the cash when the coupons are redeemed with the manufacturer. **The sales price on which tax is based is the total selling price before deducting the coupon.**

Example: A customer, when purchasing laundry detergent, redeems a coupon issued by the manufacturer of the detergent. The sales price of the detergent is \$4.99, and the face value of the coupon is \$0.50. **The sales tax is computed on \$4.99 - the sales price before deducting the value of the coupon.**

Retailers' Coupons. When a retailer issues a store coupon, the retailer is reducing the sales price of the item purchased with the coupon by an amount equal to the face value of the coupon. The retailer reduces its profit on the sale, and the value of the coupon is not recovered from any other party. This type of coupon is a **retailer's discount that is deducted from the sales price before computing the sales tax. Any additional value assigned by the retailer, such as to double or triple the coupon, is also excludable from the sales price.**

Example: A supermarket publishes in an advertising flyer its own store coupon offering \$0.50 off the purchase of a particular laundry detergent. The detergent sells for \$4.99. The sales tax is computed on \$4.49 - the sales price after deducting the value of the coupon.

Example: A supermarket advertises a weekly special on a particular laundry detergent, reducing the sales price from \$4.99 to \$3.99. A customer purchases the laundry detergent using a **manufacturer's** coupon with a face value of \$0.50. In addition, the supermarket will double the coupon, to increase its value by another \$0.50. The final price of the laundry detergent to the customer is \$2.99. The sales tax is computed on \$3.49 (\$4.99 minus the sales price reduction of \$1.00, minus the \$0.50 from the retailer doubling the face value of the manufacturer's coupon). The value of the manufacturer's coupon is not deducted from the sales price when calculating the tax.

SCAN CARDS

Like coupons, scan cards function as discounts given by the retailer who issues the card. Therefore, a discount given by a retailer in connection with the use of the retailer's scan card is excludable from the measure of tax. **Sales tax must be calculated on the reduced sales price**, net of all scan card price reductions.

Example: A supermarket advertises a weekly special on laundry detergent, reducing the price from \$4.99 to \$3.99, if the customer uses the store's scan card. A customer purchases the laundry detergent using the store's scan card and a manufacturer's coupon with a face value of \$0.50. In addition, the store will triple the coupon, to increase its value by another \$1.00. The final price of the detergent to the customer is \$2.49. The sales tax is computed on \$2.99 (\$4.99 minus the scan card reduction of \$1.00, minus the \$1.00 from the retailer tripling the face value of the manufacturer's coupon). The value of the manufacturer's coupon is not deducted from the sales price when calculating the tax.

COUPON BOOKS

A coupon book is a collection of discount coupons for a variety of businesses usually assembled by an organization and sold as a fundraising activity. The sale of the coupon book itself is not a taxable transaction, since it is not considered a sale of tangible personal property but rather the sale of intangible future discounts. The organization (unless it is an exempt organization) would be responsible for paying tax on the printing and production costs of the coupon book itself. **When the coupon is redeemed, it would be considered a seller's discount that is deducted from the selling price before computing the sales tax, unless the coupon is a manufacturer's coupon.**

DISCOUNT FOR OPENING OR USING STORE CHARGE ACCOUNT

Some retailers offer an incentive for a customer to open a new store charge account, or to use an existing store charge

account, by giving the customer a discount of a percentage of the customer's next purchase using the store charge card. The discount is reflected on the retailer's next bill to the customer. Because the customer is not required to take any additional action once he or she makes the purchase using the store charge account, the discount is irrevocably applied at the time of the sale and only **the reduced sales price**, net of the discount, **is subject to tax**.

Example: A retailer offers customers who open a store charge account a 25 percent discount on the customer's next purchase. A customer opens an account with the retailer. The customer purchases merchandise totaling \$100.00 at the retailer's store and receives a discount of \$25.00. The final sales price of the merchandise is \$75.00. Sales tax is computed on \$75.00.

CASH EQUIVALENTS

"Cash equivalents" are items purchased that entitle a person to redeem them in the future to receive tangible personal property or services. Examples of cash equivalents include, but are not limited to, "dine out" cards, entertainment coupon books, vouchers, gift certificates, and trading stamps (whether or not such items are called "coupons"). Cash equivalents are deemed to be intangible rights to acquire tangible personal property or services in the future, and thus they are not taxed when acquired. However, **the redemption of a cash equivalent is taxable when sold directly by a retailer**, based on the retail price of the tangible personal property or services for which the cash equivalent is redeemed. After the full purchase price of the cash equivalent has been redeemed, any additional discount to which it entitles the purchaser is not taxable.

Example: An individual receives a gift certificate for her birthday, entitling her to \$50.00 towards the purchase of goods at a particular store. No tax was due on the purchase of the gift certificate. When the gift certificate is redeemed to purchase a taxable item with a retail price of \$48.00, the tax due is

\$2.88, and the individual redeeming the gift certificate must pay \$0.88 in addition to surrendering the gift certificate to the retailer.

Example: An individual purchases a "dine out" card for \$100.00, which entitles the bearer to receive a second meal of equal or lesser value at no charge upon purchasing a meal at a particular restaurant. When the "dine out" card is purchased, no tax is due. However, for each free meal received, up to the aggregate value of the \$100 purchase price of the "dine out" card, tax is due. Accordingly, if a "free" meal would ordinarily have been sold for \$20.00, the individual must pay \$1.20 in sales tax in addition to presenting the "dine out" card to the restaurant. After the purchase price of the "dine out" card has been met with the receipt of five "free" meals, at an assumed cost of \$20.00 for each meal, no tax is due on the sixth and subsequent free meals obtained with the card. The purchase price of the cash equivalent was completely redeemed upon the fifth use of the card.

REBATES

Rebates provided by manufacturers to purchasers of tangible personal property are not discounts allowed between the seller and the purchaser. The initial purchase of the item and the honoring of a rebate claim by the manufacturer are two separate and distinct transactions. **Sales tax is computed on the total sales price, without any deduction for the manufacturer's rebate.**

The fact that the rebate is assigned by the purchaser to the seller does not change the taxability of the transaction.

Retailer rebates offered by the selling dealer, when the selling dealer does not receive reimbursement from another third party, are considered dealer discounts and are excludable from the sales price.

Manufacturers of motor vehicles frequently offer cash rebates on particular models to purchasers. The purchaser then typically

assigns the rebate to the dealership in order to reduce the amount that the purchaser pays for the vehicle. In addition, motor vehicle dealers may offer their own discounts on vehicles, sometimes termed "rebates." Although discounts or "rebates" offered by dealers may be excluded from the dealers' gross receipts from sales, **rebates paid by manufacturers must be included in the calculation of tax**, even when the purchaser assigns the rebate to the dealer to reduce the amount that the purchaser pays for the vehicle.

Unlike coupons, discounts, and other price reductions, rebates require some action by purchasers (either directly or by retailers as assignees of the purchasers) after the sales have been completed. Also unlike coupons, rebates result in cash payments to customers (either directly or to retailers as assignees of the purchasers) after the sales have been completed.

Example: An automobile manufacturer offers a \$2,000 rebate on one of its models. In addition, the dealership offers a \$500 discount on the same model, which it terms a "dealer rebate." A customer buying a \$20,000 car assigns his right to the manufacturer's rebate to the dealership, reducing the amount the customer must pay for the car by a total of \$2,500. Sales tax is due on \$19,500 (\$20,000 minus \$500).

Even though the manufacturer's rebate of \$2,000 is applied to reduce the amount being paid by the customer, it may not be used to reduce the tax.

GIFTS AND OTHER PROMOTIONAL ITEMS

Retailers may engage in promotional activities that result in various products being given away, such as "two for the price of one" sales, "buy one get one free" sales, and other similar offers. In many cases, the "free" item is transferred only in connection with the purchase of other tangible personal property. In cases where the item is transferred as part of a sale of other tangible personal property, it is actually being sold. The retailer in such cases may purchase the item for resale without paying tax.

Sometimes a retailer transfers tangible personal property at **no charge** to a customer, where such transfer is not in connection with such a promotional sale. The retailer must pay sales and use tax on its purchases of items given away that are provided at **no charge** and that are not in connection with a sale of items.

The following examples illustrate when gifts and promotional items are considered to be sold with other tangible personal property and when they are taxable.

Drawings or raffles. When a retailer conducts a drawing or raffle, the retailer is responsible for payment of tax on the item being awarded to the winner. The tax is based on the retailer's cost of the item being awarded. If the item is withdrawn from inventory, use tax accrues at the time of withdrawal. If the retailer purchases the item specifically for the drawing or raffle, the retailer should pay tax to the supplier.

Example: A retail store allows customers who donate a toy to pick a coupon from the retailer's coupon basket. The coupon basket contains a single coupon that entitles the winning customer to \$100.00 of merchandise at the retailer's store. The remaining coupons provide customers from \$2.00 to \$10.00 off the customer's purchase of store merchandise. The retail store is required to pay use tax on the cost price of the merchandise given to the customer winning \$100.00 in merchandise. The coupons redeemed by the other customers reduce the sales price of the customers' purchases by the amount of the coupon (ranging from \$2.00 to \$10.00). Sales tax is computed on the sales price of the merchandise, less the amount of the coupon redeemed.

Free gifts given to customers as promotions. When a retailer purchases promotional items that it intends to distribute free of charge, but not in connection with the sale of other items, the promotional items are subject to

use tax. A retailer may provide free gifts to all shoppers, such as calendars, pens, and key chains. The retailer may also offer a promotion where certain products are given away, for example, to the first 100 shoppers to enter the store on opening day. In either case, the retailer is responsible for use tax, as discussed above, on the goods given away, because the customers are not required to purchase any other tangible personal property in order to receive the free items.

Buy one, get one free promotions. In promotions where a customer purchases an item and receives another item of the same kind at no additional charge, the retailer is actually selling both products at the full sales price and offering a seller's discount equal to the value of one of the items. Sales tax would apply to the actual sales price paid by the customer. Use tax is not applicable to the item sold at no charge.

Example: A clothing retailer advertises "Free sport coat when you buy one at regular price." A customer purchases a sport coat for the regular price, \$60.00, and receives a second sport coat. Sales tax is due on \$60.00. No use tax is due on the second sport coat provided to the customer.

Free gifts to coupon holders. For promotional purposes, a manufacturer, promoter, franchiser, or other third party may offer coupons to customers to receive merchandise free of charge. The customer is required to present the coupon to the retailer (franchisee) at the time of purchase of another item (buy one, get one free). Sales tax is levied on the usual sales price of the purchased item. Use tax is due on any amount the retailer receives in reimbursement from the manufacturer, promoter, franchiser, or other third party for the product "given" to the customer who presents the coupon. When the retailer does not receive reimbursement by a third party, no use tax is due by the retailer.

Example: A sandwich shop offers customers a coupon

that will entitle the customer to receive a free sandwich after purchasing five sandwiches. When the customer's coupon indicates that the customer has purchased five sandwiches, the customer redeems the coupon for the free sandwich. The sandwich shop is required to collect tax on the sale, or sales, of the first five sandwiches. The sandwich shop does not receive reimbursement from any party for providing the free sandwich to the customer. No use tax is due on the sandwich provided, without charge, to the customer who has purchased the required five sandwiches.

Complimentary gift with purchase of an item. If a retailer provides an extra item or gift to a customer at the time of, and in connection with the sale of, taxable merchandise, the extra item or gift will be considered a part of the sale. Therefore, sales tax would apply to the actual sales price paid by the customer. The retailer would not be required to accrue use tax on the cost of the extra item or gift. However, if the item being purchased is exempt from tax and the extra item or gift is a taxable item, the retailer is responsible for use tax on the extra item or gift.

Example: A retailer offers a free set of sheets to customers who purchase a mattress set. A customer purchases a mattress set for \$999.00 and receives a "free set of sheets." Sales tax is due on \$999.00. No use tax is due on the set of sheets.

Example: A retailer gives a cheese cutter to customers who purchase a package of cheese. The sale of the cheese is not subject to sales tax. Therefore, the retailer is required to pay use tax on the cost price of the cheese cutter.

Example: A retailer gives a belt to any customer who makes a purchase of \$100.00 or more. A customer purchases \$120.00 of clothing and receives a free belt. Sales tax is due on \$120.00. No use tax is due on the belt.

Example: A retailer provides automotive oil changes and fluid checks for \$29.95. Customers purchasing the service may return at any time during a defined period to have various fluids topped off within the vehicle at no charge. Sales tax is due on the \$29.95. No sales or use tax is due on any fluids subsequently used by the retailer as a part of the promotional offer of "free" fluids between services.

When reviewing the books and records of a retailer, if extra items or gifts have been charged to a promotional or advertising account, use tax should be assessed unless the retailer can establish that the extra items or gifts were transferred to a customer at the time of and in connection with the sale of taxable tangible personal property. Use tax should also be assessed if the extra items or gifts are charged to the retailer's cost-of-goods-sold account, and it has been established that the retailer's transfers of the extra items or gifts were not at the time of and in connection with the sale of taxable tangible personal property. Examples of supporting documentation that a retailer may produce for this purpose are sales contracts, in-house sales campaign material, or published advertisements stating that the extra item or gifts will be provided to those who make the required taxable purchase.

Magazines given with membership in an association. When an association provides periodicals (magazines) to its members, the magazines are exempt from sales tax provided that: (1) each member is entitled to receive the magazines in return for the payment of dues, and (2) there is no charge for the magazines that is separate and apart from, or can be identified as being a component part of, the payment of membership dues. Unless the association holds a consumer's certificate of exemption and distribution of the magazine is part of the association's customary nonprofit activity, tax would be due from the association on the cost of purchasing printing or on the cost of producing the magazines.

If there is an identifiable charge for magazines with the payment of membership dues, that amount specified for the

magazines will be subject to the collection of sales tax by the association based on the sale of a subscription to the specified magazine. However, if delivery of the magazine subscription is by postal mail, the identifiable charge made for the subscription is exempt from sales tax. Thus, in that case, no sales or use tax would be due on the subscription.

Promotional items given away with a subscription to a publication. Promotional materials that are in this state for the purpose of being given away to promote the sale of a subscription are exempt from tax if the items are subsequently exported outside the state. It is irrelevant whether the exportation process is continuous and unbroken, a separate consideration is charged for the materials, or the taxpayer keeps, retains, or exercises any right, power, dominion, or control over the promotional materials before, or for the purpose of subsequently transporting the materials outside the state. However, prior to the occurrence of exportation, the retailer must pay the sales and use tax that is due. The retailer will receive the exemption as a refund of the previously paid or self-accrued and remitted taxes.

TAX-EXEMPT FOOD PACKAGED WITH TAXABLE FOOD OR OTHER ITEMS

Retailers often package multiple items, including taxable and exempt items, for sale as a single item. When a package contains both exempt food products and taxable food products or other items (e.g., a basket of food and candy, a basket of nuts, or decorated cans or glasses filled with food items) and the tax-exempt food products are separately itemized from the taxable products or other items, no tax is due on the tax-exempt food products. The retailer is required to collect sales tax on the sale of the taxable products or other items.

The application of tax to the total charge (no separate itemization of the tax-exempt food products from the taxable items) for a package containing both exempt food products and taxable food products or other taxable items depends upon the essential character of the complete package.

* When the taxable item or items represent more than 25

percent of the value of the package, the total charge is subject to sales tax.

- * When the taxable item or items represent 25 percent or less of the value of the package, the total sale is exempt. The seller is required to pay use tax on any taxable items included in the package that were purchased tax-exempt for the purposes of resale. The cost price of any promotional items included in the package is subject to tax.

COMPLIMENTARY FOOD OR DRINK

Florida law also provides various specific provisions for beverage tasting, donated food or beverages, complimentary meals, and other complimentary food items.

Beverage Tasting. Licensed distributors and any other vendor authorized to sell vinous beverages or to sell spirituous beverages are authorized to conduct "wine tasting" and "spirituous beverage tasting" on any licensed premise for the general public of legal drinking age. The wine and other alcoholic beverages provided at such tasting events are specifically exempt from sales and use tax.

Donated Food Products. Grocery stores and other dealers who sell food products at retail are not subject to tax on any food product donated to a food bank or an organization determined to be currently exempt from federal income tax pursuant to s. 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Complimentary Food and Beverages. Dealers whose primary business activities are serving prepared food products or alcoholic beverages for immediate consumption are generally required to pay tax on the cost price of complimentary food products provided to customers at no charge. Examples of complimentary food items served without charge to customers that are generally taxable to the dealer are popcorn, nuts, chips, and pretzels.

Conversely, when dealers of this type provide a

complimentary food item or an alcoholic beverage to a customer at the time of, or in connection with, the sale of taxable tangible personal property, no tax is due from the dealer. The complimentary food or beverage is considered to be a part of the sale of the taxable tangible personal property that it accompanied. For example, when a complimentary dessert, beverage, or appetizer is provided to a customer with the purchase of a dinner meal, no additional tax is due.

Grocery stores and other dealers who primarily sell food products at retail are not subject to tax on any food or drink provided without charge as a sample or for the convenience of customers, even when the item is cooked or prepared on the dealer's premises. This includes complimentary coffee served by bakeries. Bakeries are not considered to be in the business of primarily serving prepared food for immediate consumption. Bakery products that are sold while still warm from the initial baking are not hot prepared food products. Their temperature is a result of the timing of the customer's purchase rather than an indication of preparation to be sold in a heated condition. Additionally, any item given to a customer as part of a price guarantee plan related to point-of-sale errors by a dealer that primarily sells food products at retail is not subject to tax.

Complimentary Meals. Public lodging establishments that advertise that they provide complimentary food and drinks are not required to pay sales or use tax on food or drinks furnished as part of a packaged room rate, when:

- * The food or drinks are furnished as part of a packaged room rate;
- * No separate charge or specific amount is stated to the guest for such food or drinks;
- * The public lodging establishment is licensed with the Division of Hotels and Restaurants of the Department of Business and Professional Regulation; and
- * The public lodging establishment rents or leases transient accommodations that are subject to sales and use tax.

References: Sections 212.02(4), (13), (14), (15), (16), (18),
(20), (21), 212.05(1)(a)1., (b), 212.06(1)(a),
212.08(7)(s), (jj), (oo), (pp), Florida Statutes.
Rules 12A-1.011(2), 12A-1.018, 12A-1.058
(Repealed), 12A-1.077(3), 12A-1.089, Florida
Administrative Code.

FOR MORE INFORMATION

This document is intended to alert you to the requirements contained in Florida laws and administrative rules. It does not by its own effect create rights or require compliance.

For forms and other information, visit our Internet site at www.myflorida.com/dor. Or call Taxpayer Services, 8:00 a.m., to 7:00 p.m., ET, Monday through Friday, excluding holidays, at 800-352-3671 or 850-488-6800.

Hearing- or speech-impaired persons should call our TDD at 800-367-8331 or 850-922-1115.

For a detailed written response to your questions, write the Florida Department of Revenue, Taxpayer Services, 1379 Blountstown Highway, Tallahassee, FL 32304-2716.

To receive a fax copy of a form, call 850-922-3676 from your fax machine telephone.