



Coupons, Discounts, Promotional Items, and Gift Cards

The *Lakewood 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 paid by the customer.

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 are 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 considered advertising items, such as T-shirts, bumper stickers, other novelties or free samples. When such items are given to customers without requiring any purchase, the business is required to pay Lakewood City sales/use tax on the cost of those items to the business.

Similarly, restaurants that offer complimentary food or beverages to customers must pay Lakewood City sales/use tax on the cost of such items. 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, and Punch Cards

If an item is provided free with the purchase of a taxable item, tax is due only on the purchased item. No use tax is due on the free item.

If an item is provided 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.

Coupon Books

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.

Gift Cards or Gift Certificates

The sale of a gift card or gift certificate is the sale of an intangible "right" to exchange the value of the card or certificate for goods or services. Therefore, gift cards are not subject to sales or use tax at the time of the customer's purchase. A taxable transaction occurs when the card or certificate is used to acquire tangible personal property. Upon redemption or exchange of a gift card or certificate for tangible personal property, sales or use tax is due on the total sale price of the tangible personal property.

Redemption of a gift card or certificate for cash only (*i.e.*, no purchase of tangible personal property) is not subject to tax.

The vendor selling gift cards and gift certificates is liable for the sales or use tax on the printing cost or purchase price of the actual cards and certificates, as the physical cards and certificates are tangible personal property not for resale.

Examples

1. Business A 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. Manufacturer B issues a manufacturer's coupon for \$5 off the price of their new product. This coupon is for the retailer to receive a \$5 reimbursement from Manufacturer B 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. Business C advertises that its cars sell for \$8600 after the application of a \$500 rebate from the manufacturer. Sales tax is due on the full selling price of \$9100.
4. Business D takes a non-grocery item off the shelf and gives it away for free as a way to celebrate its grand opening. Use tax is due from Business D on the purchase price of the item.
5. A tote bag is given free with the purchase of a t-shirt. The tote bag is not subject to sales/use tax.
6. A grocery store 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 grocery store on the food cost.
7. A person purchases a tie that costs \$25 by using a gift card worth \$15 and pays the balance in cash. Tax on the transaction is applied to the full \$25 sale price.
8. A customer purchases a \$50 gift card for Business E. The gift card is not subject to tax. However, upon redemption of the gift card for tangible personal property, the total sale price of the tangible personal property would be subject to tax.

Related Topics

Sales Tax
Use Tax

Citations

Lakewood Municipal Code

§ 3.01.020 Definitions – Price or Purchase Price, Sales Tax, Use Tax

§ 3.01.120 Property and services taxed (Sales Tax)

§ 3.01.130 Collection of sales tax

§ 3.01.180 Exemptions (Sales Tax)

§ 3.01.210 Property and services taxed (Use Tax)

§ 3.01.220 Collections of use tax

§ 3.01.230 Exemptions (Use Tax)

Regulations

§ 3.01.020(27) Purchase Price

Special Regulations

Coupons

Gift Certificates

Gifts, Premiums, and Prizes

THIS GUIDANCE IS A SUMMARY IN LAYMEN'S TERMS OF THE RELEVANT LAKEWOOD TAX LAW FOR THIS TOPIC, INDUSTRY, OR BUSINESS SEGMENT. IT IS PROVIDED FOR THE CONVENIENCE OF TAXPAYERS AND IS NOT BINDING UPON THE CITY. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE LAKEWOOD MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

Contact Us

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