

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 95-140

Coupons - Discounted Selling Price

Generally

Cash discounts allowed and taken at the time of sale are excluded from the sales price of tangible personal property upon which the sales tax is based. Cash discounts which are given to customers after the time of sale are not excluded from the sales price. Any discount for early payment offered to customers who purchase tangible personal property on credit is included in the sales price.

Price Reduction Coupons

In general, sales tax treatment of purchases made or items obtained using coupons which result in a reduced price to the consumer is based on whether or not the retailer can be reimbursed for the coupon by a manufacturer or other third party.

Definitions

"Retailer's or Store Coupon" is a coupon issued by the retailer.

"Manufacturer's Coupon" is a coupon issued by a manufacturer, distributor, promoter, or any other third party.

"Retailer's or Store Coupons." When a retailer issues a store coupon and receives no reimbursement for the value of the coupon from any third party the tax is computed on the discounted sales price. This type of coupon is a seller's discount which is deducted from the sale price before computing the sales tax.

"Manufacturer's Coupons." When a retailer accepts a manufacturer's coupon for which it receives reimbursement from any third party, the sales tax is computed on the full selling price of the item, i.e., the consideration paid to the retailer plus the face value of the coupon. The reimbursement may be in any form, including cash or credit towards the purchase of additional merchandise.

If a retailer offers customers, upon presentation of a manufacturer's coupon, a discount on the usual sales price of tangible personal property at double or triple the value of the coupon, and the retailer receives reimbursement from any source for the coupon, the tax is computed on the sum of the discounted price and the face value of the coupon.

Special Offers

If a retailer offers customers, upon presentation of a coupon, merchandise unconditionally free of

charge, merchandise free of charge with the purchase of other merchandise or two items for the usual price of one, and the retailer receives reimbursement from a manufacturer, distributor, promoter or other source for the coupon, the sales tax is levied on the usual sales price of the item or items. The reimbursement may be in any form, including cash or credit towards the purchase of additional merchandise.

If a retailer sells an item to a customer at a discounted price and is reimbursed for the amount of the discount by a third party, the tax is computed on the discounted price of the item plus the reimbursement received whether or not a coupon is presented to the retailer.

If a retailer gives a customer an item unconditionally free of charge upon presentation of a coupon, and the retailer receives no reimbursement from any source for the coupon, the retailer is considered the consumer of that item and is responsible for the payment of a sales or use tax based upon the amount it paid for the item.

"Free" Meal Coupons

In general, the sales tax treatment of a "free" meal furnished to a customer who purchases another meal and presents a coupon or card for the free meal depends, like other coupon items, upon whether the restaurant receives any reimbursement for the coupon or card.

If the restaurant issues its own coupon free of charge and does not receive any reimbursement for the coupon or card, the restaurant is regarded as selling two meals for the price of one and only one meal is subject to tax.

If the restaurant accepts a coupon or card which the customer previously purchased from a third party having a contract with the restaurant to redeem the coupons or cards and the restaurant is not reimbursed for the coupon or card, the restaurant is regarded as selling two meals for the price of one and only one meal is subject to tax.

(If the restaurant requires a gratuity to be imposed on the value of the two meals, the entire gratuity is part of the taxable receipts.)

When a restaurant agrees to furnish a "free" meal to a customer who purchases another meal and presents a coupon or card, which the customer previously had purchased directly from the restaurant or through a sales promotional agency having a contract with the restaurant to redeem the coupons or cards, the restaurant is regarded as selling two meals for the price of one, plus any additional compensation from the agency or from its own sales of coupons. Any such additional compensation is a part of its taxable gross receipts for the period in which the meals are served and, as such, the tax applies only to the price of the paid meal plus any such additional compensation.

The sale of a "free" meal coupon, coupon booklet, or card to the ultimate consumer of meals is not subject to tax.

CROSS REFERENCE: Gifts & Premiums, Regulation [SU 87-53](#)

R. GARY CLARK
TAX ADMINISTRATOR

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