



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

AUGUST 23, 2012

Discount Vouchers

Background

Use of web-based deal-of-the-day vouchers, offered by third party companies that may be redeemed for personal property and services at a reduced or discounted price is becoming more common. This Special Notice refers to these vouchers as “discount vouchers” and to the third party company offering the discount vouchers as a “discount voucher provider” (DVP). It also explains how taxes apply on redemption of these discount vouchers.

As a **general** rule, if a customer redeems a discount voucher when purchasing a product or a retail service, the retailer is required to collect retail sales tax based on the total amount paid for the voucher, plus any other consideration received by the seller (e.g., cash, check, or credit card amount).

Please note there are numerous arrangements involving vouchers other than those described in this Special Notice that may result in a voucher not being considered a discount voucher. The tax results for the examples provided below may not apply to a different set of facts.

What is a discount voucher?

A discount voucher is an instrument redeemed by a customer from a seller at the time of purchase that:

- Is obtained by the customer from a DVP that has an agreement with the seller, and the seller determined the price of the voucher sold;
- Allows the customer to acquire the voucher for less than its face value;
- Is redeemable either for a specific good or service (product) or for a certain dollar amount towards the sales price of any product sold by the seller; and
- The seller, at the time of redemption, knows the amount paid by the customer for the voucher.

How do retail and business and occupation (B&O) taxes apply on redemption of a discount voucher?

- The purchase of a discount voucher prior to redemption is not taxable.
- The seller of a product or products purchased using a discount voucher must include the amount the customer paid for the discount voucher in the gross proceeds of sales or gross income of the business, as the case may be.
- If a discount voucher is redeemed by a customer for a product subject to retail sales tax (imposed under **RCW 82.08.020**), then the amount paid by the customer is included in the taxable sales price of the product.
- The seller may not deduct advertising or similar expenses (fees) paid to the DVP, even if the DVP “nets out” those expenses (fees) before remitting payment to the seller.

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Note: While this Special Notice does not address the tax obligations of DVPs, these businesses may owe tax for gross income related to amounts received for their services.

How do sellers determine the amount paid by the customer?

- If a discount voucher indicates the amount the customer paid, the seller will include that amount in the sales price of the product purchased.
- If the seller, through its agreement with the DVP, knows the amount the customer paid for the discount voucher, that amount is to be included in the sales price of the product purchased.
- If the seller does not know at the time of sale the amount the customer paid to obtain a payment instrument and thus does not know whether the instrument is a discount voucher, the seller will treat the consideration paid by the customer as equal to the face value of the instrument.

Sellers must be able to substantiate, through documentation, the amount the customer paid for the redeemed discount voucher and any discount applied to the sale.

Examples

For purposes of these examples, presume the seller is located in Washington.

Example 1: Purchase of a product subject to retail sales tax.

PizzaCo operates a restaurant. PizzaCo enters into an agreement with a DVP under which the DVP will distribute vouchers that entitle voucher holders to \$20 toward the purchase of any large pizza from PizzaCo.

Mark, a customer, pays \$12 to the DVP and receives a voucher, which he later redeems along with an additional payment of \$5 towards the purchase of a pizza listed for a price of \$25. The voucher indicates that Mark paid \$12 in order to obtain the voucher. After the redemption, the DVP remits to PizzaCo \$6 (\$12 collected from Mark minus \$6 for advertising expenses) according to its agreement with PizzaCo. PizzaCo receives no other consideration or reimbursement from a third party related to the sale to Mark (e.g., reimbursement from a supplier).

a. Is the voucher a discount voucher?

Yes.

b. What is the sales price of the pizza upon redemption of the discount voucher?

Upon redemption the sales price is \$17, which is the sum of the \$12 paid to the DVP for the discount voucher, and the additional \$5 paid by Mark to Pizza Co.

The \$8 difference between the \$25 listed price for the pizza and the \$17 consideration paid is treated as a discount. No deduction is allowed for the advertising expenses withheld by the DVP.

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c. What are the retail sales tax implications for this sale?

The sale is subject to retail sales tax based on the \$17 selling price.

d. What is PizzaCo's B&O tax obligation?

PizzaCo has gross income of \$17, which is subject to Washington's retailing B&O tax.

Example 2: Purchase of a product not subject to retail sales tax.

HairCo operates a hair salon. HairCo enters into an agreement with a DVP under which the DVP will distribute vouchers that entitle any voucher holder to a \$50 hair perm. Sandra, a customer, pays \$10 to the DVP and receives a voucher, which she later redeems. The voucher indicates that Sandra paid \$10 in order to obtain the voucher. After the redemption, the DVP remits to HairCo \$5 (\$10 collected from Sandra minus \$5 for advertising expenses) according to its agreement with HairCo. HairCo receives no other consideration or reimbursement from a third party related to the sale to Sandra (e.g., reimbursement from a supplier).

a. Is the voucher a discount voucher?

Yes.

b. What is the sales price of the hair perm on redemption of the voucher?

Upon redemption the sales price is \$10, which is the sum of the \$10 paid to the DVP for the discount voucher.

The \$40 difference between the \$50 listed selling price for the hair perm and the \$10 consideration paid is treated as a discount. No deduction is allowed for the advertising expenses withheld by the DVP.

c. What are the retail sales tax implications for this sale?

No retail sales tax must be collected as the sale of hair perms are not subject to retail sales tax in Washington.

d. What is HairCo's B&O tax obligation?

HairCo has gross income of \$10, which is subject to Washington's service and other activities B&O tax.

Example 3: Redemption of a voucher where the seller does not know the amount paid by the customer at the time of sale.

BigBox Retailer (BigBox) sells sporting goods. Ted redeems a voucher with a face value of \$20, along with an additional payment of \$5, at BigBox for a racquetball glove with a listed price of \$25. The voucher does not indicate the amount Ted paid for the voucher,

and at the time of sale BigBox's employees do not know the amount Ted paid for the voucher. BigBox receives no other consideration or reimbursement from a third party related to the sale (e.g., a manufacturer's coupon).

a. Is the voucher a discount voucher?

No. The voucher is not treated as a discount voucher because BigBox does not know the amount paid by Ted for the voucher.

b. What is the sales price of the racquetball glove upon redemption of the voucher?

The sales price is the \$25, which is the \$20 face value of the voucher and the additional \$5 paid by Ted to BigBox.

c. What are the retail sales tax implications for this sale?

The sale is subject to retail sales tax based on the \$25 selling price.

d. What is BigBox's B&O tax obligation for this sale?

BigBox has gross income of \$25, which is subject to Washington's retailing B&O tax.