

# Excise Tax Advisory

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ETA 3XXX.20XX

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**THIS DRAFT ETA IS TO BE USED SOLELY FOR DISCUSSION PURPOSES. UNDER NO CIRCUMSTANCES IS THIS DRAFT ETA TO BE USED TO DETERMINE TAX LIABILITY OR ELIGIBILITY FOR A TAX DEDUCTION, EXEMPTION, OR CREDIT.**

## Discount Vouchers and Other Types of Payment or Credit Vouchers

### Purpose

This Excise Tax Advisory (ETA) explains the tax treatment of discount vouchers and certain other types of payment or credit vouchers. In particular, the ETA provides guidance in determining whether a payment or credit voucher is:

- A discount voucher that allows the purchaser of the voucher to claim a bona fide discount. Bona fide discounts may be deducted from the measure of business and occupation (B&O) tax and retail sales tax upon redemption; or,
- A payment or credit voucher that does not allow the purchaser (or recipient) of the voucher to claim a discount. The redemption value of these types of payment or credit vouchers may *not* be deducted from the measure of B&O tax or retail sales tax.

This ETA contains examples that identify a number of facts and then state a conclusion. The examples should only be used as a general guide. The tax results of other situations must be determined after a review of all relevant facts and circumstances in each case.

Readers may refer to the following for more information:

- **WAC 458-20-103**, Gift certificates – Sale deemed to occur and retail sales tax collected at time of redemption.
- **WAC 458-20-108**, Selling price – Credit card service fees, foreign currency, discounts, patronage dividends.
- **ETA 3191.2014**, Rewards Programs – Retail Sales Tax.

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Questions? Complete the online form at <https://dor.wa.gov/communications> or call 360-705-6705. If you want a binding ruling from the Department, complete the form at <https://dor.wa.gov/rulings>.

- **ETA 3173.2019**, Grocery Stores: Manufacturer/Distributor Discounts and Scan Down Allowances.
- **August 23, 2012 Special Notice**, Discount Vouchers.

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**Terms used in this  
ETA**

**“Bona fide discount”**:<sup>1</sup> When a sale is made subject to a cash or trade discount, the gross proceeds actually derived from the selling price are determined by the transaction as finally completed. A sale is made subject to a discount when the sales price is reduced under terms known to the buyer and seller at the time of the sale, and the price reduction occurs at the time of the sale or within a time agreed and understood by the parties at the time of the sale.

The selling price or sales price of a service or article of tangible personal property does not include a bona fide discount actually taken by the buyer. The amount of the bona fide discount may be deducted only if the amount has been included in the gross amount reported.

Discounts are not deductible when the retail sales tax is based on the selling price or sales price before the discount is taken and no portion of the tax is refunded to the buyer.

**“Discount voucher”**: An instrument redeemed by a customer from a seller at the time of purchase where:

- The customer obtained the voucher from a discount voucher provider and the discount voucher provider has an agreement with the seller;
- The seller has determined the price of the voucher sold;
- The customer acquired the voucher for less than its face value;
- The voucher is redeemable either for a specific good or service 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.

**“Discount voucher provider”**: A third-party company that offers discount vouchers to prospective customers of a seller’s goods or services as an incentive to attract customers. Generally, discount voucher providers offer discount vouchers through a website or other online marketplace. Discount voucher providers typically charge fees for their services, including commission fees based on a certain percentage of voucher sales income. This fee is commonly received by the discount voucher provider before the remaining purchase amount of a discount voucher is remitted to the seller.

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<sup>1</sup> See Washington Administrative Code (WAC) 458-20-108(7).

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**Treatment of  
“discount vouchers”**

Retail sales tax is imposed on each sale of tangible personal property and any activity defined as a “retail sale” under RCW 82.04.050. RCW 82.08.020. The measure of retail sales tax is the “selling price,” which means the total amount of consideration received by a seller, including cash, credit, property, and services, valued in money, whether received in money or otherwise.<sup>2</sup> A similar result applies for determining the retailing B&O tax. RCW 82.04.250 and 82.04.080.

“Selling price” excludes bona fide discounts that are allowed by a seller and taken by a purchaser on a sale.<sup>3</sup>

If a payment or credit voucher qualifies as discount voucher, and is not conditioned on performance as described below, the discount voucher represents part consideration and part discount when redeemed. In cases where a discount voucher is redeemed for goods or services that are subject to retail sales tax under RCW 82.04.050, the amount paid for the discount voucher represents consideration received by the seller for a retail sale. This is the case whether the discount voucher is redeemable for a specific good or service (e.g., voucher purchased for \$10 that can be redeemed for one car wash) or a certain dollar value of goods and services (e.g., voucher purchased for \$10 that can be redeemed for \$15 worth of car washing services). The value of the discount voucher above the amount paid for the voucher is treated as a bona fide discount.<sup>4</sup>

Sellers may not deduct from their gross income of the business or the selling price any commission fees or other expenses paid to a discount voucher provider.

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**Treatment of  
payment or credit  
vouchers which are  
conditioned on the  
provision of goods  
or services**

A payment or credit voucher conditioned upon the provision of goods or services by the purchaser of the payment or credit voucher is not a discount voucher or bona fide discount. The face value of this type of payment or credit voucher is consideration when applied to later purchases in an amount equal to the face value of the voucher. No deduction is allowed from the measure of B&O tax or retail sales tax.

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**Example 1: *Bona fide discount – Discount voucher issued using a discount voucher provider***

**Facts:**

BBB Sports Apparel, Inc. is in the business of manufacturing and selling custom retail sports apparel, including sweatshirts, hats, t-shirts, and other apparel. The sale of these items to a consumer is retail sale subject to retail sales tax and retailing B&O tax.

BBB enters into an agreement with Puget Sound Vouchers, Inc. (PSV), an online discount voucher provider for Puget Sound area businesses, to offer a discount

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<sup>2</sup> See RCW 82.08.010.

<sup>3</sup> See RCW 82.08.010.

<sup>4</sup> This result assumes no third-party is paying the seller additional amounts upon the redemption of the discount voucher.

voucher through PSV's website. Under the agreement, a customer can purchase a voucher for \$1,000 that has a stated value of \$2,000 on the face of voucher. The voucher can be redeemed for any of BBB's products. As part of the agreement, PSV will retain \$100 on each voucher sold under the program as a fee for its services. Purchasers of the voucher are not required to perform any services or activities in exchange for the discount voucher offered by BBB.

CCC Baseball Club, LLC is a local adult semi-professional baseball team. CCC purchases the \$1,000 discount voucher from PSV's website in January 2021. In February, CCC purchases customized uniforms that have a selling price of \$2,000. CCC applies its voucher to the sale transaction. Neither CCC nor any other person pays additional consideration in exchange for the uniforms. The sale takes place in Washington.

**Result:**

The voucher is a discount voucher. When CCC redeems the voucher at BBB, BBB has received consideration for the uniforms in the amount of \$1,000, the amount paid for the voucher. BBB must charge CCC retail sales tax on the \$1,000 paid. BBB must report \$2,000 in gross income under the retailing B&O and retail sales tax classifications on its February 2021 return. BBB is eligible to report a \$1,000 "Cash and Trade Discounts" deduction from the measure of both the retailing B&O and retail sales tax classifications, resulting in \$1,000 in taxable retail sales. BBB may not deduct the \$100 expense it paid to PSV.

**Example 2:** *Not a bona fide discount - Credit conditioned on performance of certain activities*

**Facts:**

BBB and CCC (from Example 1) enter into an agreement. CCC hosts games from its baseball facility in Lacey, Washington and the agreement allows BBB to sell its merchandise and apparel at a vendor booth located at CCC's baseball field. The agreement covers CCC's annual 2021 baseball season, which runs from April through September. CCC volunteers, who already operate CCC's food concessions, will sell BBB's apparel from the same location.

As part of the agreement, BBB will pay CCC either:

- a) 10% of the gross sales of merchandise sold at the vendor booth in cash, or
- b) 20% of the sales of merchandise sold at the vendor booth in the form of a credit voucher that CCC can use to purchase BBB products.

In calendar year 2021, BBB sells \$10,000 in apparel and merchandise at the vendor booth. At the end of the 2021 season, CCC elects to receive the \$2,000 credit for BBB apparel, which it uses to purchase new uniforms for the 2022 season. Neither

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CCC nor any other person pays additional consideration in exchange for the uniforms. The sale takes place in Washington.

**Result:**

This transaction does not involve a discount voucher. When CCC redeems the credit at BBB, BBB has received consideration for the uniforms in the amount of \$2,000, which is the face value of the credit voucher. BBB must report \$2,000 in gross income under the retailing B&O and retail sales tax classifications. BBB is not eligible to claim a “Cash and Trade Discount” as the agreement between BBB and CCC required CCC to provide services to BBB as a condition of receiving the credit voucher. BBB must collect retail sales tax measured by the \$2,000 selling price.

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**Example 3:** *Bona fide discount – Hybrid of Examples 1 and 2*

**Facts:**

Assume the facts from Examples 1 and 2, except that CCC does not have the option of receiving a merchandise credit equal to 20% of BBB’s product sales. Instead, CCC will receive cash equal to 10% of BBB’s product sales during the season. For the 2021 season, CCC receives \$1,000 from BBB (10% of \$10,000 in product sales).

In January 2022, CCC uses the \$1,000 it received from BBB to purchase the “discount voucher” (described in Example 1) from PSV’s website. The “discount voucher” entitles CCC to \$2,000 worth of BBB products. In February 2022, CCC redeems the voucher for \$2,000 worth of new customized uniforms.

**Result:**

The voucher is a discount voucher. BBB is required to report \$2,000 in gross income under the retailing B&O and retail sales tax classifications on its February 2022 return. BBB is eligible to report a \$1,000 “Cash and Trade Discounts” deduction from the measure of both the retailing B&O and retail sales tax classifications, resulting in \$1,000 in taxable retail sales. BBB may not include any expense it paid to the *discount voucher provider* in its “Cash and Trade Discounts” deduction.

**Note:** Unlike the fact pattern in Example 2, where the \$2,000 credit voucher received by CCC required it to provide beneficial services to the voucher issuer (BBB), in this example, CCC’s acquisition of the “discount voucher” is not related to the \$1,000 in income it received from BBB in exchange for its services.

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**Example 4:** Not a bona fide discount - *The amount paid for voucher is unknown to the seller at point of redemption*

**Facts:**

CCC (from Examples 1 through 3) enters into an agreement with DDD Pizzeria, a local pizza restaurant, in order to raise funds for CCC’s operations. Under the agreement, CCC will sell vouchers at its baseball games, on its website, and door-to-door, which entitle voucher purchasers to receive any type of large pizza from DDD.

The vouchers do not state the amount paid for the vouchers. DDD's large pizzas range in price from \$15 to \$25 dollars, depending on pizza type.

CCC sells the vouchers during the course of its 2020 baseball season (April through September). During that time, CCC sold 300 vouchers. Ultimately, customers redeem from DDD's employees 200 of the vouchers for pizzas sold by DDD.

**Result:**

The voucher is not a discount voucher. At the time a voucher purchaser redeems a voucher with DDD, DDD must collect retail sales tax from the user of the voucher according to the menu price of the pizza sold. DDD is not eligible to claim a *Cash and Trade* discount deduction, as the amount paid for each voucher was unknown to DDD's employees at the time of redemption. For this reason, the discount is neither a "discount voucher" nor a "bona fide discount."

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