

City of Colorado Springs

# Tax Guide

## Coupons and Promotions

### Discount Coupons

Store coupons are issued by retail stores. When presented to the store by the customer they discount the selling price of the product. Since the coupon is used to reduce the price charged to the customer, and there is no reimbursement to the retailer for the price reduction, sales tax applies only to the net selling price of the product.

Manufacturer's coupons are different from store coupons. A manufacturer's coupon is issued by a product manufacturer and allows the customer a reduction in the purchase price of its product upon presentation of the coupon to the retailer. The retailer accepts the manufacturer's coupon as part of the payment for the item being sold. Since the retailer receives the full selling price for the product, from the customer and the manufacturer, city sales tax shall be applied to the full selling price.

### Common Examples

1. A grocery store issues its own store coupon for soap. When the coupon is redeemed at the time of purchase, sales tax is charged on the net selling price (retail price less the coupon).
2. A company issues a manufacturer's coupon that entitles the customer to receive a \$50 discount when the customer presents the coupon at the time of purchase of the company's new product. The retailer reduces the price to the customer and receives reimbursement from the manufacturer for the \$50 reduction in sales price. Sales tax is calculated on the full selling price before the \$5 is deducted.

### CS CODE SECTION

2.7.104 Words and Phrases:  
Discount,  
Price or Purchase Price  
2.7.411, 2.7.603

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*This guide provides an overview of specific subject matter and is not intended to be substituted for the full text within the City of Colorado Springs Tax Code.*

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### Coupon Books

The sale of a coupon book is usually not considered a retail sale and is not taxable when the book is sold to the general public. However, city sales or use tax is due from the publisher based upon the printing cost of the coupon book. **EXCEPTION:** If the seller of the coupon book is also



the retailer selling the discounted product, or if the retailer receives any type of reimbursement or rebate from the sale of the coupon book, the sale of the coupon book is taxable.

## Give-Away Coupons

If a coupon entitles the customer to a free item such as buy one get one free or buy a sandwich and receive a free drink, city sales tax applies to the transaction in the same manner as promotions and giveaways.

## Promotions and Giveaways

When a free item is included with the purchase of a **taxable** item sales tax is due only on the amount charged. No additional sales tax is due on the free item because it is considered to be "sold" along with the taxable item. Use tax is due from the seller based on the cost of the taxable item given away. However, if the retailer receives any rebate, reimbursement, or consideration of any kind for the free item from a franchisor, manufacturer, or other sources, the sale is taxable on the full value received by the retailer (like a manufacturer's coupon) and no use tax need be remitted.

If an item of property is given away free with the purchase of a **non-taxable** item, it may be taxable or exempt. If the "free" item is normally sold as a non-taxable item then it remains non-taxable. If the "free" item is generally sold as a taxable item, then use tax is due from the seller based on the cost of the taxable item given away free.

If any item is given away unconditionally as a promotion or prize without any requirement of purchase, use tax is due from the seller based on the cost of the article given away free.

## Common Examples

1. A restaurant offers a "buy one dinner, get one free" promotion. Sales tax is calculated based upon the purchase price charged to the customer.
2. A gas station gives a free ice cooler with the purchase of 10 gallons of gas. The ice coolers are subject to sales and/or use tax at the time the gas station purchases them.
3. A store takes an item off the shelf and gives it away free to celebrate its grand opening. Use tax is due from the store on their cost of the free item.
4. A restaurant runs a promotional game and gives away scratch tickets which entitle winners to a free soft drink since the free drink is offered as a prize and is awarded without the requirement of a purchase the restaurant owes city use tax on their cost of drinks given away as prizes.