

Applying Iowa Sales Tax to Discounts, Rebates and Coupons

Discounts

The word "discount" means "to buy at a reduction." Iowa sales tax applies to the reduced price paid by the customer.

Example: The price of a hammer at George's Hardware is usually \$10. The store reduces the price to \$8. Customers who buy the hammer at the discounted price will pay Iowa sales tax on \$8.

Certain retailers bill their customers on a gross and net basis, with the difference considered to be a discount for payment purposes. When a customer does not resolve the bill within the net payment period, tax applies on the gross charge shown on the billing.

Rebates

A rebate is a return of part of an amount paid for a product. Manufacturers' rebates are not discounts and cannot be used to reduce the gross receipts received from a sale or reduce the purchase price of a product. This rule applies even though the rebate is used by the seller to reduce the selling price or is used by the purchaser as a down payment. The rebate is considered a transaction between the manufacturer and the purchaser.

Iowa sales tax applies to the amount paid by the purchaser to the seller. That amount cannot be reduced by the amount of the rebate before sales tax is applied.

Example: The manufacturer of Torque tires offers a rebate of \$100 on the purchase of four tires. Tires Unlimited sells four Torque tires for \$400. Customers who purchase the tires will pay Tires Unlimited \$400. Sales tax must be charged on the full amount. The purchaser will then apply directly to the manufacturer for the rebate.

Coupons

Generally, two types of coupons are used.

1. Coupons issued by the producer of a product. These are not discounts and cannot be used to reduce the taxable amount of the product.

Example: The manufacturer of Band-Aids issues a 30¢ off coupon which can be redeemed at a store which sells the product. A box of Band-Aids costs \$1.50. A customer pays \$1.20 plus the 30¢ coupon. Tax is due on the \$1.50 because the total gross receipts are \$1.50. The coupon is not used as a discount in this situation. The store is reimbursed the 30¢ for the coupon by the manufacturer.

2. Coupons issued by the retailer. These are treated as a discount.

Example: The Burger Doodle offers a two-for-the-price-of-one coupon for its super hamburger. Each hamburger normally sells for \$2.00 each. The coupon can only be redeemed at Burger Doodle's retail store. A customer uses the coupon to buy two super burgers. The purchase price was \$2.00 for both hamburgers. The tax is due on the \$2.00 because this amount is the gross receipts, even though the value of the two hamburgers would normally be \$4.00. The retailer has no avenue for reimbursement.

