

## ***Discount Coupons***

*Revised - January 1997*

*Ce guide est disponible en français sous le nom « Coupons rabais, No. 511F ». Vous pouvez obtenir un exemplaire de ce guide en appelant le 1-800-668-5821.*

### **GENERAL**

Retailers, restaurateurs, manufacturers and other types of vendors distribute a variety of discount coupons to promote their products. Although the consumer of the product redeems the coupon, the coupon is ultimately returned to the retailer, restaurateur, manufacturer, etc. or to a coupon clearing house and used for administrative purposes. For this reason, the party who bears the cost of printing the coupons must pay Ontario retail sales tax (RST) on the total cost of having the coupons produced.

Some coupons reduce the selling price of the goods and others can be used as either partial or full payment for the goods. The RST application to purchases of taxable goods or services depends on the type of coupon presented by the customer and on whether the federal goods and services tax (GST) is included or excluded from the selling price.

### **COUPON BOOKLETS**

Some religious, charitable, benevolent, or non-profit organizations raise funds by selling booklets of discount coupons. RST does not apply to the selling price of these booklets. However, the party which bears the cost of printing the coupon booklets, whether this is the organization or a promoter, is required to pay RST on the printing cost, including artwork and any other related costs.

### **COUPONS OFFERING FREE MERCHANDISE**

#### **FREE TAXABLE GOODS, NO PURCHASE REQUIRED**

A coupon that is issued by either a retailer or a manufacturer may provide for taxable merchandise to be given free of charge, with no requirement to purchase other merchandise. The person presenting the coupon is not required to pay RST on the free merchandise. In this case, the person bearing the expense of the free merchandise is required to pay RST on the cost of the merchandise.

#### **FREE TAXABLE GOODS WITH PURCHASE OF OTHER TAXABLE GOODS**

A coupon that is issued by either a retailer or a manufacturer may provide for free taxable merchandise to be given with the purchase of other taxable merchandise. The customer pays RST on the total amount paid for the merchandise, which includes the free merchandise. For example, when a coupon offers two chocolate bars for the price of one, RST is payable by the customer on the price paid for one. In this case, the person bearing the expense of the free merchandise is not required to pay RST on the cost of the free merchandise.

#### **FREE TAXABLE GOODS WITH PURCHASE OF EXEMPT GOODS**

A coupon that is issued by either a retailer or a manufacturer may provide for free taxable merchandise to be given with the purchase of other merchandise that is exempt from RST. The person presenting the coupon is not required to pay RST on the free taxable merchandise. In this case, the person bearing the expense of the free taxable merchandise is required to pay RST on the cost of the merchandise.

Customers are sometimes encouraged to buy more of a specific product to get a free gift. In order to get the gift, the customer must send proofs of purchase. In many cases, the customer is also asked to send an amount for postage and handling. Since the gift was not **purchased** at the same time as the product, this transaction cannot be considered the same as getting free taxable goods with the **purchase** of either exempt or taxable goods. If the customer is not required to pay anything, or even if the postage and handling is paid by the customer, the party bearing the cost of the free taxable gift is required to pay the applicable RST on the fair value of the gift.

\* **See section on sales of "Taxable and Exempt Goods in the Same Package".**

## MANUFACTURERS' DISCOUNT COUPONS

For RST purposes, a manufacturer's discount coupon:

- offers a discount on the purchase of a specific product, and
- specifically states that the retailer **WILL** be reimbursed by a third party, either directly by the manufacturer or through a coupon clearing house.

When a retailer accepts a manufacturer's discount coupon on a taxable purchase, RST is payable by the customer on the full selling price **before** deducting the value of the coupon. In this case, the retailer has not lowered the price; rather, another party (the manufacturer) has paid part of the purchase price on behalf of the customer. The following is an example of how the RST is to be applied when the selling price is GST-extra or GST-included.

### GST-extra pricing:

Selling Price	\$ 10.00
RST @ 8% (\$10.00 x 8%)	.80
GST @ 7% (\$10.00 x 7%)	<u>.70</u>
Subtotal	\$ 11.50
Less: Money coupon	<u>1.07</u>
Total	<u>\$ 10.43</u>

### GST-included pricing:

Selling Price	\$ 10.70
RST: 7.477% * x \$10.70	<u>.80</u>
Subtotal	\$ 11.50
Less: Money coupon	<u>1.07</u>
Total	<u>\$ 10.43</u>

- \* The federal government will allow vendors the option of using GST-included pricing when billing customers. Vendors who choose this option may use a factor to calculate the amount of RST to collect from customers when the sale is taxable both provincially and federally. The use of this factor is the same as multiplying the GST-excluded selling price by the applicable provincial tax rate. To calculate RST on goods taxable at the RST rate of 8%, vendors would multiply the GST-included price by 7.477%. Those who use this option must show the amount of RST separately on customers' invoices, **but not the equivalent factor used. Written permission must be obtained** from the Tax Advisory unit of the Retail Sales Tax Branch before the factor can be applied.

Manufacturers may issue coupons or otherwise advertise that cash rebates will be made to retail purchasers of their products. For RST purposes, this rebate does not reduce the taxable amount. RST applies to taxable sales made to a customer on the full selling price **before** the rebate amount is deducted.

## RETAILERS' DISCOUNT COUPONS

### • COUPONS ISSUED BY RETAILERS

For RST purposes, a retailer's discount coupon:

- offers a discount on the purchase of a specific product at the retailer's store(s), and
- does **NOT** specifically state that the retailer will be reimbursed by a third party, such as a manufacturer.

The retailer who issued the discount coupon for a specific product is actually selling the item at a reduced price. When the retailer accepts this type of coupon, the customer is required to pay RST on the net price **after** deducting the value of the coupon. Some discount coupons appearing in a retailer's advertising material may actually be manufacturer's discount coupons. If the coupon is a manufacturer's discount coupon, the customer is required to pay RST on the full selling price **before** the value of the coupon is deducted.

### • CO-PROMOTION COUPONS

Two retailers may enter into a co-promotion arrangement under which coupons issued by one retailer are redeemable on the purchase of taxable goods or services that are sold by the other. A retailer redeeming a co-promotion coupon treats it in the same manner as a retailer's discount coupon. Either retailer, accepting the co-promotion coupon, is required to charge RST on the net price **after** deducting the value of the coupon.

- **COMPETITORS' COUPONS**

A retailer accepting a competitor's discount coupon as partial payment toward the purchase of taxable goods or services, is required to charge RST on the net price **after** deducting the value of the coupon. The retailer is actually reducing the selling price since the competitor will not be reimbursing the retailer the value of the coupon.

- **GST-INCLUDED COUPONS**

The federal government allows a retailer the option of treating retailers' coupons as a direct reduction in the selling price, or as GST-included coupon. If the coupon is treated as a GST-included coupon, it is considered a partial payment towards the purchase price. RST applies in the same manner as the examples shown under the heading "Manufacturers Discount Coupons". The following examples show how RST applies to GST-extra and GST-included pricing when the coupon is treated as direct reduction in the selling price.

**GST-extra pricing:**

Selling Price	\$ 10.00
Less: Coupon	<u>1.00</u>
Subtotal	\$ 9.00
RST @ 8% (\$9.00 x 8%)	.72
GST @ 7% (\$9.00 x 7%)	<u>.63</u>
Total	\$ <u>10.35</u>

**GST-included pricing:**

Selling Price	\$ 10.70
Less: Coupon	<u>1.07</u>
Subtotal	\$ 9.63
RST: 7.477% x \$9.63	<u>.72</u>
Total	\$ <u>10.35</u>

## **MONEY COUPONS**

Retailers may give their customers money coupons at the time of sale. These coupons can be redeemed by the retailer or by any associated franchise store, regardless of which store originally distributed the coupons. RST is payable on the **full selling price** of taxable goods **before** the value of money coupons is deducted. Money coupons do not reduce the fair value of the goods. They are tendered as partial or full payment.

The federal government allows retailers to include GST in the face value of money coupons or to deduct the face value of the coupon from the total selling price before the GST is calculated, **provided** the coupon is used to purchase a GST-taxable item, i.e. taxable goods, services or prices of admission. When GST is included in the face value of the coupon, RST applies in the same manner as the examples shown under the heading "Manufacturers' Discount Coupons". The following example shows how RST is to be calculated when the face value of the coupon is deducted from the total selling price before the GST is calculated.

**GST-extra pricing:**

Selling Price	\$ 10.00		
RST @ 8% (\$10.00 x 8%)		\$ .80	
Less: Money coupon	<u>1.00</u>		
Subtotal	\$ 9.00		<u>.63</u>
GST @ 7% (\$9.00 x 7%)			<u>.63</u>
Total	\$ <u>9.00</u>	+ \$ <u>1.43</u>	\$ <u>10.43</u>

A GST-included pricing example has not been shown. Most businesses do not use the option of GST-included pricing since money coupons are to be deducted from the total selling price **before** the GST is charged to customers. If further information is required on how GST is to be calculated, please call your local GST office as listed under Government of Canada in the blue pages of the telephone directory. If this option is used, the GST-included selling price should be multiplied by the factor of 7.477% to calculate the RST amount.

## OTHER TYPES OF INCENTIVES

### • ACCUMULATION OF POINTS

Some businesses issue their own credit cards and offer customers points each time they use their cards. Points are accumulated and when a specific number is reached, the points can be redeemed for a dollar value award, dollar value certificates, a percentage discount award, or the points can be used to get items from the card issuer's catalogue. The awards or certificates can be used only for items sold in the card issuer's stores.

Under the above type of incentive program, the selling price of taxable goods or services offered by the card issuer is not being discounted. The awards or certificates are not considered a retailer's discount coupon since the awards or certificates are not being issued for a specific product or service. When customers present their awards or certificates, RST is to be charged on the full selling price **before** the awards or certificates are deducted. See examples under the above heading, "Manufacturers' Discount Coupons".

If a business redeems points for taxable items in their catalogue, they must pay RST on the cost of such items, as well as on the total printing cost to produce the catalogue. For RST purposes, this situation is the same as businesses which encourage customers to buy more items to get a free gift.

### • GIFT CERTIFICATES

RST is not payable on the purchase of gift certificates. When gift certificates are presented in partial or full payment of a taxable sale, RST is payable by the customer on the full selling price **before** the value of the gift certificate is deducted. The party who bears the expense of producing the gift certificates, is required to pay RST on the total printing cost of these certificates.

## TAXABLE AND EXEMPT GOODS IN THE SAME PACKAGE

The tax treatment for purchases of taxable and exempt goods in the same package differs from purchases in which a coupon is presented to vendors for free merchandise. The difference is that both taxable and exempt goods are being **sold** for a specific price rather than merchandise being given away free of charge.

As of July 1, 1993, the selling price of taxable and exempt goods **sold** in the same package are to be shown separately. If the selling price is not broken down, RST is to be charged on the total selling price. As an example, some eating establishments include a toy with children's meals. These toys can also be purchased separately. If the selling price of the meal is \$4.00 or less (excluding GST), RST would not apply to the meal. However, RST is to be charged on the toy if its selling price or fair value is more than 21 cents. If the selling price of the toy is not shown separately, RST applies to the total selling price of both the meal and the toy even though the selling price of the meal may be less than \$4.00 (excluding GST).

RST would not apply if a package, except for the container and other packaging material, consists of items that can be purchased by the customer exempt from RST, **and** the cost to the vendor of the container and other packaging material is less than 10% of the cost of the items included in the package.

Vendors can break down the selling price of the taxable and exempt goods sold in the same package provided:

- a) the selling price of the taxable and exempt goods is reasonable,
- b) the breakdown of the selling price of both the taxable and exempt goods is clearly shown to customers, **and**
- c) a record is kept of the separate and reasonable charge made for the taxable items included in the package.

Some packages or arrangements include liquor, beer or wine. RST would not apply to these beverages if the vendor of the package pays the applicable provincial tax at the time of purchase **and** the selling price of the beverages is shown separately.

---

The information in this publication is only a guideline. For more specific information, please consult the *Retail Sales Tax Act* or call your local Retail Sales Tax Office listed in the blue pages of your telephone directory.