



Tax Department Policy on Manufacturer's Discounts Received Using Store Loyalty Cards

This memorandum describes the procedures that sellers should follow to properly disclose to customers that certain discounts received through store loyalty cards are manufacturer's discounts.

Background

Many businesses use store loyalty cards to offer their customers incentives to shop frequently at their stores. These incentives often include discounts that are activated by scanning the customer's loyalty card at the cash register.

When these loyalty card discounts are given and the discounted item is subject to sales tax, the amount subject to sales tax generally depends on whether the discount reflects a manufacturer's discount or a store discount. If the store is reimbursed for the amount of the discount by the manufacturer, distributor or other third party, it is a manufacturer's discount. If the store receives no reimbursement from a third party for the amount of the discount given, it is a store discount.

Generally, when a customer purchases an item subject to sales tax and receives a manufacturer's discount, the amount subject to sales tax is the full price of the item before subtracting the discount. For store discounts, however, the amount subject to sales tax is the price of the item after the discount is applied. For more information on the treatment of discounts, see Tax Bulletin [Coupons and Food Stamps \(TB-ST-140\)](#).

In the case of a manufacturer's discount, the store must adequately disclose to the customer, at or before the time of purchase, that the discount the customer is receiving is a manufacturer's discount. This is to ensure that the customer is aware that the full purchase price is subject to sales tax. If the seller fails to adequately disclose this information to the customer, section 526.5(c)(4) of the Sales and Use Tax Regulations provides that the seller must collect sales tax from the customer on the reduced price of the item. However, in this case, when the seller files its sales tax return it must still remit sales tax on the full price of the item before the discount. That is, the seller itself will be required to pay the sales tax on the amount of the manufacturer's discount.

Proper procedures to adequately disclose a manufacturer's discount offered through the use of loyalty cards

A seller must follow one or more of the following procedures to meet its obligation to adequately disclose to a customer, at or before the time of purchase, that the customer has been given a manufacturer's discount through the use of a loyalty card:

- The seller prints *Manufacturer's* or *Mfr.* on its coupons, in its store circulars, or in its newspaper advertisements for the particular item.
- The seller places shelf tags, distinguishable from standard shelf labels by their size, color and wording, by the item on the sales floor: **and** the shelf tags indicate by *Manufacturer* or *Mfr.*, printed on the tag that the discount is a manufacturer's discount.
- The seller gives the customer a receipt or invoice that indicates through a footnote or similar means that the discount given on a particular item is a manufacturer's discount **and** the seller has signage posted conspicuously near the check-out registers that includes language indicating that the loyalty card discounts may be manufacturer's discounts as noted on the customer's receipt.¹

Although these procedures apply to loyalty card purchases at the seller's store, similar rules apply with respect to on-line sales that use a loyalty card or a special discount code, etc. That is, if a manufacturer's discount is given to a customer for the purchase of an item over the Internet, the seller should collect the sales tax on the full price of the item, provided that the seller discloses to the purchaser before or at the time of sale that the discount given is a manufacturer's discount. If the on-line seller does not make adequate disclosure that a discount is a manufacturer's discount, then the seller must collect tax only on the price of the item after the discount is applied but must remit sales tax with its return on the full sales price without regard to the manufacturer's discount.

NOTE: A TSB-M is an informational statement of existing department policies or of changes to the law, regulations, or department policies. It is accurate on the date issued. Subsequent changes in the law or regulations, judicial decisions, Tax Appeals Tribunal decisions, or changes in department policies could affect the validity of the information presented in a TSB-M.

¹ The following language is appropriate for the signage posted by the seller regarding the type of discount being given to the customer: "Discounts offered under our insert name of loyalty card program may be a store discount or a manufacturer's discount. The receipt we give you will indicate which type of discount was given on your purchase of an item."