

701—15.6(422,423) Discounts, rebates and coupons.

15.6(1) Discounts. A discount is an abatement from the face of an account, with the remainder being the actual purchase price of the goods charged in the account. The purchaser entitled to the discount will never owe the face of the bill as a debt—this being the net of the bill after the agreed discount has been deducted. The word “discount” means “to buy at a reduction.” *Benner Tea Company v. Iowa State Tax Commission*, 252 Iowa 843, 109 N.W.2d 39 (1961).

Any discount allowed by a retailer and taken on taxable sales is a proper deduction when collecting and reporting tax. This is not the case when the retailer offers a discount to a purchaser but bills and collects tax on the gross charge rather than on the net charge. The customer must receive the benefit of the discount, for sales tax purposes, in order for the retailer to exclude it from gross receipts.

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 shall apply on the gross charge shown on the billing.

15.6(2) 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. See 1972 O.A.G. 332.

15.6(3) Coupons. Coupons issued by the producer of a product are not discounts and cannot be used as an abatement from the face of the account. Coupons issued by the retailer which actually reduce the price of the product to the purchaser are treated as a discount as per subrule 15.6(1). *Saxon-Western Corporation v. Mahin*, 369 N.E.2d 1185 (Ill. 1979).

EXAMPLE: C acquires a 30¢ off coupon issued by manufacturer of A-B Band-aids for A-B Band-aids which can be redeemed at a store which sells the product. C goes to store D and purchases a box of A-B Band-aids which shows a price of \$1.50. C pays \$1.20 + the 30¢ coupon. D is reimbursed the 30¢ for the coupon by the manufacturer. Tax is due on the \$1.50 because C’s total gross receipts are \$1.50. The coupon is not used as a discount in this situation.

EXAMPLE: E 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 E’s retail store. F acquires the coupon and redeems it at E’s store. The purchase price for F was \$2.00 for both hamburgers. The tax is due on the \$2.00 because this amount is the gross receipts for E, even though the value of the two hamburgers would normally be \$4.00. In this situation, the sales price for the two hamburgers was \$2.00.

This rule is intended to implement Iowa Code sections 422.42(6) and 423.1(3).