Indiana Department of Revenue

Indiana Government Center • 100 N. Senate Ave. Indianapolis, IN 46204 • dor.in.gov

Sales Tax Information Bulletin	#58
Subject:	Price Reductions and Discounts
Publication Date:	November 2022
Effective Date:	Upon Publication
References:	IC 6-2.5-1-5; IC 6-2.5-2-2; IC 6-2.5-4-1

Replaces Bulletin #58, dated December 2002

Summary of Changes

Aside from technical, nonsubstantive changes, this bulletin has been updated to include more information on price discounts from the definition of "gross retail income," which has been revised and amended since the last publication of this bulletin. The bulletin also now includes a link to Sales Tax Information Bulletin #92, which provides more extensive guidance on gross retail income.

Introduction

The purpose of this bulletin is to provide guidance on price reductions and discounts provided by merchants on retail transactions. In any taxable sale of tangible personal property, the amount subject to Indiana sales tax is called the "gross retail income," which means the total amount of consideration received for the property sold, leased, or rented. Gross retail income includes all items of value such as cash, property or forgiveness of debt. Price reductions and discounts may or may not be included within gross retail income, and thus may or may not be subject to sales tax, depending on the circumstances described below. For further information on gross retail income, please see Sales Tax Information Bulletin #92, available online at in.gov/dor/legal-resources/tax-library/information-bulletins/sales-tax-information-bulletins/.

Application of Price Reductions and Discounts to a Retail Transaction

Gross retail income includes consideration received by the seller from a third party if:

- the seller actually receives consideration from a party other than the purchaser and the consideration is directly related to a price reduction or discount on the sale;
- the seller has an obligation to pass the price reduction or discount through to the purchaser;
- the amount of the consideration attributable to the sale is fixed and determinable by the seller at the time of the sale of the item to the purchaser; and
- the price reduction or discount is identified as a third party price reduction or discount on the invoice received by the purchaser or on a coupon, certificate, or other documentation presented by the purchaser.

However, discounts (including cash, terms, or coupons) that are allowed by a seller are not included within gross retail income if they are not reimbursed by a third party and they are taken by a purchaser on a sale.

Therefore, with regard to time discounts (e.g., 2% discount for payment within 10 days) or cash discounts (e.g., discount for cash) given by a merchant, they are not included within the gross retail income if the merchant is not reimbursed by a third party, so only the actual amount received by the merchant is subject to Indiana sales tax. If the consumer is not actually given the discount, then sales tax must be collected on the full price paid.

Coupons presented to a retail merchant are not included within gross retail income (meaning they lower the amount of consideration subject to sales tax) if the merchant is **not** reimbursed for the coupon by a third party. Typically, a manufacturer's coupon entitles a merchant to reimbursement for the face value of the coupon by the manufacturer, thus the value of the manufacturer's coupons are included within the amount of gross retail income subject to sales tax as long as the four bullet points above are met. In other words, the taxable amount paid for a product purchased with a manufacturer's coupon is the price of the product before applying the coupon.

The gross retail income is reduced by coupons for which the merchant is not reimbursed because by accepting the coupon the merchant has discounted the price of the product, thereby reducing the amount subject to sales tax.

Example #1: Dishwashing soap is sold for $1.00 per bottle. The customer provides a $.20 manufacturer's coupon to the merchant. The amount subject to sales tax is $1.00 because the merchant receives $.80 from the customer and is reimbursed $.20 from the manufacturer.

Example #2: Cat food is $1.00 for a two pound bag. The merchant gives out coupons that reduces the price of cat food to $.75. The merchant would collect sales tax on $.75 because there is no reimbursement for the $.25 reduction.

Example #3: Dishwashing soap is sold for $1.00 per bottle and the customer presents a $.20 manufacturer's coupon. The merchant advertises that he will double the value of all manufacturer's coupons for the week. The customer pays $.60 for the product. The manufacturer reimburses the merchant $.20 for the coupon. The merchant is **not** reimbursed for the $.20 for doubling the value of the coupon. The amount subject to sales tax is $.80.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

Robert J. Grennes, Jr.
Commissioner
Indiana Department of Revenue