



**A Guide  
to  
Handling  
Coupons and  
Food Stamps  
For  
Retail Food Stores**

This publication will help you, as a vendor, determine the amount of sales tax due when your customer uses store-issued coupons, manufacturers' coupons, food stamps, or combinations thereof to make a purchase that is subject to sales tax.

## Store Issued Coupons

*Store issued coupons are used to reduce the amount on which sales tax is to be computed*

When you issue a coupon entitling your customer to a discount on the price of an item you are selling, and you are not going to receive any reimbursement from the manufacturer of the product being sold, collect sales tax from your customer based on the price of the item, reduced by the value of the coupon.

*Example 1.* If a customer purchases an item you are selling for \$1.00 and the customer uses a coupon valued at 25 cents issued by you, compute the tax as follows. (This example assumes a 7% tax rate.)

Selling price of the item	\$1.00
Subtract face value of the coupon	<u>- .25</u>
Net selling price	\$ .75
Add tax computed on the net selling price (7% x \$.75)	<u>+ .05</u>
Total due from customer	<u>\$ .80</u>

*When accounting for this sale, you would remit sales tax on the discounted selling price of the item (which, in this example, is 75 cents). Thus, you would remit sales tax of five cents on this sale.*

## Manufacturers' Coupons

*When a manufacturer's coupon is used, sales tax is due on the amount paid by the customer plus the amount of the coupon*

When a manufacturer issues a coupon entitling a customer to a discount on the item purchased and a manufacturer's reimbursement is indicated on the coupon (for example, the coupon is encoded by the abbreviation *Mfg.*, or some similar code to show that the discount is a manufacturer's promotion), sales tax is due on the regular selling price of the product, without deduction for the coupon. That is, the amount subject to tax is the amount the customer pays for the item plus the amount of the coupon.

## Manufacturers’ Coupons (Cont’d)

*Example 2.* If a customer purchases an item you are selling for \$1.00 and the customer uses a 25 cent coupon issued by you encoded with the abbreviation *mfg.* and you will be reimbursed 25 cents by the manufacturer of the product, compute the tax as follows. (This example assumes a 7% tax rate.)

Selling price of the item	\$ 1.00
Add tax computed on the selling price (.07 x \$1.00)	<u>.07</u>
Subtotal	\$ 1.07
Subtract face value of the manufacturer’s coupon	<u>-.25</u>
Amount due from customer	<u><u>\$ .82</u></u>

***When accounting for this sale, you would remit sales tax on the regular selling price of the item (\$1.00). Thus, you would remit sales tax of seven cents on the sale.***

When you issue a coupon entitling your customer to a discount on the price of an item you are selling and you are going to receive reimbursement from the product’s manufacturer but *this fact is not revealed on the coupon*, treat the coupon the same way you would treat a store coupon. That is, collect sales tax from the customer based on the discounted price of the product. However, you are required to remit sales tax in an amount equal to the tax that would be due on the selling price of the item computed without regard to the discount attributable to the coupon. Thus, if the facts are the same as in Example 1 except that the customer uses a coupon you issued that involves a manufacturer’s reimbursement that is not revealed on the coupon, you would collect sales tax of five cents from the customer. ***However, you would remit sales tax of seven cents (7% x \$1.00) on the sale.***

## Double Coupons

When you redeem a manufacturer’s coupon and also give a discount equal to the amount of the manufacturer’s coupon (double coupons), collect sales tax based on the cost of the item less the amount of discount you are giving the customer.

## Double Coupons (Cont'd)

*Example 3.* If an item is priced at \$2.00 and you match the value of a 50 cent manufacturer's coupon for that item with your own discount, calculate the tax due from the customer as follows (this example assumes a 7% tax rate):

Price of the item	\$2.00
Less: store discount (equal to value of manufacturer's coupon)	<u>-.50</u>
Subtotal	\$1.50
Sales tax (7% x \$1.50)	<u>.11</u>
Subtotal	\$1.61
Less: Value of manufacturer's coupon	<u>-.50</u>
Amount due from customer	<u><u>\$1.11</u></u>

*You would remit sales tax of 11 cents on the transaction.*

## Purchases Using Food Stamp Benefits

Food stamp benefits (food stamps) can be applied to the purchase of any food, food product, or non-alcoholic beverage intended for human consumption. If the purchase of a food or beverage item is ordinarily subject to sales tax, the purchase will be exempt if the item is purchased with food stamps. For example, sales of the following items are exempt if purchased with food stamps:

- bottled water
- candy and confections (e.g., candy bars, lollipops, chewing gum, etc.)
- sandwiches
- fruit drinks containing less than 70% natural fruit juice
- fruit plants and seeds
- vegetable plants and seeds
- sodas (regular and dietetic)
- soft drinks (regular and dietetic)
- ice.

## Purchases Using Food Stamps and Cash

If a customer purchases taxable and nontaxable eligible food and beverage items and pays with a combination of food stamps and cash (or credit card), the vendor must apply the food stamps to the payment of the taxable food items first. The balance of food stamps, if any, is then applied to the other food purchases. Only the portion of a taxable purchase of food paid for with food stamps is exempt from sales tax. The portion of a taxable purchase of food paid for with cash (or credit card) is subject to sales tax.

*Example 4.* A customer purchases the following items in your grocery store (*T* next to an item indicates that the purchase of that item is ordinarily subject to sales tax):

Bottled water <sup>T</sup>	\$ 3.56
Meat, fish, poultry	15.50
Canned vegetables	5.90
Frozen vegetables	3.78
Diet soda <sup>T</sup>	3.89
Chips, other snacks	2.09
Fruit punch flavored drink <sup>T</sup>	<u>5.00</u>
Total purchases	<u>\$39.72</u>

The customer presents your cashier with \$20.00 in food stamps. The cashier must first apply the food stamps to the taxable purchases (the bottled water, diet soda, and fruit punch). Since the total of these items (\$12.45) is less than the amount of food stamps the customer presents (\$20.00), you would not collect sales tax on this transaction.

*Example 5.* Assume the same facts as in Example 4, except that the customer presents your cashier with \$10.00 in food stamps. Also assume that the sales tax rate in the locality where your store is located is 7%. The sales tax due from the customer is calculated as follows:

Total purchases	\$39.72
Taxable purchases:	
Bottled water <sup>T</sup>	\$ 3.56
Diet soda <sup>T</sup>	3.89
Fruit punch flavored drink <sup>T</sup>	<u>5.00</u>
Total taxable purchases	\$12.45

Less: Food stamps tendered	<u>-10.00</u>
Balance subject to sales tax	\$ 2.45
Sales tax due ( 7% x \$2.45)	\$ .17
Total due from customer	<u><u>\$39.89</u></u>

## Purchases Using Food Stamps, Cash and Coupons

When a customer uses food stamps, cash, and coupons to purchase food and beverages, you:

- first, apply any **store coupon** to reduce the purchase price of the item to which the store coupon relates;
- second, apply any **manufacturer's coupon** to the purchase price of the item to which it relates; where the item is taxable, collect tax on the value of the manufacturer's coupon (that is, for example, a coupon encoded with *mfg.*);
- third, apply the food stamps to the remaining purchase price of any taxable, eligible items and then to the remaining purchase price of any exempt eligible items; and
- fourth, if the customer does not have enough food stamps to cover the entire bill, collect the tax on any remaining balance due on taxable items paid for with cash (or credit card).

*Example 6.* A customer makes the following purchases in your food market (*T* next to an item indicates that the purchase of that item is subject to sales tax):

Bottled water <sup>T</sup>	\$ 3.56
Diet Soda <sup>T</sup>	3.89
Chips, other snacks	2.09
Fruit punch flavored drink <sup>T</sup>	5.00
Deli - cold sandwiches <sup>T</sup>	6.97
Canned vegetables	16.98
Fresh fruits and vegetables	<u>9.02</u>
Total purchases	<u><u>\$47.51</u></u>

The customer presents your cashier with a manufacturer's coupon valued at \$.50 toward the purchase of the diet soda and a coupon issued by your store valued at \$1.00 toward the purchase of the deli

products. The customer indicates that he will be paying with \$10.00 in food stamps and the balance in cash. The amount of sales tax due on this transaction is calculated as follows. This example assumes a 7% state and local sales tax rate.

Total purchases	\$47.51
Calculation of sales tax:	
Bottled water <sup>T</sup>	\$ 3.56
Diet soda <sup>T</sup>	3.89
Fruit punch flavored drink <sup>T</sup>	5.00
Deli sandwiches <sup>T</sup>	<u>6.97</u>
Total taxable purchases	19.42
Less: store coupon	<u>- 1.00</u>
Balance	\$18.42
Less: manufacturer's coupon	<u>- .50</u>
Balance	\$17.92
Less: food stamps	<u>10.00</u>
Taxable purchases subject to sales tax	\$ 7.92
Plus: manufacturer's coupon	<u>+ .50</u>
Total amount subject to sales tax	\$ 8.42
Sales tax due (7% x \$8.42)	<u>.59</u>
Total	\$48.10
Less:	
Store coupon	\$1.00
Manufacturer's coupon	<u>+ .50</u> - <u>1.50</u>
Amount due from customer	<u><u>\$46.60</u></u>

***When accounting for this sale, you would remit sales tax based on the balance of taxable purchases after allowance for food stamps. Thus, you would remit sales tax of \$.59 (7% x \$8.42) on the sale.***

## NEED HELP?



**Telephone Assistance** is available from 8:30a.m. to 4:25 p.m., Monday through Friday.

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