



## **Sales Tax Treatment Relating to the Sale and Redemption of Certain Prepaid Discount Vouchers**

The sale of certain vouchers by Web-based companies on behalf of businesses is not subject to sales or use tax at the time that the voucher is sold. However, sales or use tax is due at the time the voucher is redeemed with a vendor if the voucher is redeemed for taxable products or services.

### **Background**

This memorandum provides guidance on the application of the sales and use tax (sales tax) to purchases involving vouchers sold by Web-based companies that are then redeemed by the purchaser at a business that sells the property or service. Under a typical business model involving these vouchers, an on-line company (deal site) solicits customers to purchase vouchers through its Web site. The deal site collects the purchase price of the voucher from the customer. The vouchers sold by the deal site can be redeemed by the customer for products or services from a local business. The vouchers are typically priced lower than the usual selling price of the product or service obtained when the voucher is redeemed. For example, a customer may purchase a voucher from a deal site for \$25 that can be redeemed for products or services that normally sell for \$50. The customer who has purchased a voucher will present the voucher to the local business as payment for the advertised product or service. Typically, the deal site retains a portion (usually about 50%) of the price paid by the customer for the voucher and pays the remaining portion of the price paid for the voucher to the local business. The deal site that sold the voucher may describe the amount it retains as its charge to the business for advertising or as a commission. Alternatively, the deal site may indicate that it is the agent of the business in collecting the purchase price from the purchaser.<sup>1</sup>

### **Sales tax treatment of the sale of the discount voucher**

Sales tax is not due on the sale of the voucher by the deal site. However, if the voucher is redeemed for taxable products or services, sales tax is due at the time the voucher is redeemed by the customer.

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<sup>1</sup> The rules in this memorandum only apply if all or a portion of the sales price of the voucher is given to the business. For sales tax treatment of third-party discount certificates and coupons where the business does not receive any portion of the selling price of the certificates or coupons, see TSB-M-10(13)S, *Sales Tax Treatment of Restaurant Meals Purchased with Certain Third-Party Discount Certificates and Coupons*.

## **Sales tax treatment when the voucher is redeemed**

No sales tax is due if the voucher is redeemed for products or services not subject to sales tax. However, sales tax is due and must be collected from the customer when a voucher is redeemed for taxable products or taxable services. In this case, the amount subject to sales tax depends on whether the voucher is a *specific product or service voucher* or a *stated face value voucher*.

### Specific product or service voucher

A *specific product or service voucher* is a voucher without a specific stated value that may be redeemed only for a specified product or service or combination of products and/or services. A voucher qualifies as a *specific product or service voucher* even if the normal or regular selling price of the product or service is stated on the voucher.

When this type of voucher is redeemed for a taxable product or service, the amount subject to sales tax is the total price that the customer paid the deal site for the voucher.

However, when this type of voucher can be redeemed more than once for a specifically identified taxable product or service (e.g., a voucher that can be redeemed for two automobile oil change services), the amount subject to sales tax on each redemption is determined by dividing the total amount that the customer paid for the voucher by the number of times the voucher may be redeemed.

There may be cases where a *specific product or service voucher* can be redeemed for a combination of products and/or services. In these cases, the customer does not have the option of purchasing the products or services separately through the redemption of the voucher. Therefore, if the combination of products and/or services includes both taxable and non-taxable products and/or services, the transaction will be treated as the sale of taxable and exempt items sold as a single unit. In that situation, the sales tax due from the customer must be computed on the total price the purchaser paid to the deal site for the voucher.

The following examples illustrate these rules regarding the use of *specific product or service vouchers*.

*Example 1: Mr. Jones purchases a voucher for \$75 which allows Mr. Jones a one night stay at a hotel located in New York State. Mr. Jones incurs no additional charges for the night's stay and the hotel is not in a locality that imposes a local hotel occupancy tax. The amount subject to sales tax when Mr. Jones redeems the voucher at the hotel is \$75. Assuming a state and local combined sales tax rate of 8%, the hotel would be required to collect \$6.00 of sales tax (8% x \$75) from Mr. Jones.*

*Example 2: Mr. Smith purchases a voucher for \$50 which is redeemable for one automobile detailing service from a business located in New York State. When Mr. Smith redeems the voucher, the amount subject to sales tax is \$50. Assuming a state and local*

*combined sales tax rate of 8%, the business would be required to collect \$4.00 of sales tax ( $8\% \times \$50$ ) from Mr. Smith.*

*Example 3: Ms. Z purchases a voucher for \$20 which is redeemable for 2 oil change services at a business located in New York State. Because Ms. Z can use the voucher two times, the \$20 voucher price is divided in half to determine the amount subject to sales tax each time she redeems it for an oil change. Thus, the amount subject to sales tax when Ms. Z redeems the voucher for the first oil change service is \$10. Likewise, the amount subject to sales tax when she redeems the voucher for the second oil change service is \$10. Assuming a state and local combined sales tax rate of 8%, the business would be required to collect 80 cents of sales tax ( $8\% \times \$10$ ) each time the voucher is redeemed.*

*Example 4: Ms. K purchases a voucher for \$6 which is redeemable for admission to a movie theatre to view a movie and for a box of popcorn and a fountain soda at the movie theatre's snack bar. Since the voucher that Ms. K purchased is redeemable for a combination of taxable and non-taxable products (i.e., the box of popcorn and fountain soda are taxable items but the admission charge to the movie theatre is non-taxable), the total amount paid for the voucher is subject to sales tax. Assuming a state and local combined sales tax rate of 7%, the movie theatre would be required to collect 42 cents of sales tax ( $7\% \times \$6$ ) from Ms. K when she redeems the voucher.*

#### Stated face value voucher

A *stated face value voucher* is a voucher with a specifically stated value, and when redeemed, the value of the voucher is applied towards the price of the products or services purchased by the customer.

A *stated face value voucher* is generally treated in the same manner as a gift card. That is, it is treated as cash up to the stated face value of the voucher. Therefore, when this type of voucher is redeemed for taxable products or services sales tax is computed on the selling price of the items before the value of the voucher is applied against the purchase price.

If a stated face value voucher is redeemed for products and services with a value equal to or more than the face value of the voucher, any sales tax due must be collected from the customer at the time the sale occurs. However, if the voucher is redeemed for products and services valued at less than the face value of the voucher, the business can handle the collection and remittance of any sales tax due in one of two ways. A business may choose to collect the sales tax from the customer on the total value of the taxable products and services at the time of the sale. For example, if a \$100 stated face value voucher is used to purchase books with a value of \$90, before application of the voucher, the seller could collect the tax on the \$90 from the purchaser at the time that the voucher is used to make the purchase (e.g., in an 8% taxing jurisdiction the vendor would collect \$7.20 in cash from the purchaser at the time of the sale). Alternatively, the business may allow the customer to use the remaining value of the voucher to pay the sales tax on the transaction. For example, the remaining \$10 value of the \$100 voucher referenced above could be used by the purchaser towards the payment of the \$7.20 of sales tax.

In this latter approach it is important that vendors realize that they must remit the full amount of the tax due on the transaction to the Tax Department even if the vendor did not collect any cash from the customer when it sold taxable products or services in exchange for the voucher.

The following examples illustrate these rules regarding the use of a stated face value voucher.

*Example 5: Mr. Smith purchases a voucher with a stated face value of \$50. The voucher costs \$25. It is redeemable for \$50 worth of food and drink at a restaurant. Mr. Smith goes to the restaurant and purchases a meal and drinks subject to sales tax which have a total price of \$68.00. Mr. Smith uses the voucher to pay for \$50 of the bill. The amount subject to sales tax is \$68. Assuming a state and local combined sales tax rate of 8%, the restaurant would be required to collect \$5.44 of sales tax ( $8\% \times \$68$ ) from Mr. Smith.*

*Example 6: Mrs. T purchases a voucher for \$25. The voucher entitles her to purchase \$50 worth of products from a deli. Mrs. T goes to the deli and purchases products that sell for a total of \$65, consisting of \$31 of taxable products and \$34 of non-taxable products. Mrs. T uses the voucher to pay \$50 of the bill. The amount subject to sales tax is \$31. Assuming a state and local combined sales tax rate of 8%, the deli would be required to collect \$2.48 of sales tax ( $8\% \times \$31$ ) from Mrs. T.*

*Example 7: Mr. Jones purchases a voucher for \$50 which is redeemable for \$100 worth of food and drink at a local restaurant. Mr. Jones goes to the restaurant and purchases meals and drinks subject to sales tax that has a total price of \$90. The amount subject to sales tax is \$90. Assuming a state and local combined sales tax rate of 8%, the sales tax due from Mr. Jones through the redemption of the voucher would be \$7.20 ( $8\% \times \$90$ ). Therefore, the total amount owed by Mr. Jones for the food, drink and sales tax is \$97.20. The restaurant allows Mr. Jones to use the voucher to pay the entire \$97.20. Even though the restaurant did not collect any money from Mr. Jones, the restaurant must include the \$7.20 of sales tax that Mr. Jones paid through the redemption of the voucher, when it files its sales tax return for the period during which Mr. Jones redeemed his voucher.*

**NOTE:** A TSB-M is an informational statement of existing department policies or of changes to the law, regulations, or 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.