Sales Tax Rate Change

The New Jersey Sales and Use Tax rate will be reduced in two phases between 2017 and 2018. P.L. 2016, c.57 decreases the Sales and Use Tax rate from 7% to 6.875% on and after January 1, 2017. The tax rate will decrease to 6.625% on and after January 1, 2018.

The information in this publication has not yet been updated to reflect the change in the sales tax rate from 7% to 6.875% that takes effect January 1, 2017.

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Technical Services

Coupons, Discounts & New Jersey Sales Tax

Publication ANJ–9

Introduction

This bulletin explains the correct procedures for charging New Jersey sales tax whenever coupons or other discounts result in a taxable item or service being sold at a reduced price.

Coupons

There are two distinct types of coupons commonly used by consumers — *manufacturer coupons* and *seller coupons*. Sales tax is calculated differently depending on which kind of coupon is used.

Manufacturer coupons are treated like cash because the seller who accepts them is ***reimbursed*** by a third party. When these coupons are used, sales tax is charged on the *full regular price* because that is the amount which the seller ultimately receives — in part from the customer, the balance from the manufacturer.

Example: A store issues a coupon labeled "mfr." entitling the holder to purchase an item for $10 less than the regular price.

Regular price	$ 99.95
7% sales tax	+ 7.00
Total before discount	$106.95
Manufacturer's coupon	– 10.00
Customer pays	$ 96.95

Example: A manufacturer issues a coupon entitling the holder to purchase two items for the price of one.

Regular price for two items	$ 5.98
7% sales tax	+ 0.42
Total	$ 6.40
Coupon for free item	– 2.99
Customer pays	$ 3.41

Note: If a coupon involves a reimbursement and that fact is not disclosed on the coupon or in the advertisement, the seller who accepts the coupon will collect sales tax from the purchaser only on the reduced price but must remit sales tax to the State based on the full regular selling price of the item.

Seller coupons are issued by the seller, rather than by the manufacturer. Whenever a transaction includes the use of a seller coupon, tax is charged *only on the discounted price* of the item being purchased, since the seller is not reimbursed for the value of the coupon.

Example: A store issues a coupon entitling the holder to purchase a product for 50 cents less than the regular price.

Regular price	$ 2.37
Store coupon	– 0.50
Taxable receipt	$ 1.87
7% sales tax	+ 0.13
Customer pays	$ 2.00

Example: A store issues a coupon entitling the holder to purchase two items for the price of one.

Regular price for two items	$ 1.58
Store coupon for free item	– 0.79
Taxable receipt	$ 0.79
7% sales tax	+ 0.06
Customer pays	$ 0.85

Discounts

Whenever a taxable item is purchased "on sale" and ***no coupon is required*** for the discount, sales tax is due only on the discounted price. If a coupon ***is*** required, see *Seller Coupons* and *Manufacturer Coupons* above.

Example: Ann purchases a television set at her local department store for $350. The regular ticket price of the item is $450. No coupon is required for the $100 discount. The total cost to Ann is $374.50 ($350 for the TV plus $24.50 sales tax).

Free Offers

When a store or manufacturer offers a taxable item free with ***no coupon required***, sales tax should not be charged on the free item. If a coupon ***is*** required, see *Seller Coupons* and *Manufacturer Coupons* above.

Supermarket Club Cards

Often, supermarkets issue customers a store card which can be used to obtain discounts on certain items. Discounts obtained through such cards are treated the same as discounts with store coupons. Thus, sales tax is due on the discounted amount.

Buy One Get One

If **no coupon** is required to obtain two taxable items for the price of one (or three for the price of two, etc.), sales tax should be charged only on the amount that the customer actually pays. If a coupon ***is*** required, see *Seller Coupons* and *Manufacturer Coupons* above.

Example: Rick buys two paperback books, each book costing $4.95, on a "buy one, get one free" offer. No coupon is required for the discount. The cost to Rick is $4.95 plus 35 cents sales tax (7% of $4.95).

Early Payment (Term) Discounts

Sellers often offer their customers a discount for early payment. For example, the term "2/10, net/30" means that the purchaser may take a 2% discount off the selling price if payment is made within 10 days, but no discount is allowed thereafter and the full invoice amount is due within 30 days. Sales tax is charged on the discounted price if the customer chooses to take advantage of the discount.

Trade-Ins

A trade-in is a discount that occurs when a customer gives the retailer a used item which the retailer will hold for sale in exchange for credit against the purchase of a new product of the same kind. In transactions that include a trade-in, sales tax is charged on the net purchase price, which is the price to the customer *after the amount of the trade-in allowance has been deducted from the regular selling price.*

Example: An automobile dealer allows a customer an $800 trade-in allowance against the purchase price of a used car. The sales invoice would look something like this:

Used car sticker price	$8,900
Trade-in allowance	– 800
Taxable receipt	$8,100
7% sales tax	+ 567
Customer pays	$8,667

Sales tax is not charged on the full price in this case because the seller will collect the balance of tax later, when the traded-in item is resold. **Note:** The law permits this discount only when the item taken in trade is of the same kind as the one being purchased **and** the retailer intends to resell it.

Rebates

A popular sales promotion is for the manufacturer to issue a rebate on the retail price of an item. When a manufacturer's rebate is involved, sales tax is calculated on the full retail price before the rebate. For sales tax purposes, a rebate is treated the same as a manufacturer's coupon, since in both situations, the seller is receiving the full retail price, in part from the customer, in part from the manufacturer.

Example: An automobile manufacturer offers a $2,000 rebate on the cost of this year's latest model. The billing would look similar to this:

Sticker price	$18,000
7% sales tax	+ 1,260
Total before rebate	$19,260
Manufacturer's rebate	– 2,000
Customer pays	$17,260

A manufacturer's rebate may be sent to the customer after the sale is concluded, or directly to the seller as part of the customer's payment. The rebate will not affect the retail taxable receipt since the retailer receives the full price either way.

Promotional Gift Cards

Gift cards given away by sellers as promotional items (e.g., every customer who spends $50 on a single visit to a store receives a $10 gift card to be used on their next purchase at that store) are treated in the same manner as seller coupons. When a promotional gift card is redeemed, tax is charged on the price after the amount of the gift card is deducted as long as the seller receives no compensation for the card.

For More Information

For more information on coupons, discounts, and New Jersey sales tax, contact the Division's Customer Service Center at 609-292-6400, e-mail us at **nj.taxation@treas.state.nj.us,** or write to:

New Jersey Division of Taxation
Information and Publications Branch
PO Box 281
Trenton NJ 08695-0281

Many State tax forms and publications are available by fax and on our Web site. Call NJ TaxFax at 609-826-4500 from your fax machine's phone, or access the Division's home page at: **www.state.nj.us/treasury/taxation/**