MULTISTATE TAX COMMISSION

To:	Sales and Use Tax Subcommittee
From:	Roxanne Bland, MTC Counsel
Date:	July 19, 2011
Subject:	Streamlined Sales Tax and Vouchers

At the March 2012 meeting, the subcommittee asked for further information on vouchers. Russ Brubaker, Washington Department of Revenue and Streamlined Sales Tax Governing Board President, will attend the subcommittee meeting to discuss this issue and ask for input. Early next week, he will provide several documents that will be made available on the MTC's website.

Here is a brief overview of the issue of the taxation of vouchers sold by "deal of the day" companies such as Groupon and LivingSocial.

How It Works

A retailer contracts with a "Deal of the Day" company (Deal Company) to advertise and sell a discounted coupon for the retailer. The retailer sets the price of the coupon and the Deal Company and retailer enter into a contract regarding the amount to be retained by the Deal Company for marketing the coupon. The price charged a customer for the coupon is less than the stated value of the voucher upon redemption.

The Deal Company provides various methods through which the retailer's discounted vouchers are advertised and marketed to the Deal Company's subscribers (e.g., website, email, etc.). In addition to the advertising and marketing services, the Deal Company performs the transaction processing for the retailer. The Deal Company received compensation for its services by retaining a percentage of the voucher receopts prior to distribution to the retailer as provided by contract.

The Deal Company notifies its subscribers that a discount voucher is available for purchase. The subscriber purchases the discount voucher directly from the Deal Company. Subscribers may purchase the vouchers with cash, credit cards, cash equivalents, reward or loyalty points or credits earned from friend referrals. In some cases, the deal is canceled if enough subscribers do not sign up to purchase the retailers discount voucher.

Customers redeem the discount vouchers with the retailer for merchandise or services at the stated value of the voucher during the promotional period. At the end of the promotional period, customers may redeem the discount voucher for merchandise or services at the discount amount paid. After the voucher's expiration date, the Deal Company refunds customers for the purchased vouchers that are not redeemed.

The retailer received payment from the Deal Company when the customer redeems the voucher for merchandise or services.

Tax Treatment

States differ on how these vouchers are treated for tax purposes. A survey by SLAC showed that none of the states responding treat vouchers as sales of tangible personal property, and all apply tax at the time the voucher is redeemed. However, during the promotional period, some states impose tax on the stated value of the voucher, while others impose tax on the price the customer paid for the voucher. The latter represents the type of issue that SLAC is working to resolve.