

Rewards Programs – Retail Sales Tax

Scope

This Excise Tax Advisory (ETA) addresses the application of “sales price” to selected types of rewards program awards. Specifically, this ETA provides guidance on:

- When awards must be included in the sales price of a customer’s purchase for retail sales tax purposes, or
- When the awards represent a discount excluded from the sales price.

This ETA does not address rewards program awards that differ materially from the examples provided. This ETA does not address gift cards, gift certificates, or discount vouchers purchased by consumers and subsequently redeemed in retail transactions.

What is a rewards program?

A “rewards program” is a program that provides customers with an award to induce customer loyalty based on the occurrence of a specified event or conditioned upon specified customer behavior, activity, promise, or payment. Functionally, these programs permit customers to earn awards and then apply the awards to present or future purchases. Rewards program awards are often referred to as “points,” “checks,” “discounts,” “rewards,” “rebates,” or “coupons.” The retail sales tax treatment of any rewards program award depends on the facts and circumstances of the specific program award and does not depend on how the program provider identifies the program or its related awards in its sales, marketing, or other similar materials.

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**Taxability
of
rewards
programs
generally**

When are rewards program awards taxable for retail sales tax purposes?
Retail sales tax is imposed on the sale of products identified as “retail sales” under RCW 82.04.050. *See RCW 82.08.020.* The measure of retail sales tax is the “sales price” of the product sold. This “sales price” includes the total amount of consideration paid for a product, including cash, credit, property, and services, valued in money, whether received in money or otherwise. *See RCW 82.08.010.* The “sales price” excludes bona fide discounts, including cash, term, or coupons where no third-party consideration is received and that are allowed by a seller and taken by a purchaser on a sale. *See RCW 82.08.010.*

Awards that are not bona fide discounts

If a rewards program award represents consideration paid by the customer to the seller, valued in money, then that award must be included in the product sales price upon redemption for the seller’s products (goods and services). This includes awards provided in exchange for property, service, credit, or cash (awards that may be purchased for or are redeemable for/convertible to cash are considered taxable consideration as cash equivalents). See examples below.

In this context, a rewards program member’s provision of his or her name, telephone number whether mobile or otherwise, email address, and/or physical address in the ordinary course of business does not represent consideration to the seller for retail sales tax purposes because this information is presumed necessary to operate the seller’s rewards program.

Awards that are bona fide discounts

It is possible for an award to qualify as a discount excluded from the sales price. These discount awards will be excluded from the sales price unless the seller receives consideration from a third party as provided in RCW 82.08.010. Discount awards include awards provided solely for enrollment in a rewards program or the passage of time; solely for purchasing the seller’s products; and to price reductions provided to customers solely for their membership in a seller rewards program. See examples below.

Examples

The remainder of this ETA addresses different types of rewards program awards under specific sets of facts. The types of awards and examples provided are not exhaustive of all possible types of rewards programs. The tax results of specific programs must be determined separately upon review of all the facts and circumstances.

Bona fide discounts

This section provides examples of several types of awards that are considered bona fide discounts. All examples assume that the award is offered by the seller; taken by the customer; the transaction is adequately documented; awards representing taxable consideration are not commingled with awards that do not represent taxable consideration; and the seller receives no consideration from a third-party.

Example 1 - Price reductions provided to customers solely for membership in a rewards program

- *Facts:* GroceryCo, located in Washington, offers a loyalty scan card (the “card”) to all of its customers upon request. Sara uses the card to buy a tube of retail sales taxable toothpaste, which has a stated price of \$4.00. The card entitles Sara (and any program member) to a 10% (\$0.40) reduction in the product’s stated price as a member. Sara pays \$3.60 in cash at the time of sale.
- *Application of law:* A price reduction allowed by a seller that is solely attributable to a customer’s membership in the seller’s rewards program represents a bona fide discount.
- *Result:* Because Sara’s price reduction is solely attributable to her membership in GroceryCo’s rewards program and there is no third-party consideration, the price reduction is a bona fide discount and the sales price of the toothpaste is \$3.60. Retail sales tax is due on the \$3.60.

Example 2 - Awards provided to customers solely for program enrollment or on the passage of time

- *Facts:* RedCo, located in Washington, is a store that sells goods and services. Under RedCo’s rewards program any RedCo customer can enroll in the program. When signing up for the program, a customer receives 10 points, then another 10 points six months after enrollment, then yet another 10 points on each customer birthday while the customer is enrolled. Anna enrolls in the program and receives the 30 points as described above. Anna redeems the 30 points when purchasing retail sales taxable cookware from RedCo, which RedCo sells for a stated price of \$100.00. Anna pays \$70.00 in cash and applies the points to the \$30.00 remaining balance.
- *Application of law:* An award provided by a seller to a purchaser solely upon enrollment in a rewards program or upon the passage of time represents a bona fide discount upon redemption for the seller’s products.
- *Result:* Because Anna’s points were provided solely for program enrollment and the passage of time with no third-party reimbursement, the points awarded represent a bona fide discount upon redemption. The sales price of the cookware is \$70.00, which does not include the value of the points redeemed. Retail sales tax is due on the \$70.00.

Example 3 - Awards provided to customers solely for purchasing a total dollar amount from the seller

- *Facts:* BlueCo, located in Washington, is a store that sells goods and services. Under BlueCo’s rewards program any BlueCo customer can enroll in the

program. Connor enrolls in the program. Under the program, Connor receives 10 points for every \$100.00 he spends on BlueCo products. Connor receives 90 points after buying \$900.00 in BlueCo products, which he redeems when purchasing a retail sales taxable stereo from BlueCo that sells for a stated price of \$100.00. Connor pays \$10.00 in cash and applies the points to the \$90.00 remaining balance due.

- *Application of law:* An award provided by a seller to a purchaser solely for purchasing the seller's products will be treated as a bona fide discount when redeemed for the seller's products.
- *Result:* Because the points were provided to Connor solely for his purchase of BlueCo products with no third-party consideration, the points will be treated as a bona fide discount when redeemed. The sales price of the stereo is \$10.00, which does not include the value of the points redeemed. Retail sales tax is due on the \$10.00.

Example 4 - Awards provided to customers solely for purchasing seller's products with a specific dollar value

- *Facts:* Same facts as Example 3 above, except that Connor receives the 90 points for purchasing clothing from BlueCo with a stated price of \$30.00 or more.
- *Application of law:* Same as Example 3 above.
- *Result:* Same as Example 3 above.

Example 5 - Awards provided to customers solely for purchasing a certain product or type of products from the seller

- *Facts:* CoffeeCo operates an espresso stand in Washington. CoffeeCo offers frequent purchaser coffee cards (the "card") available to all customers. The card is used to record a customer's purchases of retail sales taxable espresso drinks. Each time an espresso drink is purchased, the card is punched by CoffeeCo. A customer must record nine espresso drinks on the card, then on the tenth espresso drink the customer may redeem the card and receive the tenth drink without additional charge. When ordering his tenth espresso drink, Sam uses the card and receives an espresso drink at no charge.
- *Application of law:* Same as Example 3 above.
- *Result:* Because the recorded award was provided solely for the purchase of CoffeeCo's products, the award represents a bona fide discount on redemption. No retail sales tax must be collected from Sam when Sam receives his tenth espresso drink.

Not bona fide discounts

This section provides examples of several types of awards that are treated as consideration included in sales price and not as bona fide discounts. All examples assume that the award is offered by the seller; taken by the customer; the transaction is adequately documented; awards are not commingled; and the seller receives no consideration from a third-party.

Example 6 - Awards provided in exchange for property and services

- *Facts:* PurpleCo, located in Washington, is a store that sells goods and services. Under PurpleCo's rewards program any PurpleCo customer can enroll in the program. Mary enrolls in the program. Under the program, Mary can receive 10 points for completed surveys. Mary is awarded 10 points from PurpleCo for a completed survey. Mary redeems the 10 points when purchasing a retail sales taxable toy train from PurpleCo, which PurpleCo sells for a stated price of \$20.00. Mary applies the points to her purchase and pays \$10.00 in cash on the remaining balance due.
- *Application of law:* An award provided by a seller to a purchaser in exchange for property and/or services must be treated as consideration includable in sales price and is not a bona fide discount upon redemption for the seller's products.
- *Result:* Because the points were provided to Mary in exchange for property and services, the points are treated as consideration included in sales price upon redemption. Accordingly, the sales price for Mary's purchase would be \$20.00, which consists of the redeemed points and the cash paid. Retail sales tax is due on the \$20.00

Example 7 - Award received in exchange for property and services

- *Facts:* Same facts as Example 6, except that Mary receives the 10 points by performing services from PurpleCo as a secret shopper (Mary is asked to gather and provide quality of service and other valuable feedback about PurpleCo in exchange for the points).
- *Application:* Same as Example 6 above.
- *Result:* Same as Example 6 above.

Example 8 - Award received through an employee incentive program

- *Facts:* HammerCo operates an employee points program. Under this program, employees are given incentives for reaching established sales goals set by management. An employee will get bonus points for every \$10.00 of sales exceeding a predetermined quota in a quarter. The points can be redeemed for tangible personal property sold on the employer's website. John, an employee, earns 80 points during a quarter. The points may be redeemed for HammerCo's products. John purchases a retail sales taxable drill from HammerCo that sells for a stated price of \$100.00. John pays \$20.00 in cash and applies his 80 points to the \$80.00 remaining balance due.
- *Application of law:* Same as Example 6 above.
- *Result:* Because the points were provided to John for meeting specific incentive goals and thus earned for services, the points are treated as consideration included in sales price and not as bona fide discounts when redeemed. Accordingly, the sales price for John's purchase is \$100.00, which consists of the redeemed points and the cash paid.

Retail sales tax is due on the \$100.00.¹

Example 9 - Awards provided in exchange for cash

- *Facts:* TealCo, located in Washington, is a store that sells goods and services. Under TealCo's rewards program any TealCo customer can enroll in the program. Zack enrolls in the TealCo rewards program. Under the program, Zack can buy 10 points for \$10.00 in cash. Zack redeems the 10 points when purchasing a retail sales taxable mirror from TealCo, which TealCo sells for a stated price of \$100.00. Zack applies the points to his purchase and pays \$90.00 in cash on the remaining balance due.
 - *Application of law:* An award provided by a seller to a purchaser in exchange for cash must be treated as consideration includable in sales price and is not a bona fide discount upon redemption for the seller's products.
 - *Result:* Because the points were provided to Zack in exchange for cash, the points are treated as consideration included in sales price upon redemption. Accordingly, the sales price for Zack's purchase is \$100.00, which consists of the redeemed points and the cash paid. Retail sales tax is due on the \$100.00.
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Third-party consideration

If a seller receives third-party consideration for a sale, the seller must include the value of the third-party consideration in the sales price of the sale. This section provides examples of several types of third-party consideration that occur in the rewards program context. There may be instances where third-party agreements will not involve third-party consideration. The examples below assume all elements of RCW 82.08.010(1)(c) are met, including that the seller has an obligation to pass a price reduction or discount through to the purchaser and 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.

Example 10 - Seller receives third-party consideration for an offered price reduction

- *Facts:* TangerineCo, located in Washington, offers a loyalty card. For every \$100.00 in purchasing activity at TangerineCo, customers receive the right to \$1.00 off any purchase made at Shopquick, a separate entity. To obtain the award, a purchaser must provide Shopquick with the telephone number associated with the card or present the card at the time of purchase. Under an agreement with Shopquick, TangerineCo pays consideration to Shopquick for the reduction in price

¹ Note that where a retailer/employer simply offers all of its employees a present discount (e.g. 10%) on regularly priced merchandise that it sells, the reduction in price will be treated as a bona fide discount. This is because the employee discount is available to all employees simply due to their employment status rather than in exchange for undertaking some additional activity for the employer.

given to card holders.

- *Application of law:* If a seller receives consideration from a third-party for a sale, the third-party consideration must be included in the sales price.
- *Result:* Because Shopquick is receiving third-party consideration, the seller must include that consideration in the sales price.

Example 11 – Seller receives third-party consideration under a co-branded credit card agreement

- *Facts:* YellowCo, located in Washington, is a store that sells goods and services. Under YellowCo's rewards program any YellowCo customer can enroll in the program. However, customers can also sign up for a credit card offered by BankCo, a separate entity. The credit card is co-branded with YellowCo. YellowCo customers receive points for making purchases using the co-branded credit card at any vendor. The points may later be used to buy products at YellowCo when redeemed at YellowCo. When a cardholder rewards member makes an eligible purchase, award points are recorded for him or her at YellowCo. Under an agreement with YellowCo, BankCo provides cash and services as consideration to YellowCo for point the redemptions.
- *Application of law:* Same as Example 10 above.
- *Result:* Same as Example 10 above.

Example 12 - Seller received consideration from its rewards program administrator

- *Facts:* GreenCo, located in Washington, is a store that sells goods and services. Under GreenCo's rewards program any GreenCo customer can enroll in the program. AdCo is a separate entity that administers the rewards program for GreenCo. Award certificates are issued to rewards program members that purchase a certain dollar amount of products from GreenCo using a GreenCo branded credit card. If certificates are redeemed for GreenCo products, AdCo pays consideration to GreenCo for the price reductions provided to the members using the certificates.
- *Application of law:* Same as Example 10 above.
- *Result:* Same as Example 10 above.