



Special Notice

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Application of California Sales Tax to Deal-of-the-Day Instruments

Third party Internet-based companies (for example, Groupon or LivingSocial) offer Deal-of-the-Day Instruments (DDI) for sale on their website. These websites offer “Deals-of-the-Day” which feature coupons that can be redeemed for merchandise or services at local or national companies. Customers purchase DDIs online at discounted prices which allow them to purchase a set amount of products and/or services from the retailer offering the “Deal-of-the-Day.”

In accordance with [Regulation 1671.1](#), *Discounts, Coupons, Rebates, and Other Incentives*, DDIs with the specific terms and conditions noted below are considered retailer coupons. As such, the retailer is the issuer of the DDI.

Application of Tax upon Redemption of the DDI by the Customer

When the DDI is redeemed for taxable merchandise/service, the retailers’ gross receipts subject to tax include the consideration paid by the customer for the DDI plus any additional cash, credit, or other consideration paid to the retailer when the product is purchased with the exception of sales tax.

Example 1: An Internet-based company’s Deal-of-the-Day is for “A \$100 baseball bat for \$50.” A customer pays \$50 for the DDI. The customer then uses the DDI to purchase a baseball bat for \$100 and pays no additional amount for the baseball bat other than the amount for “sales tax.” The amount subject to tax is \$50 which equals the amount paid for the DDI.

Example 2: An Internet-based company’s Deal-of-the-Day is for “\$55 off \$105 or more of custom jewelry.” A customer pays \$50 for the DDI. The customer then redeems the DDI to purchase \$120 (excluding tax) of jewelry from the retailer. The amount subject to tax is \$65 which equals the amount paid for the DDI (\$50) plus the additional \$15 (\$120 - \$105) required to be paid to purchase the jewelry.

Sale of the DDI to the Customer

The sale of a DDI to a customer is not regarded as a sale of tangible personal property (merchandise) or a service. The DDI is evidence of an intangible right to receive tangible personal property and/or a service at a later date and therefore the sale of the DDI to the customer is not subject to tax. However, when the DDI is redeemed, it is that sale (the use of the DDI to purchase a good or service) that may be subject to tax.

When the Sale Is Not Subject to Tax

If the type of sale is normally not subject to tax, then tax would not apply to the sale of the merchandise and/or service when a DDI is redeemed by the customer. Common sales that are generally not subject to sales tax include sales of services (such as cleaning or cosmetology services), sales of cold food to go (such as ice cream and yogurt), and a charge for admission to an event (such as entertainment and sports admissions).

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Terms and Conditions

Terms and conditions applicable to transactions involving DDIs:

- Retailers negotiate contracts with the DDI provider (third-party Internet-based company) to sell DDIs for a set price that is specified in the contract.
- The contracts provide that the DDI provider receives a certain percentage or dollar amount from the sale of each DDI as compensation for the service of advertising and selling the DDI on the retailer's behalf and/or the DDI provider markets the DDI as an agent or representative of the retailer. These amounts are nondeductible costs paid by the retailer to the DDI provider in exchange for such services.
- Customers may purchase DDIs with cash, cash equivalents, DDI "bucks," reward points, loyalty points, or friend referrals.
- Terms and conditions of the DDI include specified limitations on the use of the DDI. For example, the DDI cannot be combined with any other coupons or promotions or with other offers, or it is not valid for certain items, or that the customer must use the DDI in one visit and/or cannot receive cash back for partial redemption.
- An expiration date for the full value of the DDI is printed on the face of the instrument (for instance, six months from the date of issuance). However, the amount paid for the DDI generally has a later expiration date, (for instance, one year from date of issuance). As an example, using the above dates, after a DDI is issued it can be redeemed for its full value for six months, after which time it can be redeemed for only the amount paid for the DDI for one year from the issue date. After the paid value expires, the DDI has zero value.
- The retailer does not provide the customer gift certificates, cash or cash equivalents when the DDI is redeemed.
- DDIs are a single-use instrument and lose all value after the first use.

Taxpayer Information Section

If you have any questions regarding this notice, please visit our website at www.boe.ca.gov or call our Taxpayer Information Section at 800-400-7115 (TTY:711). Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. Pacific time, except state holidays.