



STATE BOARD OF EQUALIZATION

916-322-6083

May 26, 1976

Attention: Mr. ---

Gentleman:

Your letter dated January 6, 1976, addressed to our Long Beach office has been referred to this office for reply. You inquire as to the application of tax to discounts awarded as prizes by your above-named client.

We understand that your client holds golf tournaments in which the majority of the required entry fees are used for prizes. These prizes are in the form of discounts or gift certificates for use at the golf pro shop operated by your client. We further understand that in some tournaments, the entry fee also entitles the entrant to a free dinner at the club restaurant. You wish to know how the tax applies to the meals and to the goods purchased at the pro shop with prize discounts or gift certificates.

We are of the opinion that the meals provided are subject to tax based on the regular menu price. We are also of the opinion that tax applies to the retail selling price of goods sold to prize winners by the pro shop.

Sales and Use Tax Regulation 1670 provides that when tangible personal property is delivered as a premium or as a prize to each customer, tax applies to the gross receipts received from the purchaser from the transactions affected. Thus, the inclusion of a meal in the entry fee would not exempt the retail selling price of the meal from tax. The portion of the entry fee not assigned to the meal is a payment for the intangible right to compete in the golf tournament and is not subject to tax. With regard to the discounts or gift certificates, we would consider these the same as cash prizes. Thus, when goods are purchased at the pro shop, the retail selling price is subject to tax because the discount or gift certificates is considered to be merely a form of payment, and we would not consider that the retail selling price has been refused.

Very truly yours,

H. L. Cohen
Tax CounselHLC:js
bc: Long Beach – Auditing (SK)