

**STATE BOARD OF EQUALIZATION**

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(P.O. BOX 942879, SACRAMENTO, CALIFORNIA 94279-0001)  
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BURTON W. OLIVER  
*Executive Director*

October 18, 1995

Re: Sales of Coupon Books

Dear \_\_\_\_\_,

This is in response to your letter dated August 30, 1995 regarding the application of tax on the sale of grocery coupon booklets.

You state:

"My business entails selling the customer a booklet of certificates redeemable for the face value of their choice of grocery coupons. The books retail for \$24.95 and the customer receives 22 certificates worth \$10.00 each toward grocery coupons. The customer encloses \$1.00 for each certificate for shipping and handling. The customer mails the certificate to \_\_\_\_\_, Texas and receives their grocery coupons by return mail. I purchase the books from a company also located in Texas. The sale of these books are not limited to the state of California."

You ask whether tax applies to your sales of these coupon books to your customers. For purposes of this opinion, we assume that the Texas company manufactures the books and sells them to you outside this state. (We will not therefore discuss whether California tax applies to the Texas company's sales or use of these books). To facilitate our response, you provided us with a copy of the front and back side of a coupon certificate.

#### Discussion

California imposes a sales tax on a retailer's gross receipts from the retail sale of tangible personal property inside this state unless the sale is specifically exempted from taxation by statute. (Rev. & Tax. Code § 6051). Taxable gross receipts include all amounts received with respect to the sale, with no deduction for the cost of materials, service, or other expense of the retailer passed on to the purchaser unless there is a specific statutory exclusion. (Rev. & Tax. Code § 6012(a)). When sales tax does not apply, use tax is imposed on the sales price of tangible personal property purchased from a retailer for the storage, use, or consumption of that property in California. (Rev. & Tax. Code §§ 6201, 6401).

We understand that you will purchase coupon certificate books from a Texas company which you in turn will sell to your customers located both inside and outside this state. These coupon books contain 22

certificates entitling the holder to obtain \$10.00 worth of coupons (based on the sum of the face values of the coupons) per certificate from the Texas company. The purchaser of the coupon book lists 35 different coupon selections on a certificate and mails it to the Texas company with \$1.00 for shipping and handling. (The customer has no guarantee that it will receive coupons from each of the 35 coupon selections).

Under these facts, we regard you as selling nontaxable rights to receive coupons from the Texas company to your customers. The actual certificates are a record of the right to receive specified coupons from the Texas company and do not constitute the sale of tangible personal property. (See, e.g., Business Taxes Law Guide Annots. 280.0580 (1/25/61) (a gift certificate is evidence of an intangible right and its sale is not subject to tax); 540.0180 (10/22/56) (sales of service station booklets containing coupons entitling purchaser to various services at no charge are not sales of tangible personal property). We also regard your and your customer's use of these coupon certificate books as the use of intangible property. Thus, under the above facts, no tax applies to the sale or use of the grocery coupon certificate books inside this state.

If you have any further questions, please write again.

Sincerely,

Warren L. Astleford  
Staff Counsel