**Private Letter Ruling**

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| **Ruling Number:** | **P-1999-219** |

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| **Tax Type:** | **Dry Cleaning Environmental Surcharge; Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Calculation of dry cleaning environmental surcharge and sales tax and the treatment of coupons and discounts.** |
| **Keywords:** |  |
| **Approval Date:** | **10/07/1999** |

**Body:**

Office of Policy & Research

October 7, 1999

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RE: Your letter of September 11, 1999

Dear Ms. XXXX:

This will acknowledge receipt of your letter that you sent to the department earlier last month. In it, you ask several questions about: (1) the environmental surcharge for Kansas dry cleaners and laundries; and (2) the treatment of coupons and discounts.

You first ask how the environmental surcharge should be calculated. The answer is that the surcharge and the Kansas sales tax are computed on the same tax base. This means that you should use the same customer charges as the multiplicand for the environmental surcharge that you use for sales tax. This results in sales tax not being computed on the environmental surcharge amount and the environmental surcharge not being computed on the sales tax amount.

Your next questions are how these two taxes should be computed when customers take advantage of coupons and other promotional discounts. Kansas has two basic rules that govern the treatment of coupons and discounts. One rule is for store coupons and discounts. The other governs discounts that are given by a factory or franchiser.

When a customer uses a coupon that is issued by the store, the coupon is viewed as reducing the selling price to the customer. This means that if the store provides a customer with a coupon for a garment to be cleaned free of charge, there would be no special sales tax or environmental tax consequences when the coupon is redeemed. For example, if a customer brought in only one garment, there would be no tax consequences since the customer charge is zero. If the customer brought in several garments, the coupon would reduce the total charges for cleaning them and, thus, the tax base would be reduced. Similarly, there would be no special treatment for cleaning 6 garments for the normal cost of cleaning 5 garments. This offer would simply reduce the customer charge, and thus the tax base, for cleaning several garments. The twenty percent senior citizen discount would be treated in the same manner. The 20 percent discount should be figured to arrive at the customer charge or the tax base. For all of these examples, the retailer needs to compute the final customer charge after the discounts are honored and then figure the sales tax and environmental surcharges on that amount.

When factory promotions are given, the tax consequences are different. In the case of factory discounts or franchiser discounts, the tax base is the total charges *before* the coupon or other discount is honored. This is because Kansas views a factory coupon and rebate as a payment that is being made to the vendor by the factory or franchiser. In the case of factory coupons, the retailer will be reimbursed the amount of the coupon by the factory or franchiser. Thus, when a coupon issued by Scotch or some other franchiser is used, the tax base would be the total charges *before* the coupon is honored. This would be the appropriate tax base for computing both sales tax and the environmental surcharge. This policy has been applied to auto rebates for nearly a quarter century. The Department published the policy on March 25, 1975, and has applied it ever since. See *CCH Kansas Tax Reporter, Transfer Binder, p. 10,278.*

This is a private letter ruling pursuant to K.A.R. 92-19-59. This ruling will be revoked by operation of law without further department action if there is a change in the controlling statutes, administrative regulations, revenue rulings or case law that materially effects this determination. I believe that this discussion answers all of your. If not, please call me at (785) 296-3081.

Sincerely,

Thomas E. Hatten

Attorney/Policy & Research

**Date Composed: 10/18/1999 Date Modified: 10/10/2001**