



## GST/HST Technical Information Bulletin B-002

November 23, 1990

### COUPONS AND BOTTLE DEPOSITS

Bill C-62, the proposed legislation on the Goods and Services Tax, received third reading and was passed by the House of Commons on April 10, 1990. Although this Bill has not yet received Royal Assent, Revenue Canada would like to help businesses and organizations prepare for the proposed tax. Accordingly, the information contained in this document, although subject to change, is being provided at this time for your convenience.

#### INTRODUCTION

This bulletin summarizes the proposed alternatives for retailers on computing the GST on coupons at the point-of-sale. It also outlines the simplified administrative procedures for the treatment of bottle deposits under the GST.

For information on other point-of-sale procedures and on the assistance available to upgrade or purchase cash registers that meet the GST requirements, please refer to the Technical Information Bulletin entitled "CASH REGISTERS", available from Revenue Canada, Customs and Excise.

#### COUPONS

To simplify the calculation of the GST, the following procedures for the treatment of coupons apply.

##### Reimbursable for a specific single monetary discount:

These coupons will be treated in the same way as cash offered by the customer. These are coupons that:

- are sent by the retailer to someone (for example, a coupon clearing house or manufacturer) for redemption;
- entitle the purchaser to a specific monetary discount (for example, \$1.07 off the customer's next purchase);
- are only for goods and services taxed at seven per cent; and
- are issued on a GST included basis and this is indicated on the coupon.

If this type of coupon is accepted by a retailer whose prices do not include the GST, the retailer will total the sale, add the GST payable and then deduct the value of the coupon from the total amount charged. If this type of coupon is accepted by a retailer who includes the GST in the price of goods, the retailer will total the sale and then deduct the value of the coupon.

The following example shows how a retailer would deduct the value of a GST-included coupon worth \$10.70.

##### EXAMPLE A

	GST-EXTRA, PRICING	GST-INCLUDED, PRICING
Price of the item	\$25.00	\$26.75
GST on the item: (\$25.00 X 7%)	\$ 1.75	-
Sub-total	\$26.75	\$26.75
Less coupon (GST-included)	\$10.70	\$10.70
Customer pays	\$16.05	\$16.05

When retailers prepare their GST returns, they will calculate the tax collected **without taking** the value of the coupon into account (\$1.75 as illustrated in the above example).

When retailers send the coupon for redemption, they will be reimbursed for the full face value of the coupon which will include the GST component, as well as any applicable handling fees and postage, etc.

### **Non-reimbursable for a specific single monetary discount:**

#### **GST-included Coupons**

These are coupons issued by a retailer and for which the retailer is not reimbursed by another person. Retailers will have the option of including GST in the face value of these coupons. However, if this option is chosen, retailers must ensure that all of the coupons they issue include the GST.

For example, if a retailer issues a coupon worth \$10, \$0.70 GST ( $\$10 \times 7\%$ ) will be added so that the face value of the coupon would be \$10.70. The coupon must also state that GST has been included in the face value.

When retailers accept their own GST-included coupons, they will treat them in the same way as coupons that are reimbursable for a specific single monetary discount (i.e., as cash offered by the customer). Refer to EXAMPLE A which illustrates how GST-included coupons will be treated.

When retailers prepare their GST returns, they will calculate the tax to be collected without taking the value of these coupons into account.

Retailers will also be able to claim 7/107ths of the face value of these coupons as a tax credit adjustment. This adjustment is claimed when retailers file their GST returns for the reporting period in which they redeemed the coupon.

### **Coupons that do not include GST:**

If retailers choose not to issue coupons on a GST-included basis, they will deduct the value of the coupon from the selling price of the item **before** the GST is calculated.

#### EXAMPLE B

\$25.00 (total price of item)

(\$10.00) (coupon)

\$15.00 (sub-total)

\$1.05 (GST)

\$16.05 (amount paid by customer)

When retailers file their GST returns, they will calculate the tax collected on their sales (\$1.05 in EXAMPLE B). There are no tax adjustments to be made if they use coupons that do not include the GST.

### **Other types of coupons:**

Coupons that are not for a specific single monetary discount will be treated in the same way as coupons that do not include the GST. These coupons will reduce the selling price of an item **before** the GST is calculated (as illustrated in EXAMPLE B). Therefore, retailers will deduct the value of the coupon from the selling price prior to calculating any GST payable.

These coupons may:

- offer a certain percentage off the price of an item (for example, a coupon to receive 10% off the next purchase);
- offer an item for no charge if another item is purchased (for example, two-for-one coupons);
- contain more than one monetary discount (for example, 50 cents off a 250 ml bottle of pop, or \$1 off a 500 ml bottle of pop); and
- be used for goods and services that are taxable, as well as zero-rated or exempt.

### **BOTTLE DEPOSITS**

To simplify the administration of the GST, bottle deposits will be treated in the following manner:

The bottler/manufacturer (supplier) will charge and remit the GST on the value of the consideration (i.e. the "deposit") on its supplies of bottles to the vendor (a wholesaler or a retailer). The bottler will account for the GST collected from the vendor, however, the vendor will not claim an input tax credit in respect of the GST paid to the bottler.

When the vendor sells the bottle to the customer, there will be no change in how bottle deposits are currently handled for provincial sales tax purposes. The deposit paid by the consumer will include the GST and treated for accounting purposes as a non-taxable amount. For example, when a soft drink is sold, the GST will be calculated on the price of the soft drink but there is no GST calculation required on the charge for the deposit as the amount of the deposit will already include the GST.

#### Example

soft drink \$1.00  
GST \$ .07  
deposit \$ .40  
**total \$1.47**

When a customer returns the bottle to the vendor for a refund of the deposit, the vendor will refund the entire amount initially paid by the customer for the deposit (i.e. \$.40). The refund of the deposit paid to the customer will also be treated as a non-taxable amount. Therefore, the vendor will neither account for tax collected on the sale of the bottle, nor claim a notional input tax credit in respect of the purchase of the used bottle.

When the vendor sends the used bottle back to the bottler, the vendor will collect the GST from the bottler on the value of the bottles. However, the vendor will not be required to remit tax in respect of the GST paid by bottler. Nevertheless, the bottler will be able to claim an input tax credit in respect of the GST paid to the vendor.

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