



555.0060

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

January 13, 1961

Gentlemen:

In your letter of December 15, 1960, to Mr. Dickson, you inquired concerning the application of proposed Ruling 72.5 to a trading stamp plan of the type conducted by REDACTED TEXT. Under this plan, a retailer purchases stamps for distribution to his customers. A consumer may redeem a filled book at the store of any retailer who handles that kind of stamp. The filled book is worth \$3.00 toward the purchase of any merchandise or service offered by the retailers cooperating in the plan. A retailer redeeming a filled book receives \$2.75 through a designated depository.

The question is whether this hybrid type of plan would fall under B-(1) or B-(2) of proposed Ruling 72.5. Inasmuch as the stamps are furnished at many stores, more of the stamps distributed by single retailer would be redeemed by some other retailer. Accordingly, it is our opinion that a plan of the type conducted by Alameda Merchants falls under B-(1) of proposed Ruling 72.5. Thus the retailer would be entitled to his cash discount deduction as of the time he buys the stamps. A retailer who redeems a filled book would have additional gross receipts of \$3.00 and the taxability of the \$3.00 would depend on the type of merchandise or service furnished to the customer, that is, the taxability would be identical to a situation in which the customer had paid \$3.00 in cash for the same merchandise or service.

You also ask for "layman's analysis" of the proposed Ruling. This is not really possible, but we can say that as far as a grocer is concerned, he will be allowed the cash discount deduction as of the time he buys trading stamps. The deduction is the amount he pays for the stamps as adjusted to eliminate a cash discount deduction on sales of exempt items.

The grocer who operates a cash register tape plan and furnishes his own premiums to his customer will be allowed a cash discount deduction as of the time he delivers the premiums to his customers. Again, his cash discount deduction will be adjusted to eliminate any deduction on sales of exempt items.

Very truly yours,

E. H. Stetson
Tax Counsel

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