OKLAHOMA TAX COMMISSION

TAX POLICY DIVISION

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August 11, 2011

Re: Our File Number LR-10-124; Calculation of sales tax on purchases made with "hostess credits or discounts"

Dea

This is in response to your inquiry regarding your client's direct sales company that sales to independent business owners (IBOS) whereby "IBOS" recruit hostesses to hold home parties. I have set forth verbatim the fact presented along with the questions posed and the response thereto.

My client sells products to the IBOS at suggested retail plus shipping charges and pre-collects the sales tax on the suggested retail price and other taxable charges. The IBO receives commissions on the products based on sales volumes and downline activity. The IBO sells the products using the party plan. The party plan method of selling is where the IBO holds a party at an individual's (referred to as a hostess) home. The hostess invites individuals to attend for the purpose of having the IBO display and take orders for the products. As an incentive to hold a party and based on the purchases of the individuals attending the party, the hostess may receive product credit that can be redeemed for a gift and a 1/2 priced item. Based on the above facts, my client requests a ruling on the following:

- If the Company gives product credit redeemable for free product to a hostess for having the party, is sales/use tax due on the suggested retail priced of the redeemed item or on the Company's whole sale cost?

- When a hostess purchases products for her own use, is sales tax computed on the sales price before of after subtracting the 1/2 priced discounts?

Gross receipts, gross proceeds, or sales price is the base upon which sales tax is calculated. The terms are synonymous and are defined as "the total amount of consideration . . . for which personal property or services are sold . . . whether received in

money or otherwise. . . ." 68 O.S. § 1352(12). "Vendors operating a multi-level distribution system will collect tax on the gross receipts of the retail value of the products sold." See Oklahoma Administrative Code 710:65-19-214(a). Oklahoma Statutes or Commission Rules do not contain special provisions which allow a deduction from gross receipts before computing sales tax on transactions related to multi-level sales, nor are the provisions concerning coupons applicable to multi-level sales. Therefore, sales tax should be collected on the retail value of the products sold without regard of credits or discounts to its hostesses.

This response applies only to the circumstances set out in your request of July 19, 2010. Pursuant to Oklahoma Administrative Code 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Sincerely,

OKLAHOMA TAX COMMISSION

Brenda J. Sullivan

Brenda J. Sullivan
Tax Policy Analyst