

M e m o r a n d u m**120.1170**

To: Sacramento – Auditing (CNW)

Date: July 22, 1977

From: Tax Counsel (GJJ) - Headquarters

Subject: U--- C--- S---
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P. O. Box XXXXX

SR -- XX XXXXXX

This is in response to your memorandum of July 1, 1977.

We understand that in a recent audit of the referenced taxpayer you asserted tax upon a separately stated charge for coupon books (measure of tax \$32,517). You have furnished us with a copy of taxpayer's letter of June 15, 1977, by which taxpayer argues that the tax has been improperly applied. Accompanying taxpayer's letter is a sample "Service Agreement."

Taxpayer has a contract to maintain EDP records of accounts receivable for clients. Some clients desire that coupon books be prepared to show on each coupon the amount to be paid each month by the client's customer.

The coupons produced are usually for a 12-month period so that the client's customer can use the coupon when making each monthly payment.

The charges shown to be due vary among the customers, and the amount due each month may not be the same during the 12-month period.

The taxpayer produces coupon books with EDP equipment, bursts, folds, stuffs the books in envelopes, and mails them to its clients' customers.

A separate charge of 13 cents per book is made by the taxpayer to its clients.

Under taxpayer's "CATV Management Information System" taxpayer undertakes to provide numerous listings, registers, and recaps on a daily basis and numerous analyses, reports, ledgers, registers, recaps and listings on a semimonthly basis. Taxpayer's charges to its customers are broken down as follows:

“Subscriber charges are for the maintenance of Master Tape information.

“Entry charges are for the amount of current input keypunched.

“Coupon, statement, and reminder charges are for the processing of the information, the generation and mailing of the coupon, statements, and reminders, and the generation of all management reports for Customer Service, A/R aging, summary accounting data, and other miscellaneous reports.”

It is clear that taxpayer is providing a comprehensive information management system to its customer and that taxpayer is engaged in processing of customer furnished information. As you have pointed out, the question is whether the coupon items are to be regarded as taxable items under paragraph (a)(5)(A) of Regulation 1502.

While we understand the position which you have taken in the audit and there is an argument to be made that the coupon books are items furnished to the customer for its use, historically we have recognized that tax does not apply to charges made by service bureaus for preparing customer invoices. Coupon books are in the nature of monthly invoices. Each coupon is unique in that it identifies the customer, the amount to be paid, and the period for which payment is due. It would appear that taxpayer is providing a billing service for its client. If taxpayer undertook to send an invoice to each customer for each monthly period, we would take the position that the tax does not apply. We see no sufficient justification for asserting that tax does apply because of the fact that the invoices are distributed on a batch basis in advance of the taxpayer's rendering of service to its customer.

The recipient of the coupons is advised to “Please be sure to enclose the proper coupon with your payment to assure prompt credit is applied to your account.” In fact the customer is not required to furnish the coupon with his payment.

As indicated, we have not regarded service bureaus who perform invoicing services for their customers as retailers of the invoices prepared by them. We see no sufficient basis for distinguishing cases of this type from the case presently before us.

j:alicetilton