



STATE BOARD OF EQUALIZATION

May 15, 1959

Your letter April 20, 1959

Attention: President
Gentlemen:

You inquire concerning the amount on which sales tax applies where a sale is made to a person who utilizes a charge account service offered by a bank. The bank has previously issued a credit card to the person, and the particular merchant has agreed with the bank to honor the credit card.

Periodically, the merchant sends the charge-sale invoices to the bank, and the bank immediately credits the merchant's account with the total amount represented by the invoices. The bank, however, deducts an amount as compensation for its services. The amount deducted varies depending on the particular merchant's volume, and perhaps other factors. It ranges between 3% and 6%.

It is our opinion that the bank's service charge is not deductible in determining the amount upon which sales tax applies. The sales tax applies upon a retailer's "gross receipts" as the total amount of the sale price of the retail sales of retailer. Thus, the gross receipts constitute the sum of the sale price in each individual retail sale. The sale price as to a particular retail sale is the amount to be, or agreed to be, paid by the purchaser. In most stores, this is the posted price. Section 6012 further provides no deduction may be taken on account of service costs or interest paid, but Section 6012 does allow a deduction for "cash discounts allowed and taken on sales."

It is our opinion that the charge in question is a service cost or interest. We do not believe it to be a cash discount, because it is an amount allowed to someone other than the purchaser. We feel that a cash discount is an amount allowed to the purchaser.

Very truly yours,

Bill Holden
Associate Tax Counsel

BH:o'b
cc: San Francisco - Administrator