

The amount of gross receipts received by a retailer as a reimbursement of a coupon issued by the federal government through the TV Converter Box Program and used to help pay for the cost of certified converter boxes are exempt from sales tax. See FY Bulletin 2009-01. (This is a GIL.)

August 25, 2008

Dear Xxxxx:

This letter is in response to your letter dated July 18, 2008, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

ABC and its affiliates respectfully requests formal guidance regarding the taxability of federally-funded digital converter program coupons as discussed below.

Facts

The Department of Commerce's National Telecommunications and Information Administration (NTIA), a federal agency, is administering a federally-funded coupon program that enables each household in the United States to receive up to two (2) coupons that are each good for up to \$40 off the purchase of a television converter box. This converter box will allow analog televisions receiving over-the-air broadcasts to continue to work even after the over the-air television signals are converted to all digital signals. This conversion is scheduled to be completed by February 17, 2009. Only one coupon can be used towards each converter box purchased.

Under the NTIA coupon program, an eligible household will complete an application to apply for up to two (2) coupons that can only be used towards the purchase of 'coupon eligible digital-to-analog converter boxes' (CECBs). A CECB is a converter box that contains features necessary to convert digital television service broadcast into a format that the consumer can display on a television receiver designed to receive analog television broadcast. The NTIA identified the specific converter boxes that qualify for this program and ABC agreed to only accept the NTIA-issued coupons for the CECBs.

Once received, the customer would take the NTIA-issued coupon to a ABC store, purchase a qualifying CECB currently retailing for \$59.99, present the NTIA-issued coupon, and receive \$40 off the purchase price of the CECB. The net transaction amount to the customer pre-tax is \$19.99.

ABC will then provide the required information to the NTIA to receive reimbursement for each of the NTIA-issued coupons redeemed. The NTIA will reimburse ABC directly for the lesser of the purchase price or \$40 for each of the CECBs sold by ABC under this program and for which NTIA-issued coupons were presented by the customers and accepted by the ABC.

Customers utilizing coupons to purchase qualifying converter boxes may only exchange the CECB for another qualifying CECB. However, customers seeking refunds will be limited to a refund of the net purchase price; in this case \$19.99 plus any applied tax.

Issues

- (1) Should ABC tax the sale of CECBs based on the **gross** (\$59.99) or **net** transaction (\$19.99) amount when NTIA coupons are used to purchase eligible Digital-to-Analog Converter Boxes?
- (2) If the Digital-to-Analog Converter Box is less than \$40 and the NTIA coupon is utilized to offset the entire amount of the transaction, is there any sales or use tax consequence?

Thank you for your time and consideration with respect to this issue. Please contact me if you have any questions or if I can provide any additional information.

DEPARTMENT'S RESPONSE:

The Department posted Informational Bulletin FY 2009-01 (To all Retailers and consumers of television converter box) on its web site in July 2008. The Bulletin states that the \$40 coupon issued by the federal government through the TV Converter Box Program and used to help pay for the cost of a certified converter box is exempt from sales tax. The portion paid with the coupon is considered an exempt sale to the federal government. If the selling price of the converter box is greater than the coupon value, the retailer will incur Retailers' Occupation Tax on the amount of the selling price that exceeds the value of the coupon. If the value of the coupon exceeds the selling price of the converter box, no Retailers' Occupation Tax is incurred on that transaction. The Bulletin also advises the retailer how to report the coupons on its returns.

I hope this information is helpful. If you require additional information, please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

Richard S. Wolters
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