

CITY OF LOS ANGELES
OFFICE OF FINANCE
TAX AND PERMIT DIVISION
CITY CLERK'S RULING NO. 8 (NEW SERIES):
DISCOUNTS, ALLOWANCES, ETC.

Reference: Section 21.00(a) L.A.M.C. which defines "gross receipts" states that, among other things, "gross receipts" include: "The total amount of the sale price of all sales, ...". This Section also states: "...cash discounts allowed or taken on sales shall not be included, ..." (in "gross receipts"); it does not permit the deduction of "...any ...expense whatsoever." The specific statement excluding only CASH discounts from "gross receipts" as defined in Section 21.00(a) L.A.M.C. shall not be construed as a limitation meaning that other amounts reducing sales prices must be included as "gross receipts" for the reason that they may be termed, for example, as "trade discounts," "quantity discounts," "allowances," etc. In some cases amounts which are so designated actually reflect a method of stating different sales prices when products are sold to different classifications of buyers.

Example A: A seller of automobile tires offers progressive or multiple discounts from "list prices" to automobile manufacturers, tire distributors, tire dealers and other purchasers. A typical quotation might be "less 30- 10-10." In these cases the **actual sales price** (less any additional cash discount), even when arrived at through the application of some form of progressive or multiple discount, will constitute "gross receipts."

Example B: A manufacturer and wholesaler of ice cream publishes a price list offering his products at successively lower overall prices per gallon when purchases reach 5 gallons, 10 gallons, 20 gallons, 30 gallons, 50 gallons and so on, within a stated period of time. In the foregoing, even though the "list" or base price is originally "charged" customers, where the "sale price" is reduced in ratio to quantities purchased, retroactive credits allowed as the result of such quantity purchases may be excluded from "gross receipts." In other cases, items designated as "discounts," "allowances," etc., actually constitute expenses of sellers and may not be excluded when computing "gross receipts." Nothing herein shall be construed to permit the deduction of amounts which are properly expenses of sellers.

Example C: The manufacturer of Blank's Cereal credits customers' accounts with \$1.00 for each case purchased provided customers produce evidence of payment of amounts at least equal to that credited, for advertising of Blank's Cereal, usually in "neighborhood" publications. These amounts are often shown as "advertising allowances" or "advertising discounts" on customers' invoices and are sometimes accounted for by reductions of "sales." In these cases, regardless of the method of accounting for the transactions, the "discount" or "allowance" is not a reduction in sales price but is, in fact, an advertising expense of the seller. The Office of Finance, in making determinations involving applications of various types of "discounts," will be guided by the substance rather than by the form of the transactions. Inasmuch as trade practices in connection with discounts generally vary greatly as well as methods of accounting therefor, the Office of Finance will base his determinations upon the primary purpose of the transactions rather than the

terminology and accounting form followed. Transactions substantially different in detail from those described herein must be submitted to the Office of Finance for individual rulings thereon.

I, Walter C. Peterson, City Clerk of the City of Los Angeles, pursuant to authority granted me in Section 21.15(h) of the Los Angeles Municipal Code, do hereby adopt and promulgate the foregoing rule and regulation as a restatement and continuation of Office of Finance's Ruling No. 8 adopted by me on November 10, 1953 under the provisions of Article 1, Chapter 2 of the Los Angeles Municipal Code then existing.

s/Walter C. Peterson

WALTER C. PETERSON, CITY CLERK

APPROVED:

ROGER ARNEBERGH, CITY ATTORNEY

By s/James A. Doherty

Assistant City Attorney

Date August 9, 1956