**Employee Discounts on Texas State FSS/PPS No. 03.22**

**Goods and Services Issue No. 5**

**Effective Date: 09/11/2020**

**Next Review Date: 05/01/2024 (E4Y)**

**Senior Reviewer: Director, Payroll and Tax Compliance**

**01. POLICY STATEMENT**

01.01 The purpose of this policy is to establish responsibility and policy regarding employee discounts for tickets and other Texas State University goods and services, and to ensure that policy conforms to the Internal Revenue Code (IRC).

**02. POLICY**

02.01 Discounts on goods and services are covered by [IRC Section 132](https://www.govinfo.gov/content/pkg/USCODE-2009-title26/pdf/USCODE-2009-title26-subtitleA-chap1-subchapB-partIII-sec132.pdf). This section of the IRC limits the non-taxable discount that can be given to employees. Discounts in excess of the amounts allowed under [Section 132(a)(2)](https://www.govinfo.gov/content/pkg/USCODE-2009-title26/pdf/USCODE-2009-title26-subtitleA-chap1-subchapB-partIII-sec132.pdf) are taxable to the employee, and the employer is required to withhold taxes on that benefit.

1. Employee discounts may not exceed:
2. in the case of property, the gross profit percentage of the price at which the property is being offered by the employer to customers; or
3. in the case of services, 20 percent of the price at which the services are being offered by the employer to customers.
4. Quantity or volume discounts may be offered to employees provided they are the same as those offered to the general public. For example, if there is a discount to the general public for the purchase of 10 tickets, the same discount can be offered to employees for the purchase of 10 tickets. For a discount on merchandise, the discount cannot exceed the gross profit percentage of the selling price to non-employee customers. Gross profit percentage must be from the prior year's business and is calculated based on all merchandise offered.

c. Qualified property or services include:  
1) any property (other than real property and other than personal

property of a kind held for investment such as stocks or bonds); or  
2) services which are offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services.

d. Account managers are responsible for ensuring that discounts offered by their department to employees do not exceed the limit for qualified employee discounts.

02.02 There is a “no-additional cost” service provision in the IRC that allows an employer to provide a service to an employee without creating taxable income to the employee if no substantial costs are incurred by the employer in providing the service. The IRC rules are as follow:

1. To calculate cost, include lost revenue as a cost. (e.g., tickets to a sold-out game).
2. Include substantial time spent by staff in providing the service, even if after hours.
3. The service must be offered to customers in the ordinary course of business.
4. According to the Internal Review Service, an employee is defined as a current employee, a former employee who retired or left on disability, the widow or widower of an individual who died while an employee, a widow or widower of an employee who retired or left on disability, a temporary employee, or a spouse or dependent child of an employee.
5. This provision does not extend to educational services. The university must use its qualified tuition reduction rules regarding free or reduced tuition for employees.

02.03 The associate vice president of Financial Services will be responsible for publicizing this policy.

**03. REVIEWER OF THIS PPS**

03.01 Reviewer of this PPS includes the following:

Position Date

Director, Payroll and Tax Compliance May 1 E4Y

**04. CERTIFICATION STATEMENT**

This PPS has been approved by the following individuals in their official capacities and represents Texas State Finance and Support Services policy and procedure from the date of this document until superseded.

Director, Payroll and Tax Compliance; senior reviewer of this PPS

Associate Vice President for Financial Services

Vice President for Finance and Support Services