Employee Discounts on Texas State Goods and Services

Revised: 05/12  
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Issue No. 3  
Reviewer: Tax Specialist  
Effective Date: 05/15/00 (E4Y)  
Review Date: 05/16

01. PURPOSE

01.1 To establish responsibility and policy regarding employee discounts for tickets and other University goods and services.

01.02 To ensure that policy conforms to the Internal Revenue Code.

02. POLICY

02.01 Discounts on goods and services are covered by Internal Revenue Code Section 132. This section of the Code limits the non-taxable discount that can be given to employees to 20 percent of the price offered to the general public. Discounts exceeding the 20 percent limit are taxable to the employee and the employer is required to withhold taxes on that benefit.

(a) Employee discounts may not exceed 20 percent of the price at which the same goods/services are offered to the general public.

(b) Quantity and/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-employees. Gross profit percentage must be from the prior year's business, and is calculated based on all merchandise offered.

(c) Account managers are responsible for ensuring that discounts offered by their department to employees do not exceed the 20 percent limit.

02.02 There is a “no-additional cost” service provision in the Internal Revenue Code 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 follows.

(a) To calculate cost, include lost revenue as a cost. (e.g., tickets to a sold out game)

(b) Include substantial time spent by staff in providing the service, even if after hours.
(c) The service must be offered to customers in the ordinary course of business.

(d) According to the IRS, an employee is defined as a current employee, a former employee, the widow or widower of a former employee, a temporary employee, or a spouse or dependent child of an employee.

(e) This provision does not extend to educational services. The University must use its qualified tuition reduction rules in regards to free or reduced tuition for employees.

02.03 The Associate Vice President of Financial Services will be responsible for publicizing this policy.

03. MAJOR RESPONSIBILITIES ASSOCIATED WITH THIS PPS

Major responsibilities for routine assignments associated with this PPS include the following:

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04. CERTIFICATION OF STATEMENT

This FSS/PPS has been approved by the following individuals in their official capacities, and represents FSS policy and procedure from the date of this document until superseded.

Director, Payroll and Tax Compliance, Reviewer

Associate Vice President for Financial Services

Vice President for Finance and Support Services

Approved: ____________________________  
Reviewer

Approved: ____________________________  
Reviewer

Approved: ____________________________  
Vice President for Finance and Support Services