

CHAPTER 2

DISCOUNT OFFERS AND CALCULATIONS0201 DISCOUNT OFFERS AND CALCULATIONS020101 Offer of Discount

Contractors offer discounts to obtain payment of amounts due under a contract for property or services in exchange for payment within a specified time. Take the discount, if cost-effective (to determine, see paragraph 020103-F), when the contractor offers it or when one of the following situations exists:

A. The contractual document contains discount terms whether the invoice offers discount terms or not.

B. The bid, contract, or other agreement is silent on the discount, but the invoice contains discount terms (typed, written, rubber stamped, or printed).

C. If discount terms on an invoice differ from those in the contracting document, use those that are most cost-effective for the government, except for progress payments liquidations as noted in paragraph 020105-B.

D. The contractor provides written advice to extend the discount period or increase the discount percentage beyond that offered previously.

E. The contractor orally offers a discount on a specific invoice or invoices. In these cases a conversation record stating the name and position of the person offering the discount, the discount terms and the date of the offer should be attached to the invoice. The disbursing office may, at local option, require written confirmation of the verbal offer from the contractor.

020102 Computation of Discount Period

A. General Rule. On contracts execut-

ed or options exercised on or after April 1, 1989, the discount time starts from date of the invoice. If no date has been placed on the invoice by the contractor, the discount period will begin on the date a proper invoice is actually received by the designated billing office if the agency annotates the invoice with date of receipt at the time of receipt. On contracts executed on or before March 31, 1989, the discount time period starts from the later of the two following dates, unless the contract states otherwise:

1. Date of completion of performance of services or delivery of supplies to the carrier if acceptance is at point of origin, or date of delivery at destination or port of embarkation if delivery and acceptance are at either of these points.

2. Date proper invoice is received in the disbursing office designated by the contractual document. See paragraph 070201 for the criteria of a proper invoice.

B. Some contractors offer a discount if the invoice is paid by date followed "proximo" (in the next month). If a discount is offered for payment by "tenth proximo", the discount is earned if payment is made by the 10th of the month following the month that the material was delivered, or the month that the dealer's bill was received, whichever occurs later. Thus, if both material and dealer's bill are received in August, the discount is earned if payment is made by September 10. However, if a dealer's bill is received in August and the material is received in September, the discount is earned if payment is made by October 10.

C. Contract or Purchase Order Modifications. When modifications to contracts or purchase orders retroactively change or add discount terms or increase dollar amounts of line items which have been previously paid, do the following:

1. When new or revised discount terms apply, take the discount on any subsequent payment provided the payment was made within the new or revised discount period.

2. When retroactive price increases apply, take the discount on the supplemental billing if paid during the discount period.

D. Selection of Best Discount Terms. When multiple prompt payment discount rates are offered, take the most economical discount offered by the contractor. The most economical discount is the discount term which provides the highest annual effective interest rate. When reporting lost discounts on the Prompt Payment Act (PPA) Report as required in paragraph 070601, report the discount lost that would have been the most economical to the government.

020103 Payment Within the Discount Period

A. Invoices offering cost-effective discount terms or invoices offering net terms when the contractual document contains cost-effective discount terms should be paid within the discount period. Cost-effective discount terms are defined as those yielding an effective annual interest rate equal to or greater than the current value of funds rate established by the Department of the Treasury. Discounts that do not meet the cost-effective criterion should be refused and be scheduled for net payment.

B. The rate established by the Treasury Department for the current value of funds will be provided to the individual disbursing offices by their servicing DFAS Center. New rates apply to all invoices received after the effective date of interest rate change. (See Figure 2-1, at the end of Chapter 2, for prior years cost-effective discount rate.)

C. To determine cost-effective discounts, the computation should be based on the number of days in advance of the actual invoice due date that the payment needs to be made to take advantage of the discount. The effective annual percentage rate should be computed on the length of acceleration of the payment and compared to the current value of funds. For example, an invoice dated March 1 by the con-

tractor and received on March 4, with a 10-day discount term, has 7 days left in the discount period. Counting of the 10 days starts March 2 and ends March 11. The 7 days (March 5 to March 11, inclusive) from day after receipt of invoice until discount due date will be used as the discount period for computation to see if the discount is cost-effective.

D. Manually processed vouchers offering discounts of less than \$25 will not be considered to be cost-effective, but will be reported as offered on the PPA report.

E. When a discount is offered by a contractor from an amount due under a contract for goods or services in exchange for payment within a specified time, the disbursing office may pay the discounted amount only if payment is made within the specified time. Discounts will be taken whenever economically justified, but only after acceptance has occurred. Agency payment systems will incorporate procedures that take advantage of cash discounts as a matter of routine and eliminate any need for special handling.

F. Trade discounts will be taken when the discount terms applied in the conversion formula result in an effective annual interest rate equal to or greater than the Current Value of Funds Rate. Discount terms (percentages) are converted to an effective annual interest rate as follows:

$$\frac{\text{Discount \%}}{100 - \text{Discount \%}} \times \frac{360}{\text{Number of Days in the Payment Period} - (\text{MINUS}) \text{Number of Days Left in Discount Period}} = \text{Effective Annual Interest Rate}$$

1. As an example, consider discount terms of 1 percent (.01) in 10 days, net 30 days, and the invoice was received on the fourth day. There are seven days remaining in the discount period. Application of the above formula to this discount offer would have an effective annual interest rate of 15.8 percent:

$$\frac{.01}{1.00-.01} \times \frac{360}{30-7} = 15.8\%$$

If the Treasury Department percentage rate is greater than 15.8 percent, the discount is not cost-effective and should be refused. Payment should be scheduled based on the net-pay due date. When payment is made during the "net" period allowed, pay the gross amount. However, if for other reasons, payment will be made within the discount period, take the discount.

2. To avoid detailed computation, use the following values of 1 percent in x number of days, net 30 days:

<u>Days Remaining in Offered Discount Period</u>	<u>Effective Annual Interest Value of 1 Percent</u>
1	12.5
2	13.0
3	13.5
4	14.0
5	14.5
6	15.2
7	15.8
8	16.5
9	17.3
10	18.2
11	19.1
12	20.2
13	21.4
14	22.7
15	24.2
16	26.0
17	28.0
18	30.3
19	33.1
20	36.4

a. If the offered discount rate is other than 1 percent, first obtain the value at 1 percent, then multiply or divide to determine the value of the offered discount. For example, 1/2 percent in 5 days, net 30 days: The value of 1 percent in 5 days is 14.5 percent then divided by 2 = 7.25 percent. The discount should not be taken assuming the current Treasury Department rate is greater than 7.25 percent. The discount should be classified not cost-effective/refused and payment should be scheduled during the

"Net" period allowed.

b. If the period for net payment is other than net 30 days, compute the discount as shown in paragraph 020103-F(1).

G. Generally, contracts provide that the date of payment for discount purposes is the date the check is mailed. Mail the check on the same day it is dated and keep a record of the mailing date. For electronic payments, the date of payment for discount purposes is the date that the government has placed in the electronic funds transfer payment transaction instruction given to the transfer network. This is the date on which the funds are to be transferred to the contractor's financial institution.

H. If the discount time ends on Saturday, Sunday, or a legal holiday, the next business day is considered within the discount period.

I. Contracts or invoices offering discounts on specific items, and not the total invoice or contract, should be split in order to establish the payment timeframes. The invoice should be split so as to earn cost-effective discounts on the items subject to the discount offer and to make net payment of items which are not subject to discount. When automated payment systems cannot accommodate the splitting of an invoice or contract, discounts will be determined to be cost-effective per the following method. Compute the dollar value of the discount to be earned; compare this dollar value to the total amount of the invoice; convert this comparison to a percentage; determine if the percentage is cost-effective per the calculation and information provided in paragraph 020103(F). If the percentage is cost-effective, take the discount and pay the entire invoice within the discount terms. If the percentage is not cost-effective, schedule the invoice for net payment.

020104 Computation of Discount

A. Unless otherwise declared in the contracting document or covered below, compute discounts on the approved gross amount of the invoice:

1. When taxes or freight charges are listed separately.

2. After deduction of taxes which are not a proper charge under international or status of forces agreement.

3. When withholding of funds is made mandatory under the contracting document, the government is entitled to any discount on the amount withheld when these amounts are released for payment if previous payments were paid within the discount terms of the contracting document or as later modified. The discount period starts when notification of release is received in the disbursing office.

4. Where trade-ins are involved, compute the discount on the actual cash balance due (60 Comp Gen 255 (1981)).

020105 Discounts on Progress Payments

A. Progress Payments Recoupments. When a discount is offered, determine if the discount terms in the contract have been met. If the terms have been met, take the discount against the amount of the gross invoice. If the terms have not been met, take the discount against the amount of the recoupment. [Comptroller General Decision B159741 (Nov 22, 1966); Jay Dee Militarywear, Inc., 94-2 BCA 26,829 (1994). The Comptroller General and the Armed Services Board of Contract Appeals both confirm the propriety of deducting a discount on payment of a partial delivery on which recovery of a progress payment as completed but on which payment was too late for discount on the balance due on the partial delivery. Where a payment has already been made (as in the case of progress payments), the government is entitled to a discount on any part of delivery payments applied in liquidation of progress payments if there were a discount clause in the contract. It is the balance due on which the time, as provided in the discount clause, is running.

B. Progress Payments Liquidations. If a contractor does not have a discount clause in the contract, no discount should be taken on the progress payment liquidation portion of the invoice when the discount is offered for the first

time on the invoice.

020106 Discounts on Invoices Involving Liquidated Damages

A. Where a contract contains a liquidated damages clause based on price and also contains an offer of discount for prompt payment, the liquidated damages should be deducted without regard to the discount. Compute the discount on the gross contract price without regard to the amount of liquidated damages (18 Comp Gen 784 (1939)).

B. Where a contract contains a liquidated damages clause based on a price that is modified and also contains an offer of discount for prompt payment, compute both the liquidated damages and the discount based upon the modified price (18 Comp Gen 784 (1939)).

0202 DISCOUNT REPORTING

020201 Responsibility for Discount Not Taken

A. Disbursing offices will maintain management information on discounts not taken. As a minimum, the information includes the number and dollar value of discounts offered, cost-effective discounts lost, cost-effective discounts unavailable (because the invoice was not received in time to take the discount). Each discount not taken should be coded with the appropriate reason for not taking the discount. This information should be maintained for at least the previous 12-month period.

B. The reason codes for discounts not taken are:

- P - Disbursing office error
- R - Late receipt of receiving report or notice of acceptance
- I - Late receipt of invoice
- N - Not cost-effective/refused
- O - Other

Further explanation should be available for those discounts coded "Other."

020202 Erroneously Taken Discount

When a discount is taken in error, or is taken after expiration of the discount period and is not repaid before the payment due date (as defined by paragraph 070205-B), pay the contractor when the error is discovered plus accrued interest (if \$1 or more) on any amount remaining unpaid. The interest payment is calculated on the amount of the discount taken and not repaid by the payment due date for the period beginning the day after the discount due date through the payment date. The payment will be supported by either the contractor’s claim or the administrative certificate or both on the voucher.

020203 Miscellaneous Earnings and Discounts

In rare instances, a voluntary discount may be offered by a contractor after a contract is completed (including final payment). These discounts are distinguished from prompt payment and volume discounts in that voluntary discounts are discretionary with the contractor and do not reduce the amount obligated against the paying appropriation. Do not treat discounts received after payment as refunds. Such Discounts should be deposited in the Miscellaneous Receipts Account.

Current Value of Funds Rate

<u>Year</u>	<u>Current Value of Funds Rate</u>
1984	9%
1985	9%
1986	8%
1987	7%
1988	6%
1989	7%
1990	9%
1991	8%
1992	6%
1993	4%
1994	3%
1995	5%

Figure 2-1