

**VOLUME 10, CHAPTER 2: “DISCOUNT OFFERS AND REBATES/REFUNDS”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an [asterisk \(\\*\)](#) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue and underlined font](#).

The previous version dated [October 2012](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
020206	Added a definition of “Liquidated Damages”.	Addition
020301.J	Added language clarifying the requirements for tracking and monitoring discounts lost or not taken.	Addition
020301.K	Added language to clarify supporting documentation requirements.	Addition
020302.B	Added language to identify the three types of rebates/refunds.	Addition
020302.C	Clarified the terminology regarding the comparison used to determine and publish Government Purchase Card (GPC) payment dates.	Revision

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## CHAPTER 2

**DISCOUNT OFFERS AND REBATES/REFUNDS**

## 0201 GENERAL

## 020101. Purpose

This chapter prescribes the policy for [payment](#) discounts and government purchase card (GPC) rebates. Travel card rebates are addressed in Volume 9, Chapter 3. This chapter also provides information on determining if discounts should be taken and provides information on rebates offered by GPC issuers to encourage early payment.

020102. [Authoritative Guidance](#)

Vendors and contractors offer discounts and banks issue various government purchase cards that provide rebates to encourage early payment of their receivables. The Department of Defense (DoD) will take advantage of the discount and rebate offers only when it is economically justified and advantageous to the DoD. The DoD will follow the supporting guidelines for taking discounts and rebates found in Title 5 of the Code of Federal Regulations ([CFR](#)) [1315](#), [Federal Acquisition Regulation \(FAR\) Subpart 32.906\(e\)](#), and Office of Management and Budget ([OMB](#)) [Circular A 123, Appendix B, Chapter 7](#).

## 0202 DEFINITIONS

## 020201. Discount

[As defined in](#) 5 CFR 1315.2(n), a discount is an invoice payment reduction offered by the vendor for early payment.

## 020202. Discount Date

[As prescribed by](#) 5 CFR 1315.2(o), the discount date is the date by which a specified payment reduction, or discount, may be taken in accordance with the discount terms.

## 020203. Discount Period

The discount period is the period during which a discount may be taken. The discount period begins from the invoice date placed on a proper invoice by the vendor. If the vendor did not include the invoice date on the invoice, the discount period [would](#) begin on the date a proper invoice is actually received and date stamped or otherwise annotated by the designated agency office [in accordance with](#) 5 CFR 1315.7(d) and 5 CFR 1315.9(b). The discount period ends on the discount date. When the discount date falls on a weekend or legal holiday, the discount may be taken if payment is made on the next business day [as prescribed in](#) FAR 32.906(e).

## 020204. Effective Annual Discount Rate

The effective annual discount rate is the annualized value of the discount offered during the discount period. The DoD will take the discount when this rate equals or exceeds the Treasury Current Value of Funds Rate (CVFR). Use the [Bureau of the Fiscal Service \(Fiscal Service\) \*Discount Calculator\*](#) to determine if it is economically justified to accept a discount offered by a vendor. The conversion formula used to calculate an effective annual discount rate is calculated as follows:

$$\begin{array}{rclcl} \text{Discount \%} & & \text{X} & \text{Annual Calendar days (360)} & = & \text{Effective} \\ 1.00 - \text{Discount \%} & & & \text{Number of Days} & & \text{Annual} \\ & & & \text{In the Payment} & & \text{Discount} \\ & & & \text{Period - (MINUS)} & & \text{Rate} \\ & & & \text{Number of Days} & & \\ & & & \text{Left in Discount Period} & & \end{array}$$

## 020205. Entitlement Office

The entitlement office is the designated activity to authorize the release of funds or other benefits to those with legally established rights granted by law or by agreement through contract. The entitlement office may also be [referred to](#) as the payment office.

## \*020206. Liquidated Damages

As provided for in [FAR Subpart 11.5](#), an agency may establish in a contract a predetermined rate of liquidated damages to be paid in the event of an unexcused delay in performance or delivery, or a breach of contract. Liquidated damages are paid by the contractor and are used to compensate the agency for probable damages associated with the unexcused delay or breach. Liquidated damages are not punitive or negative performance incentives.

## 020207. Rebate/Refund

As defined by 5 CFR 1315.2(aa), a rebate is a monetary incentive offered to the DoD by GPC issuers to pay monthly GPC billing statements early. The current General Services Administration contract offers productivity refunds based on timeliness and/or frequency of payments and sales refunds based on the dollar volume during a specified period. [A corrective rebate is done to correct improper or erroneous payments or for an invoice adjustment.](#) The terms “rebate” and “refund” have been used interchangeably throughout the CFR, OMB guidance, and existing legislation. [See \(OMB\) Circular A 123, Appendix B, Chapter 7, for more information on productivity, sales and corrective refunds.](#)

## 020208. Trade-in

Merchandise accepted as partial payment for a new purchase is referred to as trade-in property.

## 020209. Treasury Current Value of Funds Rate (CVFR)

The CVFR is used to assess interest charges for outstanding debts owed the government, to evaluate the cost-effectiveness of a cash discount, and to determine when agencies should pay purchase card invoices when a rebate is offered by the card issuer. See the [Fiscal Service FMS website](#) for current and historical CVFR rates.

## 0203 POLICY

## \*020301. Discounts

A. [As prescribed by 5 CFR 1315.7\(a\)](#), if a DoD Component is offered a discount by a vendor, whether stipulated in the contract or offered against an invoice, a DoD Component should take the discount if economically justified but only after acceptance has occurred. [FAR Subpart 32.111\(b\)](#) requires [FAR Contract Clause 52.232-8](#), “Discounts for Prompt Payment” be included in all fixed-price supply and service contracts. The contractor may extend the discount period or increase the discount percentage beyond a previous offer. The offer may be in writing, or it may be oral for specific invoices. If the offer is oral, then the entitlement office must attach to the invoice a conversation record with the name and position of the person offering the discount, the discount terms, the person’s telephone number, and the date of the offer. The entitlement office has the option of requiring written confirmation of the verbal offer.

B. [Entitlement](#) offices [must](#) schedule discount payments as close to, but not later than, the last day of the discount period. Payment is considered to be made on the date printed on the check itself, or on the electronic fund transfer (EFT) settlement date, per 5 CFR 1315.4(h). If the paying office cannot apply the discount, payments shall be made in accordance with the [payment due date](#) guidelines prescribed in 5 CFR 1315.4(g).

C. A discount is advantageous to the DoD when the discount terms yield an effective annual discount rate that equals or exceeds the CVFR. As an example, using the discount rate calculator, input the terms of an invoice received in 2015 (2/10 net 30, with 4 days remaining in the discount period).  $(.02/1-.02 \times 360/30-4 = 28.3)$  This example is advantageous to the DoD because the calculated effective annual discount rate of 28.3 percent exceeds the year 2015 CVFR of 1 percent. DoD Component payment systems [should](#) incorporate procedures that take advantage of cash discounts as a matter of routine, which eliminates any need for special handling. Such discounts [must](#) be taken when the discount terms applied in the conversion formula result in an effective annual interest rate equal to, or greater than the CVFR.

D. Discounts [must](#) not be taken when the payment is made after the discount date. [As prescribed by 5 CFR 1315.7\(b\)](#), when an agency takes a discount after the discount

date, interest **must** be paid on the amount of the discount taken. Interest will be calculated for the period beginning the day after the specified discount date through the date of payment of the discount erroneously taken, as prescribed in 5 CFR Part 1315.10(a)(6).

E. When the discount terms in the contract and the invoice differ, DoD Components shall take the most cost effective discount.

F. Compute discounts on the approved gross amount of the invoice, except as follows:

1. Deduct taxes or freight charges that are separately listed.
2. Deduct taxes that are not proper charges under international or status of forces agreements.
3. Discounts may be taken on amounts legally withheld and later released if related amounts were paid in accordance with the discount terms. The discount period for the released payment will begin when the entitlement office receives notification of the release.
4. Compute the discount on the actual cash balance due when there is a trade-in.
5. When the entitlement system has the capability to trace and pay individual line items on an invoice, the invoice may be split into multiple payments. Each line item must meet the receipt and acceptance requirements to take advantage of the discount offered against the invoice.
6. Contract or purchase order modifications may change or add discount terms or retroactively increase the dollar amount of line items that were previously paid. Take the discount on any subsequent payment that is made by the new or revised discount date when new or revised discount terms apply.
7. The following procedures apply when a contract for supplies, services, research and development, or construction includes [FAR 52.211-11, 12, or 13](#) or Defense Federal Acquisition Regulation Supplement [252.217-7009](#), and liquidated damages apply.
  - a. Where liquidated damages apply, and the contract or invoice also contains an offer of a discount for early payment, compute the discount on the gross contract price without regard to the amount of liquidated damages.
  - b. Where liquidated damages apply to a price that is modified, and the contract contains an offer of a discount for early payment, compute the discount based on the modified price without regard to [the liquidated damages](#).

G. After a progress payment has been made; the government is entitled to a discount on any part of delivery payments applied in liquidation of progress payments.

1. When the discount terms have been met, take the discount against the amount of the gross invoice. If the discount date is not met, take the discount against the amount of the liquidation. The discount still applies to the liquidation portion of the payment even in instances in which the discount period has expired on the balance due on the partial delivery.

2. The contractor has had the use of these funds, and the finance officer is entitled to take a prompt payment discount on them at the time they are recouped.

3. If the discount is offered for the first time on an invoice and the contract does not have a discount clause, then do not take the discount on the progress payment liquidation portion of the invoice.

H. In rare instances, the contractor may offer a voluntary discount after a contract is completed, including final payment. These discounts are distinguished from early 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 rebates. Such discounts should be deposited in the Miscellaneous Receipts Account of the United States Treasury.

I. When contracts have Free On Board (FOB) Origin terms, payments made prior to the delivery of supplies to the carrier or delivery to the destination, are entitled to the discount offered on the contract.

\* J. Components need to be cognizant of the amount of discounts lost, or not taken, as part of their overall payment operations. Tracking discounts lost can provide additional insight into the efficiency and effectiveness of payment operations, and identify opportunities to take advantage of limited budgetary resources by increasing the amount of discounts received. Necessary entitlement or disbursement system capabilities should be in place to identify and periodically report to management on the discounts lost to allow management to assess and take appropriate corrective actions as deemed necessary.

\* K. Components must ensure that documentation supporting the discount transactions are retained in accordance with Volume 1, Chapter 9 and are readily available to support future audit efforts. The documentation must be of sufficient quality to allow an independent third party, such as an outside auditor, to understand and verify the basis of the entitlement and the determination of a discount.

\*020302. Rebates/Refunds

A. The terminology rebate and refund are used interchangeably in this paragraph. Components should have internal controls and procedures in place to allow them to maximize the sales and productivity refunds and to identify and collect the corrective rebates.

The documentation supporting the transactions associated with the rebates/refunds should be maintained and readily available to outside auditors as necessary.

\* B. As stated in OMB Circular A-123, Appendix B, Chapter 7, a refund is a monetary payment provided by a charge card contractor to the Component entity as stated in the contract. The three types of refunds are:

1. Sales refunds, which represent payments from the charge card contractor to the entity based on the dollar or “spend” volume during a specified time period.

2. Productivity refunds, which represent payments from the charge card contractor to the entity based on the timeliness and/or frequency of payments made to the contractor.

3. Corrective refunds, which are payments from the charge card contractor to the specific billing agency to correct improper or erroneous payments or an invoice adjustment.

\* C. GPC billing statements should be paid as soon as administratively possible when the rebate offered is greater than the cost of funds as defined in 5 CFR 1315.8. The Defense Finance and Accounting Service shall determine and publish GPC payment data that compares the Current Value of Funds (CVF) to the rebate discount points, for the payment cycle day. This data should be used to assist Components in performing a cost and benefits analysis as part of their consideration of the cost of early payment. This cost is the interest amount the DoD will earn at the CVFR for each day the payment is not made. Specifically a comparison will be made between the basis points offered by the card issuer and the corresponding basis points of the Treasury’s CVFR. DoD Components should forward their approved GPC billing statements to allow sufficient time to process the payment, receive a rebate for early payment and avoid interest penalties per 5 CFR 1315.8.

D. DoD Components may use the Fiscal Service [Rebate Spreadsheet](#), which automatically calculates the net savings to the government and whether the DoD Component should pay earlier than the normal contractual payment terms. The only variables required for input to this spreadsheet are the CVFR, the Maximum Discount rate (that is, the rate from which basis points offered by the card issuer are derived), and the amount of money owed. If the DoD Component elects not to use the spreadsheet, a manual computation can be performed as described in 5 CFR 1315.17.

E. The contractor is required to calculate the rebate and return that amount to the DoD customer designated in the contract. DoD Component entities subject to the receipt and use of the rebates/refunds must employ the necessary internal controls and procedures to ensure that rebates are received when due as per the terms of their GPC contract, and that the rebates received from the contractor are calculated properly.

F. Pursuant to permanent authority enacted in the Fiscal Year 2008 DoD Appropriation Act, [Public Law 110-116, Section 8067](#), DoD rebates attributable to the use of the

**GPC** may be credited to operation and maintenance, and research, development, test and evaluation accounts which are current when the rebates are received. For example, if a rebate is received in the new fiscal year against a bill that was paid in September of the previous fiscal year, the rebate may be credited to the operations and maintenance and/or research, development, test and evaluation account(s) current after October 1 of the new fiscal year. This includes the operational portion of a nonappropriated or working capital account.