

**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 \* 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 November 2010 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Provided a number of small administrative changes to refresh links, improve grammar and standardize formatting.	Updated
020302.D	Added link for Public Law 110-116, Section 8067 reference which provides guidelines for purchase card rebates and where they may be credited.	Add

Table of Contents

VOLUME 10, CHAPTER 2: “DISCOUNT OFFERS AND REBATES/REFUNDS” ..... 1

0201 OVERVIEW..... 3

    020101. Purpose..... 3

    020102. Scope ..... 3

0202 DEFINITIONS..... 3

    020201. Discount ..... 3

    020202. Discount Date..... 3

    020203. Discount Period..... 3

    020204. Effective Annual Discount Rate..... 4

    020205. Entitlement Office ..... 4

    020206. Rebate/Refund..... 4

    020207. Trade-in ..... 4

    020208. Treasury Current Value of Funds Rate (CVFR) ..... 4

0203 POLICY ..... 5

    020301. Discounts..... 5

    020302. Rebates/Refunds..... 7

## CHAPTER 2

**DISCOUNT OFFERS AND REBATES/REFUNDS**

## 0201 OVERVIEW

## 020101. Purpose

This chapter prescribes the policy for processing discounts and government purchase card (GPC) rebates. Travel card rebates are addressed in Volume 9, Chapter 3 of this Regulation, and rebates associated with transportation payments made using a Third Party Payment System (TPPS) are addressed in Chapter 13 of this volume. 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. Scope

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

A discount is an invoice payment reduction offered by the vendor for early payment. See 5 CFR 1315.2(n).

## 020202. Discount Date

The discount date is the date by which a specified payment reduction, or discount, may be taken in accordance with the discount terms. See 5 CFR 1315.2(o).

## 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 will begin on the date a proper invoice is actually received and date stamped or otherwise annotated by the designated agency office. See 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. See [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 [Treasury's Financial Management Service \(FMS\) 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 found in [Treasury Financial Manual \(TFM\) Volume 1, Part 6, Section 8040.40](#) and 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 known as the payment office.

## 020206. Rebate/Refund

A rebate is a monetary incentive offered to the DoD by GPC issuers to pay monthly GPC billing statements early. See 5 CFR 1315.2(aa). The current General Services Administration (GSA) contract offers productivity refunds based on timeliness and/or frequency of payments and sales refunds based on the dollar volume during a specified period. The terms "rebate" and "refund" have been used interchangeably throughout the CFR, the TFM, OMB guidance, and existing legislation.

## 020207. Trade-in

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

## 020208. 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 [Treasury's FMS website](#) for current and historical CVFR rates.

## 0203 POLICY

## 020301. Discounts

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. See 5 CFR 1315.7(a). [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. Payment offices shall 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 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 2012 (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 2012 CVFR of 1 percent. DoD Component payments systems have incorporated procedures that take advantage of cash discounts as a matter of routine, which eliminates any need for special handling. Such 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 CVFR.

D. Discounts shall not be taken when the payment is made after the discount date. See 5 CFR 1315.7(b). When an agency takes a discount after the discount date, interest will 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 noted below.

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](#) and liquidated damages apply.

a. Where liquidated damages apply and the contract or invoice also contains an offer of discount for early payment, the liquidated damages shall be computed on the basis of the gross contract price and deducted without regard to the discount. Likewise, 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 discount for early payment, compute both the liquidated damages and the discount based upon the modified price without regard to each other.

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. The discount would still apply in instances in which the discount period has expired on the balance due on the partial delivery.

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

3. 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.

4. 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.

020302. Rebates/Refunds

A. 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 contractor calculates the rebate and returns that amount to the DoD customer designated in the contract. DoD Components will employ the necessary internal controls to identify and collect corrective rebates according to guidance found in [OMB Circular A-123, Appendix B, Chapter 7](#).

B. The Defense Finance and Accounting Service (DFAS) shall determine and publish GPC payment dates based on an analysis of the total costs and total benefits to the federal government as a whole. When calculating costs and benefits analysis, consideration is given to 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 daily basis points offered by the card issuer and the corresponding daily 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.

C. DoD Components may use the [Treasury FMS' 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 daily basis points offered by the card issuer are derived, and the amount of debt. If the DoD Component elects not to use the spreadsheet, a manual computation can be performed as described in 5 CFR 1315.17.

\* D. Under OMB Circular A-123, Appendix B, unless specific statutory authority exists allowing refunds to be used for other purposes, refunds will be returned to the appropriation or account from which they were expended, and can be used for any legitimate purchase by the appropriation or account to which they were returned, or as otherwise authorized by statute. 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 Government

purchase card 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.