

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14.R, VOLUME 10, CHAPTER 2
“DISCOUNT OFFERS AND CALCULATIONS AND REBATES”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure with the substantive change or revision

Hyperlinks are denoted by *underlined, bold, italic font*

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity. Revised references, eliminated duplicative references, and added references. Added electronic links.	Update
0201	Added an Overview section.	Add
0202	Added a Definitions section	Add
0203	Added requirement for internal controls with reference to OMB Circular A-123. Updated information on making early payment of credit card invoices to reflect guidelines in 5 C.F.R. 1315. Updated guidance on accounting for rebates to reflect the appropriate language from OMB Circular A-123 and to state that current statutory authority may provide exceptions.	Add/Update

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- ★ 0203 Policy

CHAPTER 2

DISCOUNT OFFERS AND CALCULATIONS AND REBATES★0201 OVERVIEW

020101. Purpose. This chapter prescribes the policy for processing discounts and rebates. It provides information on determining if discounts should be taken and provides information on rebates offered by government-wide commercial purchase card issuers to encourage early payment.

020102. Scope. Vendors and contractors offer discounts and rebates to encourage early payment of their receivables. The Department of Defense (DoD) will take advantage of discount and rebate offers only when it is economically advantageous. The DoD will follow the supporting guidelines for taking discounts and rebates found in *Title 5 of the Code of Federal Regulations (CFR) 1315.7 - 1315.8, 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.

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.

020203. Discount Period. The discount period is the period during which a discount may be taken. The discount period begins from the date placed on a proper invoice by the vendor. If the vendor does not date the invoice, then the discount period begins on the receipt date annotated on a proper invoice by the designated billing office. 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.

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 it is advantageous and cost effective, i.e., when this rate equals or exceeds the Treasury Current Value of Funds Rate (CVFR).

020205. Entitlement Office. The entitlement office is designated 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. A rebate is a monetary incentive offered to the DoD by government-wide commercial card issuers to pay purchase card invoices early.

020207. Trade-in. Merchandise accepted as partial payment for a new purchase is referred to as trade-in property.

020208. United States Department of the Treasury Current Value of Funds Rate. The CVFR is computed by the Department of Treasury and used to determine the effectiveness of taking cash discounts and to calculate interest on overdue government receivables.

★0203 POLICY

020301. Discounts

A. Discount offers may be part of the contract or included in individual invoices. Federal Acquisition Regulation (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 should attach to the invoice a conversation record with the name and position of the person offering the discount, the discount terms, and the date of the offer. The entitlement office has the option of requiring written confirmation of the verbal offer.

B. Agencies shall take discounts when there is an economic advantage to the DoD and only after acceptance (see 5 CFR 1315.7(a)). Otherwise, payments shall be made in accordance with the guidelines prescribed in 5 CFR 1315.4(g).

C. Economic Justification. A discount is advantageous to the DoD when the discount terms yield an effective annual discount rate that equals or exceeds the CVFR.

1. Effective Annual Discount Rate. The Conversion Formula used to calculate an effective annual discount rate is found in Treasury Financial Manual Volume 1, Part 6, Section 8040.40 and is calculated as follows:

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

2. Figure 2-1 is a listing of various calculated effective annual interest rates assuming discount terms of 1 percent with 20 days to 1 day remaining in the offered discount period. When 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, if the terms of a year 2001 invoice were 1/2 percent in 5 days, net 30 days, then the calculated value of 1 percent with 5 days remaining in the offered discount period (14.5 percent) would be divided by 2 (7.25 percent). This example is advantageous to the DoD because the calculated

rate of 7.25 percent exceeds the year 2001 CVFR of 6 percent. When the days remaining in the offered discount period exceed 20, compute the effective annual interest rate using the [Conversion Formula](#).

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

Effective Annual Interest Rates for 1 Percent Discounts

Figure 2-1.

3. [Current Value of Funds Rate](#). The CVFR is computed and published by the Department of the Treasury. The rate is calculated quarterly and is subject to change. See the [Treasury Financial Management Service](#) for the most recent rate.

D. [Payment offices shall schedule discount payments as close as possible to, but not later than, the last day of the discount period. The payment date is the check date or the electronic funds transfer \(EFT\) settlement date. The EFT settlement date is the date the funds are credited to the contractor's financial institution. Discounts shall not be taken when the payment is made after the discount date. If the discount is taken after the discount date, then the payment is subject to PPA interest, as prescribed in \[5 CFR Part 1315.10\\(a\\)\\(6\\)\]\(#\).](#)

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

F. Manually processed vouchers offering discounts of less than \$25 are not considered cost effective.

G. [Discount Computation](#). 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. Split the payment to take advantage of the discount when offers are for specific items and not for the total invoice or contract amount.
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.
 - a. Take the discount on any subsequent payment that is made by the new or revised discount date when new or revised discount terms apply.
 - b. Take the discount on the supplemental billing if payment is made by the discount date when retroactive price increases 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.

H. Progress Payment Liquidations

1. If the discount terms have been met, then take the discount against the amount of the gross invoice.
2. 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.

a. This would apply even where the discount period has expired on the balance due on the partial delivery.

b. Payments made prior to delivery of supplies to the carrier, or at destination, and thus prior to the beginning of the discount period are entitled to the discount offered.

c. 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.

2. If the discount is offered for the first time on the 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.

I. Miscellaneous Earnings and Discounts. 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

A. Rebates are monetary incentives offered to the government by government-wide commercial purchase card issuers to pay purchase card invoices early. The contractor calculates the rebate and returns that amount to the DoD or Agency in question. Agencies 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. Agencies shall determine government-wide commercial credit card 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, 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 should be made between the daily basis points offered by the card issuer and the corresponding daily basis points of the DoD's CVFR. Agencies may factor in other benefits gained from early payment, such as streamlining the payment process or other efficiencies. See 5 CFR 1315.8 and 1315.7 for additional information.

C. According to Public Law 110-116 Section 8067, rebates attributable to the use of the Government Purchase Card may be credited to operation and maintenance, and research, development, test and evaluation accounts of the DoD which are current when the refunds are received.