130.8 Qualified Employee Discounts

An employee is not required to include in gross income any qualified discount received from the university on property or services that the university offers to students or third parties in the ordinary course of business, as long as the discount does not exceed:

- For goods — the gross profit percentage multiplied by the price at which property is offered to students/customers in the ordinary course of business; and
- For services — 20 percent of the price at which a service is offered to students/customers.

Any excess discount would be treated as taxable income. Also, to the best of the employer's knowledge, the goods or services must be purchased only for the personal use of the individual making the purchase, although discounted property can be used as gifts to relatives or friends.

(IRS Treasury Regulation 1.61-21(a)(2))

Example:

The campus bookstore had total sales of $600,000 and the total cost of its merchandise was $300,000. The gross profit percentage would be $600,000-$300,000 = $300,000/$600,000 = 50%. Any employee discount that did not exceed 50% of the sale price to customers could be excluded from the employee's gross income.