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Jul. 06, 2016



Does your business offer discounts to its employees and family members? This can be a valuable fringe benefit to your workers and shows that you believe in your own brand. But does a discount qualify for a tax exclusion? It depends.

Generally, price reductions for the good or services offered by your business are exempt from tax as a fringe benefit. However, reductions for property held for investment, such as securities and real estate, don't count as employee discounts.

Furthermore, there's a limit on the tax-free amount that employers can provide to employees.

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For employee discounts involving services, the nontaxable discount can't include any amount that is more than 20 percent of the price normally charged to consumers for the service. As an example, if the service typically costs \$1,000 and you discount the cost to \$700 (i.e., a 30 percent discount), the employee owes tax on the additional \$100 of value.

The term "employee" for purposes of this fringe benefit may be more liberal than you might think. It includes:

- An individual currently working for the employer.
- An individual who stopped working for the employer due to retirement or disability.
- The surviving spouse of an individual who died while working for the employer or stopped working for the employer due to retirement or disability.
- A partner who performs services for your partnership.

Highly-compensated employees (HCEs) can't exclude the value of employee discounts from their taxable income unless the benefit is available to all employees or a group of employees defined under a reasonable classification that doesn't discriminate in favor of HCEs.

The definition of an HCE is the same as the one detailed in other articles in this fringe benefit series.

If a benefit is discriminatory, the entire cost of the benefit — not just the discriminatory portion — must be included in the income of highly compensated employees. As far as the IRS is concerned, it's an all-or-nothing proposition.

A comparable fringe benefit may arise if you provide employees with no-additional

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