

## VETERINARY VOICE: Tips of the Trade

### Practice Management- Employee discounts and the IRS

How does the IRS define an employee discount?

This exclusion applies to a price reduction you give an employee on property or services you offer to customers in the ordinary course of the line of business in which the employee performs substantial services. However, it does not apply to discounts on real property or discounts on personal property of a kind commonly held for investment (such as stocks or bonds).

How does the IRS define an employee?

For this exclusion, treat the following individuals as employees.

- A current employee.
- A former employee who retired or left on disability.
- A widow or widower of an individual who died while an employee.
- A widow or widower of an employee who retired or left on disability.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if services are performed under your primary direction or control.
- A partner who performs services for a partnership

What can I exclude from my employee's wages?

You can generally exclude the value of an employee discount you provide an employee from the employee's wages, up to the following limits.

- For a discount on services, 20% of the price you charge nonemployee customers for the service.
- For a discount on merchandise or other property, your gross profit percentage times the price you charge nonemployee customers for the property.

How do I determine my gross profit according to the IRS?

Determine your gross profit percentage based on all property you offer to customers (including employee customers) and your experience during the tax year immediately before the tax year in which the discount is available. To figure your gross profit percentage, subtract the total cost of the property from the total sales price of the property and divide the result by the total sales price of the property.

Questions?  
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Jan Woods' health care career has spanned over thirty years in both human and veterinary medicine. She was previously the Vice President of Operations and Development for Care Net Health Systems based in Nashville, TN and Communicare/NBC HealthCare, based in Fort Lauderdale, FL. Jan is currently the Hospital Administrator, and one of six co-owners of Veterinary Specialty Center of Tucson. Jan is President of the Veterinary Specialty Practice Alliance, an organization that is comprised of veterinary specialty hospitals, nationwide. She is one of the cofounders and the current facilitator of The Southern Arizona Veterinary Managers Group.