



Prizes and awards/gifts to faculty, staff, and students

Date: November 2013

Purpose

This policy:

- Clarifies the taxable status of prizes and awards/gifts to College faculty, staff, and students.
- Specifies whether College funds may be used to purchase prizes and awards/gifts for employees.
- Does not cover scholarships. Scholarships are administered by the Financial Aid Office.

Background

The Internal Revenue Code states that under certain circumstances the value of prizes and awards/gifts to individuals is considered taxable income. Non-US citizens may be subject to additional tax rules, depending on circumstances and treaty status.

Macalester is committed to compliance in all areas of its operation. Accordingly, the practices set forth below ensure that we find meaningful ways to recognize our students and employees, while also complying with IRS regulations.

Specifically, **gift cards** and **gift certificates** purchased with College funds and awarded to Macalester faculty, staff, and students are considered taxable income and are subject to withholding, *regardless of amount*. There is no minimum value threshold. (See “*de minimis* benefit” in the Definitions section.)

Policy and Guidelines

1. College funds may be used to purchase gifts or rewards to show appreciation or recognition to employees and students.
 - Purchases are subject to standard purchasing and approval procedures.
 - **Cash or cash equivalent gift cards/certificates are strongly discouraged.**
 - **All purchases of gift cards/certificates using College funds must be reported to Accounts Payable.**
 - Appropriate gifts or rewards may include, but are not limited to flowers, books, plaques, trophies, bookstore gifts and apparel, movie tickets, food, etc.
2. Prizes and awards/gifts are subject to IRS regulations regarding taxability.

IRS regulations stipulate for employees that any gift of cash, gift card, gift certificate, or cash equivalent (an item which is easily converted to cash), must be included in the recipient's gross income since it is essentially extra salary or wages, *regardless of the amount involved*.

 - **The value of these prizes and awards/gifts to faculty, staff, and student employees must be reported to HR/Payroll.**
 - IRS regulations stipulate that a tangible award/gift exceeding taxable limits must be included in the recipient's gross income.
 - **The taxable value of prizes and awards/gifts to faculty, staff, and students must be reported to HR/Payroll.**
 - Non-US citizens -- including international student workers -- may be subject to additional tax rules depending on circumstances and treaty status. Where applicable, taxable income will be reported on Form 1042-S and may be subject to 14-30% withholding.
 - **Please contact HR/Payroll in advance to discuss specific tax impact.**

Definitions and terms

- An **award/gift** recognizes term of service, exceptional performance, special achievement, etc. Awards/gifts to students are taxable unless they qualify as scholarships and are directly applied toward tuition, required fees, books, and equipment.
- A **cash equivalent award/gift** is any item which can be used to “purchase” merchandise or which can be easily converted to cash. Under IRS code, this includes gift cards and gift certificates.
- A **de minimis benefit** is any property or service provided to an employee that has so little value that accounting for it would be unreasonable or administratively impractical. **Under IRS code, cash and cash equivalent fringe benefits (i.e. gift cards/certificates), no matter how small, are never excludable as a de minimis benefit.** Examples of *de minimis* benefits include the following:
 - Holiday gifts, other than cash or gift cards/certificates, with a low fair market value.
 - Occasional meals.
 - Occasional parties or picnics for employees and their guests.
 - Occasional tickets for entertainment or sporting events.
 - Transportation fare.
 - Occasional personal use of company equipment (at least 85% of its use must be for business purposes.)
 - Group-term life insurance payable on the death of an employee's spouse or dependent if the face amount is not more than \$2,000.
- A **prize** recognizes performance as part of a judged competition, e.g. best design, highest score, academic achievement, etc. or winnings from a raffle or drawing. Prizes are taxable, but are not considered wages – even if the individual is employed by the College. Student recognition by College departments for academic achievement is considered a prize by the IRS.
- A **tangible award/gift** is any non-cash item provided to an employee in recognition of performance, length-of-service, or safety record. Examples include: flowers, books, trophies, plaques, event tickets, food, etc.
- The **taxable period** is the calendar year, i.e. January 1 through December 31.

Taxable Prize or Award/Gift Form

Macalester College complies with all IRS regulations concerning the giving of prizes and awards/gifts to faculty, staff, and students of the College. The **Taxable Prize or Award/Gift Form** collects required information to report the taxable portion of a prize or award/gift.

- All gift cards/certificates purchased with College funds and given to an employee – including student workers -- must be reported via the **Taxable Prize or Award/Gift Form**.
- Any prize or award/gift that appears in the “Taxable” column of the Allowable Prizes and Awards/Gifts table on the next page must be reported via the **Taxable Prize or Award/Gift Form**.

Recommended Practice

Macalester wants supervisors to find meaningful ways to recognize faculty, staff, and student workers while also complying with IRS regulations. If you use **tangible awards/gifts** to recognize employees, you will avoid the “red tape” of reporting taxable income. College faculty and staff are, therefore, encouraged to reward employees and student workers with tangible property items, rather than gift cards or gift certificates.

For example: Student A has done great work for a department all year long. To reward this performance, the department wants to express its appreciation to the student at the end of the academic year.

Taxable: The department purchases a \$20 Jamba Juice gift card for the student. The department must submit a **Taxable Prize or Award/Gift Form** to Accounts Payable. The value of the gift card must be reported to ES/Payroll. The student will owe taxes on the value of the card, diminishing its intended value.

Non-taxable: The department purchases a \$20 book from Amazon.com for the student. The student says “Thank you!” and enjoys the book. No taxes due. No special forms to file.

Questions?

Please contact either **Matt Rumpza (x6551)** in Purchasing/Accounts Payable or **Dee Doty (x6436)** Payroll.

ALLOWABLE PRIZES AND AWARDS/GIFTS		
	NON-TAXABLE	TAXABLE*
Miscellaneous awards/gifts		
Cash	n/a	ALWAYS taxable No minimum amount
Gift cards and gift certificates	n/a	ALWAYS taxable No minimum amount
CBORD account credits	n/a	ALWAYS taxable No minimum amount
Tangible property valued up to \$100 (flowers, books, trophies, plaques, etc.)	Non-taxable up to \$100 in value	Value in excess of \$100 is taxable
Occasional tickets to theater or sporting events valued up to \$100	Non-taxable up to \$100 in value	Value in excess of \$100 is taxable
Occasional group meals or refreshments for employee recognition events	NEVER taxable	n/a
Length-of-service awards/gifts – special rules apply		
Tangible property valued up to \$400 (flowers, books, trophies, plaques, etc.)		
Occasional awards/gifts to recognize exceptional safety records	Non-taxable up to \$100 in value	Value in excess of \$100 is taxable
Awards/gifts made to more than <u>10%</u> of department employees	n/a	ALWAYS taxable No minimum amount
Awards/gifts to employees who previously received an award/gift during the current or preceding four years, regardless of safety record	n/a	ALWAYS taxable No minimum amount
Prizes (includes academic achievement)		
To students, <u>regardless of whether they are employees</u>	n/a	ALWAYS taxable If total in a given year >\$600, reported as taxable income on Form 1099-MISC
To faculty and staff	n/a	ALWAYS taxable If total in a given year >\$600, reported as taxable income on Form 1099-MISC

* All transactions in the Taxable column require the awarding dept to complete and submit a **Taxable Prize or Award/Gift Form** to Accounts Payable.

FAQ's

Is this policy really necessary?

Unfortunately, yes. The rules we're adopting comply with prevailing IRS tax code. They apply universally to all employers – not just Macalester, not just colleges and universities. By providing faculty and staff with options for gifts and awards that avoid a taxable situation, we hope you won't be significantly inconvenienced by the change.

Can I use donated gift cards to recognize employees?

Yes! Only gift cards/certificates purchased with College funds are taxable to the recipient. "Purchased with College funds" means purchases processed through Accounts Payable, purchases via p-card, purchases reimbursed to a faculty or staff member, and purchases paid by petty cash. If a vendor gives you a gift card free of charge, you may award it to an employee without worrying about taxation.

What if I purchase gift cards personally?

Gift cards you purchase using personal funds are not taxable to the recipient because you are not the employer. However, you may not request reimbursement for the purchase. If Macalester reimburses you, the College has then purchased the gift cards and they become taxable income to the employee recipients.

What if I give my student worker a gift card the day after graduation?

Please don't do this! The IRS considers the gift card taxable. You will need to complete and submit a **Taxable Prize or Award/Gift Form** and its value will be reflected in the individual's taxable income on his/her W-2 at year-end.

What if my student worked the first semester and I gave her/him a gift card at the end of the academic year?

Please don't do this! The IRS considers the gift card taxable. You will need to complete and submit a **Taxable Prize or Award/Gift Form** and its value will be reflected in the individual's taxable income on his/her W-2 at year-end.

Does this policy apply to non-employees?

- Prizes are always taxable, regardless of amount and regardless of whether the recipient is an employee. Prizes with an accumulated value in excess of \$600 in a given year, will be reported to the IRS at year-end via Form 1099-MISC.
- Awards/Gifts to students in excess of tuition, fees, books, and equipment are taxable, regardless of whether the recipient is an employee.

Are the flowers I sent to celebrate an employee's new baby taxable to the recipient?

Technically yes, but if the flowers (or other gift) are valued at less than \$100, they are considered *de minimis* and will be neither taxable nor required to be reported to the IRS.