

AWARD, PRIZE, GIFT AND INCENTIVE

EFFECTIVE DATE: July 1, 2010

POLICY/PROCEDURE ISSUED FROM: Office of the Controller

POLICY STATEMENT: This policy will cover awards for length of service, retirements, meritorious service, the A. Jane Morton Award and other miscellaneous awards, prizes, gifts and incentives. The use of awards, prizes, gifts and incentives are needed to recognize and encourage dedication, support and participation of employees, students, and friends of the University in carrying out the University's mission. The awards, prizes and incentives may be used to support that mission provided that they are reasonable in price and comply with IRS regulations. This policy provides guidance on the taxability of these forms of recognition and achievement.

Taxability of Cash and Non-cash Awards, Prizes, Gifts and Incentives

1. Cash awards, prizes, gifts, and incentives

Cash awards, prizes, gifts and incentives are **ALWAYS taxable**. These items when given to employees and paid with University funds (including state funds, grant funds, contract funds, gift funds, agency funds, etc.) constitute gross wages subject to federal and state income and FICA taxation. For purposes of this policy, **cash** includes gift certificates or gift cards. Gift certificates and gift cards are prohibited based on cash equivalency and safeguarding concerns.

2. Non-cash awards, prizes, gifts, and incentives

Non-cash awards, prizes, gifts and incentives given to employees are subject to federal and state income and FICA taxation **UNLESS** these items of recognition qualify as one of the following within the definitions below:

- **A 'de minimis' fringe benefit**
- **A prize or award given directly to charities**
- **Employee achievement award**
 - **Length of service award – Qualified Plan**
 - **Safety Achievement award – Qualified Plan**

a. Non-taxable 'De minimis' Awards and Prizes

A prize or award that is not cash or cash equivalent, is of nominal value and is provided infrequently is excludable from an employee's wages. Prizes or awards that are given frequently to an employee do not qualify as an excludable 'de minimis' award, even if each award is small in value. *IRC 5132(e)* The rationale is that these items of recognition constitute 'de minimis' fringe benefits that are considered so small that accounting for them would be unreasonable or administratively impracticable.

Examples of Excludable ‘De minimis’ Awards

- BSU Athletic and event tickets (see Notes to Awards Table for more details)
 - May only receive tickets once a year
 - Tickets are sold to the general public in the ordinary course of business
 - BSU incurs no substantial additional cost (including forgone revenue)
- Logo merchandise T-shirts, coffee mugs, etc.
- Artist Series Entertainment events (Emens)
- Cardinal Lanes bowling
- Meal tickets (on-campus dining)

Nominal for this purpose means small in value, relative to the value of total compensation. This policy sets the dollar limit at \$40.

Cliff Provision

If an employer provides an award that exceeds either the value or frequency limitations for ‘de minimis’ fringes, the entire award is included in the employee’s wages, not just the portion that exceeds the ‘de minimis’ limits. *Reg. 31.132-6(d)(4)*

b. Non-taxable Prizes or Awards Given to Charities

Certain prizes and awards given for charitable, scientific, artistic or educational achievement are not taxable to the recipient if transferred to a charitable organization. *IRC 574(b)*

(This section relates to BSU employees who receive awards from outside third parties. If they direct the third party to directly bestow the award to a charity and it meets the requirements specified below, it becomes non-taxable to the employee)

Examples: Nobel Peace Prize and Pulitzer Prize for Journalism

Requirements for exclusion:

- Award is for achievement
- Recipient is selected without entering any contest
- No substantial future services are required
- Recipient transfers the award to a charitable (*IRC 5170(c)*) organization **prior** to receiving the benefit.

Example: A college instructor is chosen as teacher of the year by a national education association. He is awarded \$1,000, which he directs the education association to transfer to a college scholarship fund at the institution where he teaches before accepting it. The award is not taxable to the college instructor.

c. Employee Achievement Awards

These awards are managed and distributed through the Human Resources Office ONLY. An employee achievement award is an item of tangible personal property for **length-of-service or safety or other sanctioned award programs administered by the Human Resource Office.** (CASH AWARDS ARE ALWAYS TAXABLE.) In order to be excludable from

wages, special requirements and dollar limitations must be met. A qualifying award:

- Must be a given for length-of-service, safety, or other Human Resource-sponsored employee achievement programs.
- Cannot be a disguised wage
- Must be awarded as part of a meaningful presentation
- Must be an item of tangible personal property (Cannot be cash, cash equivalent, vacations, meals, lodging, theater or sports tickets, stocks, bonds.)
- Must meet other special requirements and limitations, discussed below. *Reg SI.274-8(c)*

Note: Taxable if cash or cash equivalent, or if over certain dollar limits.

1). Length-of-Service Awards – Qualified Plan Award (Includes Retirement Gifts)

An award will not qualify as a length-of-service award if either of the following applies.

- The employee received the award during his or her first 5 years of employment.
- The employee received another length-of-service award (other than one of very small value) during the same year or in any of the prior 4 years.

Note: A traditional retirement award is an exception to the 5-year rule. *Reg. SI.274-8(d)(2)*

SPECIAL NOTE: RETIREMENT GIFTS

The ONLY retirement gift that is approved by the University consists of tangible personal property distributed through the Office of Human Resources. The University WILL NOT reimburse individuals or pay for gifts through any University (or agency) accounts for additional retirement gifts.

If the department wishes to make a personal gift, they may “pass the hat” to collect funds from individuals to cover this cost.

No retirement gifts are to be reimbursed through the Foundation.

2). Safety Achievement Awards – Qualified Plan Award

An award will not qualify as a safety achievement award if either of the following applies.

- It is given to a manager, administrator, clerical employee, or other professional employee.
- During the tax year, more than 10% of the employees, excluding those listed in (1), have already received a safety achievement award (other than one of very small value.) Eligible employees must have worked full-time for a minimum of one year prior to the award. *Reg. SI.274-8(d)(3)*

Example: If an agency has 50 eligible employees and 6 receive safety awards, the 6th award is taxable because 10% of the eligible have already received it.

3). Other Human Resource-sponsored Employee Achievement Award Programs

This would include the Jane Morton Award and similar awards. No other employee awards will be recognized or reimbursed by the University. However if the value of these awards do not meet the 'de minimis' definition, it will be deemed taxable and the fair value of the award will be added the employee's IRS Form W-2.

Qualified Plan Award

An award is a qualified plan award if it is:

- Made under an established written plan, and
- Does not discriminate in favor of highly paid employees

Awards Funded by Third Party

If funds for awards or prizes are provided by an outside party, the award is taxable in the same way as if provided directly by the employer. If the funds are turned over to the employer to select and distribute the awards, the employer is responsible for all applicable payroll taxes and withholding. *IRC S 3402(d)*

Example: A bank provides funds to the University to support a special performance award program. The University chooses the recipients and distributes the awards. The value of the awards are additional compensation to these employees and reportable on their Forms W-2, subject to payroll taxes and withholding. This answer would be the same even if the outside party were a nonprofit organization or an educational foundation.

In the case where the outside party selects and distributes the award directly to a University employee without any direction or decision making from University personnel, then the award is income to the recipient and must be reported. The outside party would be required to furnish a Form 1099-MISC to the recipient if the amount is \$600 or more in a calendar year.

Example: A television set, donated by a business to the University, is awarded through a random drawing to an employee. The fair market value of the television would be considered taxable wages to the employee. Prizes in a random drawing of employees are considered wages. A television set is not considered a 'de minimis' benefit.

If the University pays the taxes on an award, the tax paid on behalf of the employee is taxable under the "grossing up" procedure. The additional payment for the taxes is a taxable item and must be included on the employee's Form W-2 in the year the payment was made. *See section 7 of Publication 15-A, Rev. Proc. 81-48 and Rev. Rul. 86-14.*

Example: Special duck prints donated by artists are given away as awards to employees. For purposes of determining the taxable value, the FMV can be determined by an appraisal, by establishing the sales price of similar prints by the artist, or by any other reasonable method. The taxability of the value of the prints to the employees depends on the type of award, dollar limitations and other specific requirements.

Processing and Reporting Guidelines – (See Appendix A for additional information)

The **recipient** of the award along with **amount** and **nature** of the award determines the process and reporting guidelines.

General Information:

Recipient of award, prize, gift or incentive

- **BSU employee (faculty, professional, staff, temporary)-excludes student employees**
Generally, the value of an award, prize, gift, or incentive given by the University is taxable to an employee as a wage, included on the Form W-2, and subject to Federal, State and Local Income tax withholding, social security and Medicare. *IRC 74; IRC 3121(a)(20)* unless it qualifies for one of the exceptions above.

If the University pays the employee's share of the taxes on a taxable award, prize or gift these amounts are additional wages to the employee (few exceptions exist, but are not applicable to BSU) and are subject to all payroll taxes, as discussed above.

- **BSU students**
Awards and prizes received by students that ARE NOT considered compensation (no services were performed) will be reported on IRS Form 1099MISC Box 3 if the value of the recognition is \$600 or more. Any award, prize, or incentive presented to a student when services were performed will be deemed compensation.
- **Non-BSU persons**
All taxable awards, prizes, gifts, and incentives not meeting the 'de minimis' exception will be reported on IRS Form 1099MISC if the value of all payments and/or fair market value of tangible property is \$600 or more.

Amount: Award Level

- **Under \$40 –**
BSU has determined to treat all recognition items under \$40 as qualifying for 'de minimis' status. Therefore, no IRS Form W-9s, social security numbers, or BSU ID numbers will be required. However, a list of the recipient's names (form available) must be provided. The rationale is that the effort expended to track and collect this information is cost prohibitive.
- **Over \$40 up to \$100**
IRS Form W-9 will be required from all non-BSU persons. BSU students and employees must provide their BSU ID number.
- **Over \$101**
IRS Form W-9 will be required from all non-BSU persons. BSU students and employees must provide their BSU ID number. **All BSU employees** must be paid through Payroll Services as a miscellaneous payment.

Nature of Awards, prizes, gifts, or incentives

- **Check or ACH Direct Deposit**
- **Cash**
- **Tangible Property**

Processing Instructions:

CHECK or ACH Direct Deposit (Preferred Method): The following forms should be completed (per form instructions) and forwarded to the Accounting Office:

- Payment Request Voucher
- Award, Prize, Gift, Incentive Form – typically one per person or use in conjunction with Recipient List for multiple recipients
- Recipient List (if applicable) –for multiple recipients

The department should prepare the above forms in order to:

Pay the recipients by check, (Exception: Non-student BSU employees must be paid through Payroll Services as a miscellaneous payment if over \$100.)

1. Reimburse individuals who purchased tangible property on behalf of the department that will be used for recognition purposes (prefer items to be purchased with DPOs and POs)
2. Pay a vendor for the purchase of tangible property that is used for recognition purposes (prefer items to be purchased with DPOs and POs)

The completed forms should be routed to the Accounting Office for processing. Please allow 7-10 business days as many of the participants will need to be set-up as a vendor which can be time consuming.

If the Payment Request Voucher is to pay for tangible property that will be used for recognition purposes, the Award, Prize, Gift, Incentive Form and the Recipient List (if applicable) will need to be sent to the Accounting Office as soon as the tangible property has been dispersed.

CASH Method:

- **To request cash – Miscellaneous Cash Advance Form** should be prepared and signed by the Project Manager, Director, or Faculty member in charge of the project. Only request the amount of money required for a specific project and it will be dispersed in a timely manner. The cash advance form creates a receivable in the name of the person who signed and authorized the form. (see form instructions for more information)
- **To clear the receivable -**
 - **Payment Request Voucher** - In the description box of the Payment Request Voucher, please indicate this is to clear the cash advance. Highlight this explanation. If a Payment Request Voucher and list of names is not processed within six months from the issuance of the cash advance, the authorizing person's payroll may be garnished to cover the outstanding receivable.
 - **Award, Prize, Gift and Incentive Form**
 - **Recipient List (form)** attach a list of names indicating who received the incentives. The participants are also required to sign the form to confirm they received payment.

NOTE: If the project allows the participants to be anonymous due to the revelation of personal and confidential information, the Project Manager should assign a number or code to each person. Please submit the list of numbers or codes with the Payment Request Voucher.

TANGIBLE PROPERTY (Method) - Property is valued at its Fair Market Value.

- **Tokens/small items:** Products may be given that are insignificant in value to all persons (including employees) without triggering a taxable reporting event. For employees, however, if the cost of the benefit, in addition to other gifts, prizes or awards given to that employee during the year does not exceed \$40, the benefit does not need to be reported to Payroll Services as wages subject to income taxation.
 - These items should be under the \$40 value and obtained through the Purchasing Department by way of **DPO(s) or PO(s)** (or Computer Showcase/ Bookstore).
 - **Award, Prize, Gift and Incentive Form** -for documentation purposes, we still request a list of recipients, or initials to prove the items were distributed in conjunction with a particular project
 - **Recipient List (form)** – for multiple recipients: attach a list of names indicating who received the incentives.

The **Award, Prize, Gift and Incentive Form** and the **Recipient List** must be forwarded to the Accounting Office. These forms should include the DPO or PO number used to purchase the items.

- **Tangible Property over \$40:** Follow the same procedure as above for under \$40 items.

Reporting:

All awards, prizes, gifts and incentives over the \$40 value (cash, check or tangible property) will be tracked in the Accounting Office. The Accounting Office will determine if the item qualifies for one of the exemptions above (length of service, safety award). The Accounting Office will forward a list of employees receiving taxable items with an accumulated value of over \$40. Payroll Services will add the value of these items to the employee's compensation record which will be included on their W-2.

At year-end the Accounting Office will review the list of non-employee recipients to determine if any individual (or other taxable entity) received \$600 or more in benefits (cash, check or tangible property). If more than \$600, Accounting Office will prepare an IRS 1099MISC Form for the recipient.

GIFT CARDS/GIFT CERTIFICATES: The use of these items is prohibited. Under rare occasions, they may be used if approved by the Controller's Office. Specific instructions will be given when contacted.

In addition to the policy set forth above, permission for offering an incentive must be approved by Leisa Julian (lijulian@bsu.edu) to ensure compliance with Indiana gaming laws.