Introduction
One of the ways in which the University seeks to reward employee service and achievement is through departmental and campus recognition programs. Gifts, prizes, and awards are given to employees under certain circumstances in recognition of their efforts. This policy provides guidance on the taxability of these forms of recognition. Taxable gifts, prizes, and awards shall be reported to Payroll Services and included on the employee’s Form W-2.

Taxability of Cash and Non-cash Awards

1. Cash gifts
   Cash gifts, prizes and awards given to employees that are paid with University funds (including state funds, grant funds, contract funds, gift funds) constitute gross wages subject to federal and state income and FICA taxation. For purposes of this policy, cash includes gift certificates that can be redeemed for cash.

2. Non-cash gifts
   Non-cash gifts, prizes and awards 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 length of service award
   - a safety achievement award

   a. ‘De minimis’ Fringe Benefits
   The University may reward an employee’s noteworthy, work-related accomplishments by presenting an item of tangible personal property without tax consequences provided the value of the item, in addition to other gifts, prizes or awards presented throughout the calendar year to the employee, does not exceed $40. 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 ‘de minimis’ items include Star Heels awards, restricted non-negotiable gift certificates, or other similar items.

   For example, a department may award a $25 gift certificate (not redeemable for cash) to chosen employees based on the criteria of their departmental recognition program. If the cost of this 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. However, items of recognition given on an annual basis that exceed $40, and that do not otherwise meet the length of service or safety achievement criteria provided elsewhere in this section, shall be reported to Payroll Services and included as taxable wages on the employee’s Form W-2.
b. **Length of Service Awards**

Length of service awards may qualify as a non-taxable benefit provided:

- the employee has at least five years of service with the University,
- the employee has not received a length of service award within the last five years,
- the awards are limited to $400 per employee per year,
- the awards are presented as part of a meaningful presentation, and
- the awards are made under conditions and circumstances that do not create a significant likelihood of disguised pay.

For example, a department may provide an employee with an award of a framed photograph of the University Old Well or other historical site at a cost of $200 without reporting the benefit to Payroll Services as taxable wages provided:

- the employee has worked at the University for at least five years, and
- the employee has not received any other length of service awards from the University within any of the prior 4 years.

Traditional retirement gifts of $400 or less are excluded from taxation if they meet the length of service award criteria mentioned above. For example, a department may give an employee a gold watch for retirement from the University having a value of up to $400 without tax implications if the length of service criteria are met.

Should an employee receive a length of service award that exceeds $400, the excess amount shall be reported to Payroll Services and included as taxable wages on the employee’s Form W-2.

c. **Safety Achievement Awards**

Safety achievement awards that recognize an employee’s accomplishments for maintaining or promoting defined safety standards may qualify for exclusion from taxation provided:

- the awards are limited annually to less than 10% of total employees,
- the awards are not presented to managers, administrators, clerical and professional employees,
- the awards are limited to $400 per employee per year,
- the awards are presented as part of a meaningful presentation, and
- the awards are made under conditions and circumstances that do not create a significant likelihood of disguised pay.

For example, the facilities department may give a plaque that costs $250 to a worker who demonstrates excellence in maintaining safety standards. Should an employee receive safety achievement awards that exceed $400 during the calendar year, the excess amount shall be reported to Payroll Services and included as taxable wages on the employee’s Form W-2.
**Processing and Reporting Guidelines**
Departments should process an on-line Check Request for employee gifts, prizes, and awards. Expense object code 1592 should be used for **cash** employee awards, and object 3934 should be used for **non-cash** awards. If the payment is to a company for the purchase of a gift certificate or a tangible good, object code 1592 or 3934 shall still be used to recognize the disbursement as an employee award.

The Accounts Payable central audit unit will review individual disbursements for taxability, and taxable items will be forwarded to Payroll Services for inclusion on the employee’s Form W-2. The initiating department should indicate the proposed taxable portion in the notepad of the Check Request. If the initiating department does not believe the award is taxable, the initiating department should provide comments about non-taxability in the notepad of the Check Request. The Accounts Payable central audit unit will still review the individual disbursements for taxability.

**Additional Guidance**
Departments should contact the University Controller’s Office at 962-1370 for further guidance on gift, prize, and award taxability issues. Departments should contact Human Resources Employee Services to register their departmental recognition programs or for assistance in establishing a departmental recognition program. For information about recognition programs, refer to the HR web site. Click on **Departments – Employee Services**, then click on **Recognition Programs**.