Guidelines for Gifts, Prizes and Awards

Gifts, Prizes, and Awards to Employees
Tax reporting rules require that gifts, prizes, and awards be treated as taxable income to the employee. The amount must be included on the employees W-2 and is subject to all income and FICA withholding taxes.

We ask for your cooperation in processing these items, which typically come to our attention when an individual/department requests reimbursement for the gifts they have purchased. If you spend University monies for gifts, we ask that you identify the recipients of these gifts or we will be unable to process the request for reimbursement.

We understand that these reporting requirements may be burdensome; however, it is necessary in order to be in compliance with tax laws. It is the responsibility of the individual or department giving the gift to inform the employee receiving such gift regarding the income tax consequences. The IRS rules and guidelines are clear on these reporting requirements and that the University must comply with them.

What is considered a gift, prize or award?
Prizes and awards are typically gifts of cash, gift certificates, or other items purchased\(^1\) given to University faculty, staff or students in recognition of outstanding achievement in teaching, research, academic performance or other performance-related activities. Gifts are typically cash, gift certificates, or other items purchased and given to faculty, staff or students in recognition of, or in connection with the holiday season, retirement, or some other purpose not specifically related to job performance. University departments may also present prizes and awards to non-University faculty, staff and students.

Are gifts, prizes and awards considered taxable income to the recipient?
In almost all circumstances, gifts, prizes, and awards are included in the recipient's gross income if the gift is paid for by the University. If the recipient is a member of University faculty/staff, the gift, prize, or award is considered supplemental wages and must be processed through Payroll with appropriate taxes withheld. The gift, prize, or award is then included on the recipient's Form W-2, Wage and Tax Statement.

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\(^1\) Tangible Personal Property
Gifts, prizes, and awards purchased (other than cash or gift certificates) that are less than $75, in total per year, are excludable from gross income. For example, the value of a turkey, ham or other item of merchandise of nominal value distributed to an employee at Christmas is not taxable. **However, any gift of cash (including gift certificates) is considered completely taxable from the first dollar given.**

All cash gifts, gift cards, and all annual non-cash gifts of $75 or more, individually or in the aggregate, given to an employee should be reported to Payroll. Gifts, prizes, and awards that must be reported as income would also include items given to employees and directly charged to your department (e.g. something purchased at the bookstore) or purchased using the procurement card.

**For non-University recipients**, the prize or award can be processed without tax withholding but is still considered income to the recipient (except for payments to non-resident aliens which may be subject to withholding - see Note below). Such payments are reported as taxable income to the recipient using Form 1099-MISC, Miscellaneous Income. Accordingly, the disbursement request should include information needed to complete a Form 1099-MISC, including the recipient’s name, address, and social security number.

**For students**, if the prize or award is related to employment services performed for the University (e.g., outstanding student worker in a department), the prize or award must be processed as supplemental wages through Payroll with appropriate income taxes withheld.

If the award is not related to services performed as an employee (e.g., an Award at Honors Convocation), and the student receives W-2 wages from the University, their prize or award will be processed through payroll. The student may elect to update his/her W-4 prior to the issuance of the prize or award in order to minimize withholdings that would otherwise be applicable. Any student who does not receive W-2 wages, the prize or award is still taxable income to the recipient and must be reported on Form 1099-MISC, but it is not subject to withholding.

Note: There are special withholding rules related to payments made to nonresident aliens (faculty, staff, students, and non-University recipients). Please call the Payroll Office (who will confer with the Controller) for specific details.
Are there any exceptions?
Certain employee achievement awards (items of tangible personal property) if awarded under a University-wide length-of-service program are excludable from gross income. **Note: it must be tangible personal property, not gift certificates.**

If a gift is paid for by an individual and not reimbursed by the University, then that gift is not taxable to the employee.

**How do I report the gifts I distribute?**
We ask that you identify the recipients of these gifts, include their social security number, and indicate the amount given as a gift to each individual (or the equivalent fair market value of each gift, if property other than cash is given). We will be unable to process the request for reimbursement if this information is not provided. A form is available on the HR website for reporting purposes: [Taxable Gifts Report Form](#)

**Grossing Up**
If the gift prize or award is to be $500 but the net check after tax is less than this amount, one option would be to have the gift, prize, or award "grossed up" so that the net payment is the prize or award amount. For example, to get a $500 net check, the total prize would be approximately $830 (reflects withholding). The recipient will then receive $500, and their tax records will show a $830 prize and $330 of associated withholding. The applicable fund will be charged the higher amount since this represents the total cost of the gift, prize or award payment.

**Definitions with regard to Service Award Plan:**
In general, the term "qualified plan award" means an employee achievement award presented as part of an established written plan or program of the taxpayer which does not discriminate in favor of highly compensated employees as to eligibility benefits. A qualified plan must include some gifts below $400.00 - enough that the average amount of all qualified plan gifts in any year is $400.00 or less.

A "non-qualified plan" would be, for example, a gift given by a department at the time of retirement.
### Plan Limitation/maximum

<table>
<thead>
<tr>
<th>Plan</th>
<th>Plan limitation/maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-qualified Plan Award</td>
<td>• $400.00 gift per 5 year award period (tangible personal property)</td>
</tr>
<tr>
<td>Qualified Plan Award</td>
<td>• $1600.00 aggregate gift limit per 5 year award period with no single gift having a value of more than $400.00. (tangible personal property)</td>
</tr>
</tbody>
</table>

### Type of Award

<table>
<thead>
<tr>
<th>Type of Award</th>
<th>Taxable</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Yes</td>
<td>Any Amount</td>
</tr>
<tr>
<td>Gift Certificates</td>
<td>Yes</td>
<td>Any Amount</td>
</tr>
</tbody>
</table>

**De Minimis**

- Gifts with University logo and of minimal cost.
- Gifts of $75.00 or less of tangible personal property.

You can give multiple gifts to the same individual, but $75.00 is the cumulative non-taxable limit for a calendar year.

**Length of Service Award Programs**

- Gifts from a catalog (as part of a qualified program) or tangible personal property. (Cannot be cash, cash is compensation).
- The property must be awarded as part of a meaningful presentation and must not constitute disguised compensation.
- Cannot be before Year 5
- Must be 5 years between each length of service award.