



Authority	Chief Tax Accountant
Title	Taxation of Gifts, Prizes and Awards
UCO PRR Subject	Prizes and Awards
Contact Info	Chief Tax Accountant (919) 513-2866

HISTORY: First Issued April 1, 2015.

Additional References:

- [IRS Publication 15-B, Employee’s Tax Guide to Fringe Benefits](#)
- [IRS Publication 525, Taxable and Non Taxable Income](#)
- [IRS Publication 535, Business Expenses, Chapter 2, Employee’s Pay](#)
- [IRS De Minimis Fringe Benefits](#)
- [NCSU Non-Salary and Deferred Compensation POL 05.15.03](#)

## GUIDELINE STATEMENT

### FOR EMPLOYEES

Departments often wish to recognize the contributions of their employee’s to the University. The Internal Revenue Code stipulates that the value of some awards must be included in an employee’s income and provides exclusions for other awards.

Employees who are given cash and non-cash items as gifts, prizes, and awards that are paid with University funds (including state funds, grant funds, contract funds, gift funds) are subject to federal and state income tax and The Federal Insurance Contributions Act (**FICA**) tax.

Awards such as the NC State University Awards for Excellence that have a cash prize of up to \$250 are an example of this. Any cash gift, as a check or a gift card is reportable as income and subject to tax reporting.

### FOR NONEMPLOYEES

Awards may be given to non-employees in recognition of accomplishments or activities as well as for other valid business reasons. Granting/awarding financial aid to students is not considered an award for purposes of this policy. Awards given to non-employees are generally considered reportable as taxable income, unless the award/gift meets the de minimis exception. Non-cash awards/gifts to non-employees that have little intrinsic value, such as medals, trophies, and plaques should be considered de minimis and are not reportable.

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Non-cash gifts may be presented as a token of appreciation to a donor, dignitary, guest, volunteer, visitor (or in certain circumstances, customer or client) when a valid and documented business purpose exists such as to recognize contributions to the University or to honor a distinguished visitor. Examples are token items given to donors by the Alumni Association or mugs given to conference attendees.

In general, a de minimis gift is one for which, considering its value and the frequency with which it is provided, is so small as to make accounting for it unreasonable or impractical. Any item valued at greater than \$100 is not considered de minimis, and therefore not eligible for this exception. Cash or cash equivalent items like a gift certificate that is redeemable for general merchandise or has a cash equivalent value is not de minimis and is taxable.

The University will file a Form 1099-MISC to report the awards when the value of cash and the fair market value of non-cash awards to an individual total \$600 or more in a calendar year.

## EXCLUSIONS

### RECOGNITION AWARDS FOR EMPLOYEES

Non-cash items are not subject to tax if the item qualifies as a 'de minimis' fringe benefit, length-of-service award, or safety achievement award.

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 \$100. 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 "token" non-cash, gifts that meet the 'de minimis' requirements include:

- Coffee cup/coffee
- Pen or pen/pencil set
- Blanket
- Tote bag
- Occasional food items
- Fruit (limited by the State of North Carolina rules)
- Books
- Flowers (limited by the State of North Carolina rules)
- Clothing items
- Trophies/plaques
- Occasional tickets for entertainment events
- Gift certificates, or gift cards that meet all of the following criteria:
  - Inscribed with the recipient's name,
  - Non-transferable, and
  - Cannot be redeemed for cash.

***NOTE: The State of North Carolina limits the purchase of many of the items considered de minimis by the IRS. NC State University and its personnel have to follow both the limitations placed on us by the IRS and by the State of North Carolina.***

Gifts certificates to NCSU Student Stores do not bear the recipient's name but will be deemed to meet the criteria listed above provided the recipient is required to produce identification in order to redeem the NCSU Student Stores certificates.

For example, a department may award a \$25 gift certificate (that is inscribed with the recipient's name, is non-transferable, and cannot be redeemed 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 \$100, 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 \$100, 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.

#### 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 Bell Tower 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 a length of service award within the last five 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 is met.

If an employee receives 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.

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 percent of total employees,

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- 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.

The department should report any taxable Length of Service awards to University Accounting for review and reporting.

\*\*\*\*See IRS Publication 17 (Excerpt below)

### NON-EMPLOYEE GIFTS

NCSU logo items and the above listing of possible non-cash gifts (like coffee cups, pens, etc.) could be used for non-employees as well. Non-cash gifts given to non-employees that total more than \$600 will need to be tracked and reported on the form 1099-MISC unless they meet the de minimis exception.

Gift cards are allowed and must be tracked for possible 1099-MISC reporting if greater than \$600 in a calendar year. Please report all non-employee gift (see section below on what to report) to the Accounts Payable unit within the University Controller's Office.

Example follows:

A guest is invited to speak at a University event. The department hosting the event gives the guest a Polo Shirt with an NC State as a token of appreciation. The shirt is valued at \$100 or less, so the gift is nontaxable. If the shirt was valued at over \$100 or the token of appreciation was a gift card (no matter the amount of the gift card), this would constitute taxable income for the guest. NC State would only report that if the aggregate value of items transferred to that individual was \$600 or more in a calendar year.

If a gift(s) provided to a non-employee should be deemed taxable per the guidelines outlined above (and meet the \$600 amount in aggregate) then the value of the gift(s) provided must be reported to the individual as taxable income and the following should occur within 30 days of the taxable event:

If the gift recipient is a U.S. Citizen or U.S. taxing resident, please complete a W-9 form and send that along with the gift information to Accounts Payable in the Controller's Office.

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If the gift recipient is a foreign national or non-resident alien (not a U.S. citizen or taxing resident), please contact Accounts Payable in the Controller's Office immediately. The \$600 aggregate threshold will not hold for foreign nationals or non-resident aliens. All taxable gift to non-resident aliens must be reported to the Accounts Payable in the Controller's Office. There are additional rules associated with non-resident aliens that will be explained if this situation occurs.

Note: If the combined total of value of the gifts received and compensation for services rendered exceeds \$600 in any calendar year for a non-employee, a Form-1099-MISC will be issued.

### PCARD PURCHASES OF GIFT CARDS

Employees:

Gift cards purchased for employees are taxable income to the employee. PCard guidelines state that gift cards for employees should not be purchased using a PCard.

Non-employees:

Gift cards for non-employees may be purchased using a PCard. Individual gift cards must be reported to the University Controller's Office.

Required information for gift cards:

The Controller's Office will need the following information for each gift card:

- Full name of recipient
- Employee ID (If applicable)
- Gift card value
- Date of purchase

Required tax reporting-\$600 or more:

NCSU will issue a 1099-MISC to any non-employee individual that:

- Receives a gift card with a value of \$600 or more
- or-
- Receives multiple gift cards totaling \$600 or more during a calendar year

For individuals receiving gift cards that meet the above criteria, the Controller's Office will require the completion of IRS form W-9 (Request for Taxpayer Identification Number and Certification) in order to gather the necessary information to issue the 1099-MISC.

### Reporting Responsibility

It will be the responsibility of the PCard reconciler to report gift cards to their respective college business office. The business office will then forward the required reporting information to the Controller's Office.

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### NONTAXABLE VS. TAXABLE CHART

The chart below sets out the tax treatment of various employee awards. Statutory support for the treatment is then provided, organized under the following categories: De Minimis Fringe Benefits, Length of Service and Safety Achievement Awards, and Qualified Employee Discounts.

<b><u>Nontaxable</u></b>	<b><u>Taxable</u></b>
Occasional gift of personal property with value of \$100 or less*	Gift of personal property with a value of more than \$100. Exception: see length of service and safety awards
Occasional gift tickets to a theater, lecture, or sporting event	Season tickets to theatrical or sporting events, including University events
Occasional gift of coupon for <b>specific item</b> of personal property with value of \$100 or less*	Coupon for specific item of personal property with value of more than \$100. Exception: see length of service and safety awards.
Occasional group meals or refreshments for employee recognition events*	Frequent group meals or refreshments
<b>Cash, gift certificates and gift cards are ALWAYS taxable*</b>	<b>Cash, gift certificates, or gift cards of ANY value</b>
Length of service/retirement award of personal property with cost not exceeding \$400, given in recognition of retirement or length of service with a minimum of five years of service and awarded as part of a meaningful presentation**	A retirement or length of service award that is awarded for less than five years of work, or not as part of a meaningful presentation is fully taxable. If these criteria are met but award exceeds \$400, the amount over the \$400 threshold is subject to tax.
Safety achievement award of personal property with cost not exceeding \$400, given to recipient working in area where safety is an issue/concern and awarded as part of a meaningful presentation. **	A safety achievement award is fully taxable if recipient does not work in area where safety is an issue/concern, or when it is not presented as part of a meaningful presentation. If these criteria are met but award exceeds \$400, the amount over the \$400 threshold is subject to tax.
Discounts of 20% or less off sales price normally available to customers on purchase of University services***	Discounts of greater than 20% off the price normally available to customers on purchases of University services are subject to tax on the portion of the discount which exceeds the 20% discount-i.e. when a 25% discount is given, 5% of the service prices is considered a taxable discount
Discounts up to the gross profit margin off sales price normally available to customers on purchase of University products or merchandise***	Discounts on University goods greater than the gross profit margin are subject to tax on the portion of the discount that exceeds the gross profit margin

\* Statutory Source of De Minimis Fringe Benefits:

IRC Section 132(e) excludes from gross income the value of any property or service that is so small as to make accounting for it unreasonable or administratively impracticable. In determining whether a benefit is de minimis, both its frequency and its value must be considered. An essential element of a de minimis benefit is that it is occasional or unusual in frequency. Additionally, the award must be either property or a service. Treasury Regulation 1.132-6(c) states that the provision of any cash or cash equivalent fringe benefit, such as a charge or credit card, is never excludable as a de minimis fringe benefit. Gift certificates or gift cards that are redeemable for general merchandise or can be used for a cash equivalent value are not de minimis benefits and are taxable regardless of the value. A certificate, card or coupon that allows an employee to receive a specific item of personal property that is minimal in value, provided infrequently, and is administratively impractical to account for may be excluded as a de minimis fringe benefit, depending on the facts and circumstances. NCSU considers an award of property or service with a value of \$100 or less to be minimal in value. The exclusion from income for de minimis fringe benefits only applies to employees. Similar

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type gifts awarded to nonemployees may be taxable to the nonemployee. The value of the gifts to nonemployees will be reportable by the University if the dollar value exceeds \$600 in a calendar year.

### Example of **Nontaxable** de minimis benefits:

- Coupon for specific merchandise from NCSU Bookstore (such as baseball cap, t-shirt, or pen set) occasionally provided in recognition of employee excellence: Employee may make choice of color and size of t-shirt when redeeming coupon, but may not apply the cash value to purchase a more expensive item, nor choose a less expensive item and receive cash back.
- Coupon that can be redeemed only for choice of one type of item (at a specific business) occasionally provided to recognize special circumstances or employee excellence: Employee receives coupon for a free ice cream cone at specific shop. Employee may choose the flavor of ice cream but may not apply value of the coupon to a more expensive item.

### Examples of **Taxable** de minimis benefits

- Any gift card or certificate redeemable at a store such as Target, Walmart, Amazon, etc.
- Prepaid gift cards such as American Express or Visa gift cards that may be used at any retailer accepting credit or debit cards.

### \*\* Statutory Source of Length of Service and Safety Awards:

IRC Sections 74(c) and 274(j) indicate that gross income shall not include the value of an employee achievement award received by the taxpayer if the cost to the employer when added to the cost for all other employee achievement awards made to a particular employee during the year does not exceed \$400. If these requirements are met, the value of the awards may be excluded from income. To the extent a length of service or safety achievement award exceeds the \$400 limitation, it will be subject to income tax for the recipient and must be reported through the University Controller's office. Contact Dwaine Cook at [dtcook@ncsu.edu](mailto:dtcook@ncsu.edu).

### \*\*\* Statutory Source of Employee Discounts:

IRC Section 132(c) excludes from gross income the value of certain discounts on products or services sold by the University to employees. To qualify, the discount must stay within specified limitations, depending on whether the discount is provided with respect to a service or a product.

\*\*\*\* **Employee achievement award.** If you receive tangible personal property (other than cash, a gift certificate, or an equivalent item) as an award for length of service or safety achievement, you generally can exclude its value from your income. However, the amount you can exclude is limited to your employer's cost and cannot be more than \$1,600 (\$400 for awards that are not qualified plan awards) for all such awards you receive during the year. Your employer can tell you whether your award is a qualified plan award. Your employer must make the award as part of a meaningful presentation, under conditions and circumstances that do not create a significant likelihood of it being disguised pay.

However, the exclusion does not apply to the following awards:

- A length-of-service award if you received it for less than 5 years of service or if you received another length-of-service award during the year or the previous 4 years.
- A safety achievement award if you are a manager, administrator, clerical employee, or other professional employee or if more than 10% of eligible employees previously received safety achievement awards during the year.

Excerpt taken from: <http://www.irs.gov/publications/p17/ch05.html>