divvy Engagement Solutions
Formerly Taico Incentive Services Inc

Tax overview

Here are a few questions and considerations related to the tax consequences of non-cash incentive and recognition programs.

Q **What's taxable and what's not?**

A Obviously, there are a lot of questions about the tax/reward issue. Your accountant can best advise you when designing your employee rewards program to meet the limited non-taxable definitions. Most incentive programs with rewards above $600 in value are subject to reporting, but certain recognition and safety programs qualify for valuable tax benefits if they meet certain standards.

See the IRS guidelines and programs that qualify at:
https://www.irs.gov/publications/p535/ch02.html#en_US_2015_publink1000208667

Q **Can the program offer gift cards, Visa, American Express, etc. that are redeemable anywhere (same as cash), as a base award?**

A Gift cards can be offered; however, doing so may create tax reporting problems for both the employer and employee. The fact that the points can be redeemed for an item that is the equivalent of cash, results in the application of a different set of tax rules with respect to the timing of recognition as taxable income. For example, if a program offers a $50 gift card for 500 points, then the IRS may treat the employee as receiving taxable income at the time the points are awarded, rather than at the time the points are redeemed.

Q **What types of awards are exempt from tax reporting requirements?**

A In qualified safety and length of service programs, employees can exclude from their gross income the value of tangible personal property awarded for length of service or safety, if the average cost to the employer of the award does not exceed $400 and the program adheres to specific rules outlined in the link below. Awards of gift cards, gift certificates, trips, etc. are not considered to meet the definition of tangible personal property and would be fully taxable when received.

See the IRS guidelines at:
https://www.irs.gov/publications/p535/ch02.html#en_US_2015_publink1000208667

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Are there other types of non-cash compensation that are excludable from employees' income?

Employers are able to offer their employees certain specified benefits without tax consequences. But these are generally limited to intangible benefits and services that are directly related to the employer's business or the employment relationship. Examples include a hotel chain offering free hotel stays to employees, a retailer offering qualified employee discounts on merchandise, any employer providing retirement planning services, qualified moving expense reimbursements, on-premises gyms and athletic facilities, and de minimis fringe benefits.

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How does an employer determine what items are taxable to employees and which items are not taxable?

As a general rule, you must assume that all forms of remuneration, whether provided in the form of cash or in the form of property or services, must be included in "wages" for payroll tax and reporting purposes at their fair market value. Exceptions to this general rule are limited and specific to qualified safety and length of service programs referenced above.

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What constitutes a de minimis fringe benefit?

A de minimis fringe benefit is any property or service, the value of which is so small as to make accounting for it unreasonable or administratively impractical. The following items have been held to MEET the definition:

- Occasional parties, group meals, or picnics for participants and their guests.
- Traditional birthday or holiday gifts of property with a low fair market value.
- Occasional theater or sporting event ticket.
- Coffee, doughnuts, and fruit and soft drinks.
- Flowers, fruit, books, or similar property provided to employees under special circumstances.

The following items have been held to NOT meet the definition:

- Season tickets to sporting or theatrical events.
- Community use of an employer-provided vehicle or other vehicle for more than in day a month.
- Membership in a private country club.
- Use of employer-owned or leased facilities for a weekend.
- $35 gift card at holiday time.

Material discussed is meant to provide general information and should not be acted on without obtaining professional tax advice related to your specific circumstances.

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