Westmont College
Policy on Taxation of Gifts, Prizes and Awards to Employees

Reason for Policy

Westmont College rewards employee service and achievement in many ways, both through individual departments and through campus recognition programs. The purpose of this policy is to provide guidelines and procedures related to the taxability of these gifts. Per IRS regulation, all taxable gifts, prizes, and awards are subject to federal, state and other employment taxes, and will be included on Form W2 the year the gifts, prizes and awards are presented. Taxable Fringe Benefit Guide, Section 17, Page 67 *IRC 74; IRC 3121(a)(20)*

Type of Awards

A. Teacher of the Year Award, Employee of the Year Award, Referral Award, Faculty Development Grant Award

These are cash awards and considered compensation to the recipients. These awards will be taxed and reported on Form W2.

B. Length of Service, Safety and Retirement Awards

These awards are non-taxable if they meet **ALL** of these criteria:

1) The award must be tangible personal property which does not include cash or cash equivalents. Cannot be stocks, bonds, vacations, restaurant gift certificates, lodging, theater or sporting event tickets, **and**
2) The award must be presented in a meaningful, ceremonious presentation, **and**
3) The maximum value of the award cannot exceed $1,600***** in a calendar year and the employee cannot have received such an award within the last 4 years (eligible every 5 years). Amount over $1,600***** is taxable to the employee and reported on the Form W2.

****$1,600 if it is part of a "Qualified" plan. Please see definition of a "Qualified" plan below.***

Taxable Fringe Benefit Guide, Section 17, Page 69 *Reg. §1.274-8(c)*

OTHER SPECIAL REGONITIONS

Gift Cards and Gift Certificates

All gift cards and gift certificates that are redeemable for general merchandise or have a cash equivalent value, paid by the college are always considered wages, subject to all employment taxes and reported on Form W2.

An exception to this would be for gift cards and gift certificates valued at $25.00 or less that meet all the following criteria: 1) enable an employee to obtain a specific item of personal property that is minimal in value, such as a holiday turkey or ham, 2) is provided only occasionally, 3) and is administratively impractical to account for. They may be excludable as a De Minimis gift (see definition below), depending upon facts and circumstances. Pub 963 FSLG , Pages 1-2, New IRS Advice on Taxability of Gift Cards

De Minimis Awards and Prizes

IRS defines De Minimis awards and prizes as "not cash or cash equivalent, of nominal value and provided infrequently" items that can be excluded from wages. However, if these awards and prizes are given frequently, they will become taxable wages even if each award or prize is small in value. Taxable Fringe Benefit Guide, Section 17, Page 68 *IRC §132(e)*

Academic Awards and Prizes for students

Academic awards and prizes (except for scholarships) won by students are taxable but are not considered wages, even if they are employees of Westmont College. These payments are paid through Vendorlink and are reported at year end on Form 1099-MISC if they exceed $600.

Definition of "Qualified" plan and "Non-Qualified" plan:

"Qualified" plan:

1) Must be presented during a meaningful ceremony and,
2) Cannot be disguised wages and,
3) Must be an item of tangible property (cannot be cash, cash equivalent, vacations, meals, lodging, theatre or sports tickets) and,
4) Does not discriminate in favor of highly paid employees and,
5) May not be granted at intervals of less than 5 years and,
6) Tax free up to $1,600 in a calendar year.

Example of a gift for "Qualified" plan:

An employee receives a computer valued at $1,550 for Service Award, none of the amount needs to be taxed. However, if the computer is valued at $1,700, the employee will be taxed on $100.

"Non-Qualified" plan:

Other awards not included in the "Qualified" plan, if they are tangible properties, are tax free up to $400 in a calendar year.

Example of a gift under "Non-Qualified" plan:

An employee receives a Tablet valued at $396 for doing a good job, none of the amount needs to be taxed. However, if the Tablet is valued at $450, the employee will be taxed on $50.

IRS definitions of taxable compensation for gifts, honoraria, prizes and awards

Type of gift	Recipient	Taxable	Non-Taxable	How to process	IRS reporting method (if taxable)
Retirement, length of service and safety awards	Employee	Cash	Tangible property up to $1,600 in value	Originate from HR, processed through PR	W-2
Teacher of the year	Faculty	Cash		Originate from Provost, processed through PR	W-2
Employee of the year	Employee	Cash		Originate from HR, processed through PR	W-2
Academic awards—non scholarship	Student	Via 1099		Process through Vendorlink check request	1099
Faculty development grant	Faculty	Cash		Originate from Provost, processed through PR	W-2
Hiring referral award	Employee	Cash or dinner certificate		Originate from HR, processed through PR	W-2
De Minimis gifts	Employee	1) Cash or cash equivalent. 2) Awards that are given out frequently to an employee. 3) Amount over $25.00	Gifts of nominal value, given infrequently. Must meet IRC §132(e)	Contact PR if taxable. Request reimbursement through Vendorlink if non-taxable.	W-2
Honoraria cash	Employee	Cash		Contact HR for staff. Contact Provost for faculty.	W-2
Honoraria gift certificate	Employee	Same as Deminimis gifts	Same as Deminimis gifts	Same as Deminimis gifts	W-2
Honoraria tangible property	Employee	Fair Market Value		Contact PR	W-2
Honoraria cash	Non-employee	Via 1099		Process through Vendorlink check request	1099
Honoraria gift certificate	Non-employee	Via 1099		Process through Vendorlink check request	1099
Honoraria tangible property	Non-employee	Via 1099		Process through Vendorlink check request	1099

Suggested procedures
Give the employee a choice of what type of gift to receive, allowing them to opt to be taxed on their next paycheck.
Or to add a "gross up" supplemental pay to their next check, that would partially offset the extra tax withholding.