



Taxes on gifts, prizes and such

Answers to common questions

Is employee appreciation taxed?

1. Monetary prizes, awards, achievement awards, bonuses and gift cards, certificates - including points and cards with point values redeemable toward merchandise are taxable compensation subject to federal and state income tax withholding, unemployment tax, and FICA taxes.
2. Prizes, bonuses, awards that involve goods or services, such as a vacation trip for meeting a sales goal, also generally result in taxable income.
3. Service awards that do not meet the strict guidelines. A vacation service award is taxable as are service awards that are meals, tickets, cash, or anything with a fair-market cash value.
4. The value of holiday gifts, such as merchandise or tickets to sporting events, in excess of the de minimis amount is taxable income. Tax advisers generally agree that amounts exceeding \$25 to \$75 are in excess of de minimis rules.

Is there anything that isn't taxed these days???

1. 'De minimis' fringe benefits are generally not taxed. These are considered to be merchandise of nominal value that all employees receive equally. An example would be turkeys or hams for a holiday. Tax advisers generally agree that the value of de minimis fringe benefit should be under \$75 to qualify
2. Service awards are not taxed if: a) the award is for 5 or more years of service AND b) the employee did not receive any service award in the previous four years AND c) the award is given as part of a 'meaningful presentation' AND d) the award is a tangible item (like a watch, plaque, or pen) AND e) is part of a written established award program AND f) has a value of less than \$1600 if the employer is following the documented plan or \$400 if the written plan is not being followed

How does this apply to Motivosity

1. When an employee redeems some of their spending money for a gift cards, only the amount spent is taxable.
2. Unspent money is not taxable because it has not yet become a benefit to the employee.
3. If the company gives a 5-year recognition gift (such as a watch) through Motivosity, that can qualify as non-taxable under the service award plan, but the employer would still need to give it in a 'meaningful presentation'

What is your tax decision for employee recognition?

The company needs to decide if it will add taxable benefits to the employee's W2, or if the company will cover the taxes for the employee (e.g. true them up). Our clients are about 50/50 on their approach. Employees seem to be happier receiving less money, but having the company true them up than they are receiving more money and attaching it to their W2... even if the outcome is the same.

How does Motivosity help with taxes?

Motivosity will allow you to run a report of cash redemptions for any period of time. This report can be downloaded as an excel file and is linked to the employee's payroll id. This data is usually imported into a payroll program for calculation on tax obligations from employee gift redemptions.