

STANDARD ADMINISTRATIVE PROCEDURE

31.01.99.M0.01 Taxation of Special Payments and Awards to Employees

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Standard Administrative Procedure Statement

To assure that Texas A&M University departments comply with Internal Revenue Procedures for employee recognition and awards.

Official Procedure/ Responsibilities/ Process

Under IRC 74(a) Gross income includes amounts received as prizes and awards unless excluded under IRC 74(C) provisions excluding certain employee achievement awards or under IRC 132(e) provisions excluding certain de minimis fringe benefits.

De Minimis Awards and Prizes - A prize or award that is not cash or cash equivalent, of nominal value and provided infrequently is excludable from an employee's wages. Prizes or awards that are given frequently to an employee do not qualify as an excludable de minimis award, even if each award is small in value. IRC Section 132(e)

- Treasury Regulations 1.132-6(e)(1) cites "flowers, fruit, books, or similar property provided to employees under special circumstances" (e.g., illness, outstanding performance, or family crisis) as an example of a non-taxable "de minimus" fringe benefit.
- Cliff Provision: If an employer provides an award that exceeds either the value or frequency limitations for de minimis fringes, the entire award is included in the employee's wages, not just the portion that exceeds the de minimis limits. Treas. Reg. Section 1.132-6(d)(4)

1. TYPES OF AWARDS

1.1 The following awards are always considered taxable income unless specifically excluded:

- Cash or cash equivalents (gift certificates), use of credit or charge cards, and other cash equivalents are taxable income regardless of value.
- Recognition awards, cash or non-cash, for job performance, unless they are qualifying

- de minimis fringe benefits.
 - Non-cash prizes won by employees from random drawings at employer sponsored events (unless de minimis).
 - Awards for performance, such as outstanding customer service, employee of the month or awards based on productivity.
 - Achievement awards, cash or non-cash, that do not meet specific qualified plan award rules, discussed below.
 - Awards for length of service or safety achievement that do not meet specific requirements, discussed below.
- 1.2. Employee Achievement Awards - Tangible personal property awarded for **Length-of-Service Achievement** (includes Retirement Awards) or **Safety Achievement**. To qualify for exclusion from income (not taxed), employee achievement awards must be awarded as part of a meaningful presentation, awarded under an established written plan, and awarded under conditions and circumstances that do not create a significant likelihood of disguised compensation.
- Annual dollar limit:
 - Qualified Plans – Non-cash award of \$400 or less not to exceed \$1600 per year for the combined value of length-of-service and safety awards plus the value of any employee achievement award made under a non-qualified plan.
 - Non-Qualified Plans – Non-cash award of \$400 or less not to exceed \$400 per year.
 - Additional requirements for exclusion from income are as follows:
 - **Length-of-Service Awards:**
 - Cannot be awarded to an employee within the first five (5) years of employment or more than once every five (5) years,
 - Cannot be awarded to an employee who received another length-of-service award during the same year or in any of the prior four years.
 - **Safety Awards - IRC Section 274(j):**
 - Cannot be given to managers, administrators, other professional employees, or clerical staff not directly involved with the safety performance,
 - Cannot be given to more than 10% of eligible employees during the year, not counting awards that are excludable as de minimis fringe benefits.
 - Cannot be given to eligible employees who did not work full-time for a minimum of one year prior to the award.
 - **Retirement Award** – Retirement awards are considered length-of-service awards and are subject to the same requirements for income exclusion.
- 1.3. Recognition of Special Effort or Outstanding Performance - Non-cash awards, such as plaques, certificates (not cash or cash equivalents), books, flowers, tickets, or similar items are not taxable if they are less than \$100. An employee may only receive these awards four or fewer times in one calendar year to be considered non-taxable.
- 1.4. Awards Funded by Third Party – If funds for awards or prizes are provided by an outside party, the award is taxable.
- If the funds are turned over to the employer to select and distribute the awards, the employer is responsible for all applicable payroll taxes and withholding. IRC Section 3402(d).

- If outside party selects and distributes the award directly to an agency employee without any direction or decision making from agency personnel, the outside party is required to furnish a Form 1099-MISC to the recipient for a calendar year if the total awarded to that individual in that year has a value of \$600 or more.

2. PROCESSING

- 2.1. Cash awards are processed by departments in Workday. Departments initiate the Request One-Time Payment business process in Workday. They can select the One-Time payment plan option: Cash Award or Cash Award – Gross up (if the department is paying the award taxes on behalf of the employee). The Cash Award payment will be processed based on the recipient’s payment election payment type (direct deposit or check) in Workday. The Award will be paid on the recipient’s next regularly scheduled payday. All appropriate taxes will be withheld from the payment. The department’s account will be charged for the employer’s share of Social Security and Medicare tax. If grossed-up, the department’s account will be charged for both the employee and employer’s share of Social Security and Medicare tax and the employee’s Federal Withholding deduction.

Related Statutes, Policies, or Requirements

Supplements [System Policy 31.01](#)

Contact Office

Please contact [University Accounting Services Tax Compliance & Reporting](#) should you have any questions regarding the Guidelines and [Payroll Services](#) regarding payment processing.

OFFICE OF RESPONSIBILITY: [Tax Compliance & Reporting](#)