

# Employee Bonuses and Gifts: 7 Considerations

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Many healthcare organizations have a fiscal year that matches the calendar year. So, not only do many organizations give their employees a holiday gift, it is also the time that organizations may pay a bonus to employees if the organization did well during the year.

I have already covered the differences between gainsharing, profit-sharing, and bonuses/gifts. In another earlier post we discussed what determines whether a bonus or gift is discretionary or not. In this post, we are not covering gainsharing or profit sharing or any type of non-discretionary bonus (which must be used in calculating overtime).

Let's assume that your organization is giving a cash gift to the employees. This could either be a holiday gift or simply a bonus given at year end. Let us also assume that the gift is under \$1 million as there are differences in how those bonuses are handled. Typically, bonuses that large are seen at financial firms, law firms, and the executive suites of large for-profit businesses. If bonuses over \$1 million are something you need to know about then I want to work for you!

In the healthcare provider world, bonuses are often in the \$50-1000 range. Management may receive larger bonuses in some organizations. Even though the amounts may not be huge, how you handle the bonus can determine whether or not you reap any benefit from your generosity.

## 7 Factors

Here are seven things to consider when giving bonuses or cash gifts:

1. **Cash gifts are taxable.** Payroll taxes, federal and state withholding apply to bonuses and gifts.
2. **Gift cards are generally taxable since they have a cash value.** Property gifts such as turkeys, items selected from gift catalogs, pens, etc. are not. Giving gift cards with a cash value is not a way for an

organization to avoid collecting/paying taxes.

3. **Know the two methods for withholding taxes on cash gifts or bonuses:** (1) If the bonus is included in the normal paycheck, then the normal withholding would take place. (2) If the bonus is paid via a separate check outside of the normal pay cycle, then for 2020 a flat 22% is withheld from the check for federal income taxes.
4. **“Gross up” the cash gift or bonus if possible.** This means that the employee is given the full value of the stated cash award and the organization pays the taxes which are imputed to the employee. For example, if the employee is given a \$100 bonus, the employee gets a check for \$100. The employer pays the taxes on that amount and credits the employees for his/her share.
5. **Communicate to the employees the actual amount they will receive.** Using our example of a \$100 award, inform the employees that they are receiving \$100 check and the employer is also paying their taxes. If you cannot “gross up” the bonus, then communicate that the bonus check is \$ because taxes were withheld. I have seen unnecessary negative reaction because employees were told they were going to get \$100 and then grumbled when the actual check was less.
6. **Allow employees to choose or change 401(k) or TDA contributions for the bonus.** If the bonus is minor, this may not be an issue. If it is \$100 or more, many employees appreciate the option of choosing normal or increased 401(k) or TDA contributions or none at all. Some organizations include in a previous paycheck a slip for employees to select an option for the bonus check.
7. **Give a retiring employee the option of deferring the payment until the coming year.** If the bonuses are significant and you know an employee is going to retire in the coming year, you may want to give them the option of delaying their bonus payment until after January 1. This would defer the bonus payment until the year when their income will be reduced. Not a big deal, but is a nice way to handle this for someone that may have been with your organization a long time.

Gifts and bonuses are given, not only to be nice, but to accomplish a business purpose. It may be to foster teamwork, cooperation, or simply to say thank you. Don't lose the goodwill by mishandling the process.