

Holiday Gifts, Year-end Awards and Taxes

written by HR Banana

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We three kings of Orient are, bearing gifts that are taxed from afar! This is the season when many employers share Holiday gifts with their employees. Additionally, many companies share year-end bonuses, profit-sharing payments, and other awards. What is taxable and what is not? This is a good time to remind ourselves of how these gifts are viewed by the IRS.

Generally, holiday gifts fall into a category that the IRS defines as “de minimis benefits”. A de minimis benefit is one, that when considering its value and frequency with which it is provided, is so small as to make accounting for it unreasonable or impractical. De minimus benefits are excluded under Internal Revenue Code 132(a)(4). (I know you wanted that detail!)

Non-taxable de minimis benefits

These include such items as:

- Controlled, occasional employee use of photocopier
- Occasional snacks, coffee, doughnuts, etc.
- Occasional tickets for entertainment events
- Holiday gifts
- Occasional meal money or transportation expense for working overtime
- Group-term life insurance for employee spouse or dependent with face value not more than \$2,000
- Flowers, fruit, books, etc., provided under special circumstances
- Personal use of a cell phone provided by an employer primarily for

business purposes

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When determining whether or not a benefit is de minimis, frequency and value should always be considered. How often is it given and what is its value? In one case, the IRS determined that items with a value over \$100 could not be considered de minimis even under unusual circumstances.

So if the value of your holiday gift exceeds \$100, you may want to get legal advice as to how it is handled. It may need to be “grossed up”. (The taxes due on the gift are paid by the employer and the value of the gift and tax is imputed to the employee.)

Gift Certificates

Gift certificates that have a cash value or can be redeemed for general merchandise are never de minimis and are taxable. So \$25 or \$50 certificates should be treated as taxable income. This applies whether the certificate is redeemable at a specific location or multiple stores.

Gift certificates redeemable for a specific item of personal property of minimal value, provided infrequently, and is administratively impractical to account for, is generally considered de minimis.

Generally, holiday gifts are exempt from taxation depending upon value. This would include allowing employees to select gifts from a catalog when the value is minimal. To be safe, the value of the selections is generally not included in the catalog. Vendors that provide this service generally have catalogs of similarly priced items and the employer pays a flat rate regardless of the item.

Cash Gifts

This one is easy. Cash, regardless of the amount or reason for the award is almost always taxable. The only exception would be for meal or transportation costs for working overtime or unscheduled shifts. The benefit is not excludable for any regularly scheduled hours even if they include overtime.

Achievement Awards

Special rules apply to allow exclusion from employee wages of certain employee achievement awards of tangible personal property given for length of service or safety. These awards:

- Cannot be disguised wages
- Must be awarded as part of a meaningful presentation
- Cannot be cash, cash equivalent, vacation, meals, lodging, theater or sports tickets, or securities.