

Employee Gifts and Incentives

Overview

The purpose of this document is to provide a broad overview of the IRS's position on employee gifts and other compensation. Many employers do not realize that gifts given to employees are considered "compensation" by the IRS and are therefore subject to Federal, State and Social Security taxes.

Note: Gifts to employee's spouse and children are considered gifts to the employee

<p>Employee Gifts - Cash</p>	<ul style="list-style-type: none"> • Considered compensation regardless of dollar amount • Recorded on employee's W-2 <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Cash Gifts • Gift Cards • Cash awards (outstanding performance, OER scores, etc.)
<p>Employee Gifts –Other</p>	<ul style="list-style-type: none"> • Considered compensation • Recorded on employee's W-2 • Can only deduct up to \$25 of gifts to any one individual per tax year • Exclusions may apply (see below) <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Holiday Gifts
<p>Exclusions</p>	<p>De Minimis Fringe Benefits</p> <ul style="list-style-type: none"> • Any property or service the value of which is so small as to make accounting for it unreasonable or administratively impracticable <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Birthday or holiday gifts, other than cash, such as hams or turkeys with a "low fair market value" <p>Employee Achievement Awards</p> <ul style="list-style-type: none"> • Must meet specific guidelines • Awarded as part of a meaningful presentation • Cannot be services or disguised compensation • Not more than \$400 during taxable year

	<p>Length of Service Achievement Awards</p> <ul style="list-style-type: none">• Must not be before employee's 5 year anniversary <p>Safety Achievement Award</p> <ul style="list-style-type: none">• Must be an employee• Employer must employ 9 or more employees• Managers, administrators, clerical workers and other professional workers are not eligible
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"The taxing bottom line on holiday giving" [Nation's Business, Dec. 1996](#) by [Gloria Gibbs Marullo](#)

"The Taxable Fringe Benefits Guide" IRS Publication January 2009

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