



TEXAS TECH UNIVERSITY™

Operating Policy and Procedure

OP 69.02: Reporting Withholding Taxes on Employee Awards and Prizes

DATE: April 6, 2011

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to establish policy and procedure in compliance with federal regulations relating to the taxation and reporting of employee awards and prizes.

REVIEW: This OP will be reviewed in November of even-numbered years by the managing director of Payroll and the director of Tax Compliance and Reporting with recommended revisions forwarded to the assistant vice president and controller and the chief financial officer/vice president for administration and finance.

POLICY/PROCEDURE

1. General Policy

Generally, all awards, prizes, and gifts given to employees are subject to taxation and withholding pursuant to Internal Revenue Code § 74. Decisions on issues relating to awards, prizes, and gifts are based on Internal Revenue Service (IRS) rulings, which are subject to change. Current IRS rules will be followed and they will supersede policies included in this OP.

2. Cash Awards, Prizes, and Gifts

a. Cash awards, prizes, and gifts to employees in any amount are considered wages subject to Federal Insurance Contributions Act (FICA) and federal income tax withholding and must be paid directly to the employee through Payroll Services.

b. Employee One-Time Payment System (EOPS)

An employee one-time payment should be submitted by the department paying the cash award through the EOPS system using earn code OTB.

c. For employees who are U.S. citizens, permanent resident aliens, or resident aliens for tax purposes, applicable payroll taxes will be withheld established by the federal government (in accordance with Internal Revenue Code § 74 and § 3402, reg. 1.74 and 31.3402). For employees who are nonresident aliens for tax purposes, federal income tax will be withheld from the recipient's award at a flat rate of 30 percent, or current rate established by the federal government (in accordance with Internal Revenue Code § 1441). FICA will be withheld from the recipient's award at the applicable rate.

3. Cash Equivalent Awards, Prizes, and Gifts

Cash equivalent awards, prizes, and gifts to employees in the form of gift certificates or gift cards are not permitted.

4. Non-cash Awards, Prizes, and Gifts

- a. Non-cash awards, prizes, and gifts to employees will be considered wages subject to FICA and federal income tax withholding, unless they meet the exception described in 4.b or qualify as *de minimis* fringe benefits as described in 4.c.
- b. Awards or gifts given for length of service, including retirement, will not be subject to taxation, up to a \$400 award/gift value (limited to one item). However, **any** other gift given to the employee within that tax year and the following four tax years will be subject to taxation. Awards for length of service can be made only once every five years and can never be given during the first five years of service.
- c. A non-cash award, prize, or gift to employees valued at **less than \$100** may be considered a *de minimis* fringe benefit and not taxable to the employee. To be considered a *de minimis* benefit, the award, prize, or gift can only be given on an occasional basis. Payment of a non-cash award, prize, or gift valued at **\$100 or more** is taxable compensation to the employee.
- d. An employee one-time payment should be submitted by the department providing the non-cash award through the EOPS system with earn code MSC. The value is determined by purchase price unless the item has been personalized (inscribed), which will make the fair market value zero.
- e. For taxable non-cash awards, prizes, and gifts, it is the responsibility of each department to inform the recipient that federal income tax and FICA on the value of the gift will be deducted from the employee's regular pay.

5. Approvals

- a. Approval by (1) the appropriate vice president, provost, or vice chancellor, (2) Tax Compliance and Reporting, (3) Financial Accounting and Reporting, and (4) Payroll Services must be obtained **in advance** of purchasing a non-cash award, prize, or gift valued at \$100 or more that is to be given to an employee.
- b. Tax Compliance and Reporting will determine taxability to the employee.
- c. Payroll Services will determine whether the employee will have regular earnings from which taxes may be withheld. Federal income tax and FICA will be withheld at the applicable rate.
- d. Financial Accounting and Reporting will determine the appropriateness of the funding source for the purchase.
- e. Purchase or reimbursement of expenditure will be disapproved if it is for a gift certificate or gift card.

- f. Purchase or reimbursement of expenditure will be disapproved if it is for a taxable non-cash award, prize, or gift and the employee will not have regular pay from which to withhold federal income tax and FICA.
- g. Purchase of or reimbursement for awards, prizes, or gifts should not be processed through petty cash.

6. Funding Source

- a. Employee cash awards may be made only from designated funds, current restricted funds, auxiliary funds, and foundation funds.
- b. Awards paid from designated funds, current restricted funds, or auxiliary funds will be charged to the account under the "All Other Salary" (03) budget line. The related employer fringe benefit matching costs will be charged to the same account under the "Fringe Benefit" (07) budget line.
- c. If an award is to be made from foundation funds, the EOPS system should first be routed to Financial Accounting and Reporting, where funds will be moved from the foundation account to the President's Achievement Fund. The form will then be forwarded to Payroll Services for processing.