Employee Awards Questions and Answers
March 18, 2019

University of Minnesota departments are encouraged to recognize employees for their significant input to the University. Employee efforts may be recognized by awarding employee benefits, such as gifts of property or gift cards. Generally, an employee benefit provided by an employer is taxable income for the employee unless there is an applicable exclusion in the Internal Revenue Code. Various types of employee awards are set out in the University Employee Recognition Awards Appendix that is part of the University Administrative Policy entitled Business Expenses. The Appendix describes several income exclusions and the requirements related to the exclusions. This TMOG will provide additional guidance in response to questions that frequently arise related to employee awards and any related income exclusions.

Q1: The awards Appendix refers to awards of personal property: what is “personal property”?  
A1: For purposes of the length of service and safety awards exclusions, the Internal Revenue Code defines tangible personal property by describing what it is not. Tangible personal property is not cash, cash equivalents, gift cards, gift coupons, gift certificates (other than arrangements conferring only the right to select and receive tangible personal property from a limited array of such items pre-selected or pre-approved by the employer), vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items. This definition of tangible personal property was codified in the Tax Cuts and Jobs Act passed December 22, 2017.

Examples of typical gifts of personal property awarded at the University of Minnesota include books, kitchen equipment and rocking chairs. When it has been at least five years since a length of service award has been recognized and it is awarded as part of a meaningful presentation, the value of these personal property items may be excluded from the income of the recipient up to, and including, a value of $400. Any portion of the value of personal property exceeding the $400 exclusion must be reported as taxable income. If a department elects to present a retirement award that is not tangible personal property, such as a vacation, the value of that award must be reported as taxable income for the recipient since it does not meet the requirements of the exclusion. See Q4 below for reporting procedures.
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This newly promulgated definition of personal property does not apply to the de minimis exclusion. For purposes of the de minimis exclusion, items such as tickets may be excluded from income if awarded on an occasional basis when it is administratively impracticable to keep track of the benefit given both its frequency and value. An award of season tickets is never de minimis and does not fall within the definition of tangible personal property so cannot be an award that qualifies for exclusion from income. Additionally, cash or cash equivalents such as gift cards may never be considered a de minimis benefit and are always taxable when awarded to employees.

Q2: If a gift card value is less than $100, does it need to be reported to Payroll Services?
A2: Yes, the value of the gift card does not influence whether it needs to be reported. The IRS views gift cards as taxable, so even nominal gift cards given to employees need to be reported. This includes gift cards to the University of Minnesota Bookstore – they are a cash equivalent and must be reported as taxable income. See Q4 for how to report.

Q3: Are student workers treated the same as other employees when receiving gift cards or gift certificates?
A3: Gift cards given to student workers in recognition of superior contributions in a student worker job class are treated the same as other employees – they must be reported as taxable income. However, an exception to this treatment may apply to student workers when the award is not employment related. If the reason you are giving the gift card to the student has nothing to do with the student’s University job, it does not need to be reported as taxable wages. See TMOG # 8, Payments to Students, for circumstances that require 1099 reporting for gift cards given to students. Additionally, always consider whether awards to students need to be paid, or reported, through Student Finance. This exception for non-work related awards to student workers does not apply to other employees who are not working under a student worker job class.

Q4: How is a taxable award reported?
A4: When an award does not meet the requirements necessary to exclude the value from income, it must be reported to Payroll Services as a taxable award. If the item is a gift card or gift certificate, go to the Payroll Forms page and select the Gift Card/Certificate Reporting Form. Complete the form per the example provided on the form.

For a taxable award that is not a gift card/certificate, send an email to Payroll@umn.edu that includes the employee’s name, employee ID number, and the value of the taxable award. Payroll Services will add the value to the taxable wages of the employee and appropriate withholding will reduce the take-home pay of the employee. If the recipient has already retired when the reporting is completed, the required withholding will be charged to the awarding department.