

## **Procedure 23810: De Minimis Awards**

### **When is an employee award considered “de minimis” and therefore excludable from the taxable income of employees?**

According to Internal Revenue Service (IRS) Publication 15-B a de minimis benefit is any property or service provided to an employee that has so little value (considering how frequently similar benefits are provided to employees) that accounting for it would be unreasonable or administratively impracticable. The application of the de minimis criteria for an award hinges on the concept of value. Typically, an item's cost is considered the value (or fair market value). For items that are functional for employees, such as jackets or jewelry, this measure of value is logical, and we use the amount paid for the item as the measure. Currently, the maximum value the University would consider de minimis is \$75.

The taxability of certain non-functional items such as engraved plaques and flowers costing more than \$75 is a gray area. The argument is that these items have only sentimental value, and no market value, regardless of their cost. These non-functional items cannot be used or sold on the open market once they have been personalized or engraved. Furthermore, such non-functional items are given more for the benefit of the university than for the benefit of the employee. The presentation of the non-functional item as part of a ceremony is the key to its value for the university.

Because the IRS code does not address the issue of valuing non-functional items, the university must make a judgment call. In light of the above argument related to valuation, within boundaries, non-functional personalized plaques and flowers that exceed \$75 in cost will be considered de minimis by the university, and not taxable to the recipient.

Note that for employee recognition purposes a plaque can be “a commemorative or identifying inscribed tablet” or even “a framed certificate” recognizing the efforts or service of the employee. The designation of “plaque” will be subject to review by the Payroll Department.

Departments are encouraged to keep the costs to a reasonable amount and staying under the de minimis limit is suggested. While the Purchasing Department is mainly concerned with large purchases, they can and are willing to assist departments with purchases to ensure that items are obtained at a reasonable price. Agreements are in place with certain vendors that would offer a discount on certain items when purchased by university departments.

Gift certificates and gift cards of \$75.00 or less are not included under the university de minimis policy. According to IRS regulations, cash equivalents such as gift certificates can never be treated as a de minimis fringe benefit, and are therefore always taxable, regardless of the dollar amount.

Employee achievement awards are non-cash, tangible personal property given to employees for length of service or safety achievements. To be tax-exempt, these awards must meet specific IRS criteria. The award should be part of a meaningful presentation and must not be disguised as wages. Additionally, the award must follow strict limits: the value of the award must not exceed \$400 per employee per year at Virginia Tech. If the value exceeds this limit, the excess is treated as taxable income. Length of service awards must be given after at least five years of employment and cannot be issued more than once within a five-year period, except for retirement awards. Safety awards are restricted and cannot be given to management or administrative staff. Sports tickets, as non-tangible items, also do not qualify as achievement awards and are taxable. Awards that do not meet the criteria for qualified plans or exceed the set limits must be reported on Form W-2 and subject to withholding taxes.

References: Employee Awards and Recognition Programs, <http://www.policies.vt.edu/4335.pdf>