

Purpose

The policy provides University departments with an authorized method to provide employees and non-employees with cash equivalent and non-cash gifts, under identified and approved special circumstances and conditions.

Policy

Student employees, faculty, staff and participants participating in research studies, receiving awards or prizes may receive cash equivalents or non-cash items. This may create a taxable event for the recipient of the cash equivalent or non-cash award received from the university. Illinois Tech is a non cash campus. Gifts, awards or participant support compensation of cash are prohibited.

Definitions

De Minimis Fringe Benefits

De minimis fringe benefits include property or services, provided by an employer for an employee, with a value so small that accounting for it is unreasonable or administratively impracticable. The value of the benefit is determined by the frequency it is provided to each individual employee, or, if this is not administratively practical, by the frequency provided by that employer to the workforce as a whole. The law does not specify a dollar threshold for benefits to qualify as de minimis. The determination will always depend on facts and circumstances.

All of the following may be excludable if they are occasional (infrequent), not routine:

- Personal use of photocopier (with restrictions)
- Group meals, employee picnics
- Theater or sporting event tickets
- Coffee, doughnuts, or soft drinks
- Flowers or fruit for special circumstances
- Local telephone calls
- Traditional birthday or holiday gifts (not cash) with a low FMV
- Commuting use of employer's car if no more than once per month
- Employer-provided local transportation
- Personal use of cell phone provided by employer primarily for a business purpose

The following are common examples of benefits that do not qualify as de minimis:

- Cash - except for occasional and infrequent meal money to allow overtime work
- Cash equivalent (i.e., savings bond, gift certificate/card)
- Certain transportation passes or costs

- Use of employer's apartment, vacation home, boat
- Commuting use of employer's vehicle more than once a month.
- Membership in a country club or athletic facility

Some of these benefits may be excludable under other provisions of the law. For example, the use of athletic facilities on the premises of the employer by current or former employees, or their family members, may be excludable from wages.

Award

An award is a payment to an individual who meets criteria for the payment through participation in a public event in which a distinguished work or work history is submitted for recognition. The award may be given upon nomination, as the result of a contest, or upon application for sponsorship as through a grant awarding process.

Prize

A prize is a payment made to the winner of a competition or contest. The value of the payment and the form of the competitive work product, if work is required, are announced at the beginning of the competition or contest. Prizes for students that are awarded based on their student role should be paid through accounts payable.

Honorarium

A payment to Illinois Institute of Technology Faculty or Staff to confer distinction or to express respect, esteem or admiration for the recipient is an honorarium. Honoraria are normally given instead of reimbursing expenses to a distinguished guest participating in a special academic event sponsored by a school or department, but they may be considered compensation for a special project by those already paid through the university payroll.

Cash Equivalent

A monetary item readily convertible to cash, for example, a voucher for merchandise, a savings bond, gift card or gift certificate.

Nominal

For this purpose means small in value, relative to the value of total compensation. There is no set dollar amount in the law for nominal prizes or awards. The IRS gave advice at least once, in 2001 that a benefit of \$100 did not qualify as de minimis.

Responsible Person

The IIT employee who collects the incentive gift cards from the Controller's Office. They are in charge of either distributing the card as participant support, or gifts, or the card can be for eligible business expenses. They must maintain proper controls over the card, and provide reconciliations and documentation to the Controller's Office. The Responsible Person is also the person who purchases and/or distributes a non-cash gift.

Recipient

A person who receives a cash equivalent or non-cash item as an award, prize, gift or participant support compensation.

Procedures

Illinois Tech is a non cash campus. Gifts, awards or participant support of actual cash are strictly prohibited. Gift card purchases are strictly prohibited on Procurement cards. Gift cards purchased by an employee will not be reimbursed through the Accounts Payable department. Unless, due to special circumstances that have been pre-approved by the Controller's Office, the only allowable method for purchasing gift cards is utilizing the university incentive card program administered by the Controller's Office. Gifts that are neither cash nor cash equivalents (non-cash gifts) have no restrictions on purchase method.

Incentive card request fulfillment is at the Controller's Office approval and discretion. Requests for incentive cards can be denied if the department has too many cards outstanding or unreconciled business expenses.

The Responsible Person must collect PNC incentive cards from the Controller's Office personally. At the time of collection, the Responsible Person is required to sign the Incentive Card Sign Off form. This form is an agreement and understanding regarding the responsibility the Responsible Person has for the cards, as detailed below.

Purchases, Distribution and Reconciliation of Gift Cards for Prizes, Awards or Participant Support

Upon distribution of gift cards to the Recipients, it is required the Recipient sign the Understanding of Taxability (UT) form. The Recipient is also required to indicate on the UT form whether or not they are an IIT employee. A special UT form can be used for anonymous participants; however, a customized UT form must be approved by the Controller's Office.

In the circumstance where the Recipient has indicated on the UT form they are an employee, the Responsible Person must also submit to the Controller's Office a completed Payroll Authorization (PA) noting in the comment section that the PA is for a gift card distribution.

In the circumstance where the Recipient has indicated on the UT form they are not an employee, the Responsible Person must also submit to the Controller's Office a completed and signed W-9 form by the Recipient that includes the Recipient's Social Security Number. A W-8BEN form is required for all Recipients other than U.S. citizens and resident aliens.

The reconciliation spreadsheet, signed UT forms, completed and signed PA or W-9 forms must be submitted by the Responsible Person to the Controller's office within 30 days of either the collection of the cards from the Controller's Office, calendar year end or fiscal year end, whichever comes first. If the cards are not distributed within 30 days of collection, they must be brought back to the Controller's Office to be held until the department is ready to distribute the gift cards.

The Responsible Person is personally liable for any lost or stolen cards and cards that are not reconciled within 30 days. Any exceptions must be approved by the Controller's Office. If the Responsible Person fails to submit all proper documentation or return the cards to Controller's Office within 30 days, the amounts can either be treated as taxable income to the Responsible Person or they must reimburse IIT with a check.

In the event the gift cards are distributed for sponsored research where the Recipients of the cards are anonymous participants in a study, participant numbers, partial emails or partial social security numbers are acceptable in place of names on the reconciliation. The UT form can be sent with the signature partially blocked out to protect privacy. If it is anticipated that the accumulation of gift cards given to an anonymous participant non-employee in a calendar year will be \$600 or more, a W-9 must be obtained at the beginning of their participation in the sponsored research program. W-9s for anonymous participants who have received \$600 or more in the previous calendar year must be sent to the Controller's office no later than January 7. A schedule of payments with the total amount the non-employee received must be attached to the W-9. PAs are required for all employee anonymous participants and must be sent at the same time as the UT form.

Proof the study is operating anonymously must be provided to the Controller's Office.

The Controller's Office will review the reconciliation, UT forms PAs and W-9s to determine whether IIT has a responsibility to report taxable income to the IRS or to withhold payroll taxes for the Recipient.

Purchases, Distribution and Reconciliation of Gift Cards for Business Expenses

Incentive cards can be requested by a department Responsible Person to be used for charges of eligible business expenses. The Responsible Person can then give out the card to another IIT student, staff, or faculty member so they can use the card for purchases. Incentive cards for business expenses are intended for people who do not already have a Procurement card, therefore the incentive card cannot be used by an individual that has a Procurement Card. Receiving funds in cash at an ATM, during a vendor cashback PIN transaction, or purchasing gift cards on a PNC Card that was distributed for business expenses is strictly prohibited.

All receipts must be kept for any transactions on the incentive card. The original receipts must be sent to the Controller's Office within 30 days of the transaction date. The department must complete the journal entry form and sign off indicating all transactions are legitimate business expenses and attach all receipts. Once the JE form and receipts are received by the Controller's Office, an entry will be made to expense the transactions to the FOAP provided by the Responsible Person.

If the Responsible Person fails to submit all proper receipts to the Controller's Office within 30 days, the transaction amounts can be treated either as taxable income to the Responsible Person or the Responsible Person will need to reimburse IIT for those funds. The Responsible Person is personally liable for any misuse of card funds, fraudulent activity, misappropriation of funds, lost or stolen cards and transactions that do not have receipts even if they were not the person using the card at the time.

Incentive cards can be requested for student athlete meal stipends. The Responsible Person must provide the names of the individuals who are receiving the cards as meal stipends, no additional receipts are needed. Incentive cards can only be distributed as meal stipends to individuals that do not already have a Procurement Card. Amounts to be provided for meal stipends must comply with the amounts listed for per diems under IIT's travel policy.

Purchases, Distribution and Reconciliation of Non-Cash Gifts

The Responsible Person may purchase non-cash gifts using their personal funds and submit for reimbursement through the Accounts Payable department. Non-cash gifts may also be purchased using Procurement cards or by having the vendor invoice IIT directly. Gifts that are neither cash nor cash

equivalents (non-cash gifts) have no restrictions on purchase method.

All Recipients of non-cash gifts are required to sign an Understanding of Taxability (UT) form. The Recipients are also required to indicate on the UT form whether or not they are IIT employees. It is the Responsible Person's responsibility to collect the UT form and all other required forms, as listed below, at the time of distribution of the gift.

Non-cash gifts to non-employees of IIT – All non-cash gifts to non-employees must be reported to the Controller's Office, regardless of Fair Market Value. The non-employee gift Recipient must sign the UT form and they must sign and complete an IRS W-9 form. The Responsible Person who distributed the gift must send the UT form and W-9 form to the Controller's office within 30 days of distributing the gift or calendar year end, whichever comes first. At the end of the calendar year the Controller's Office will total all gifts (cash and non-cash) for non-employee Recipients. Gifts that total \$600 or more will be reported to the IRS with a 1099-MISC.

Non-cash gifts to IIT Employees – Non-cash gifts with a Fair Market Value (FMV) of \$50 or more are non de minimis and therefore considered taxable to IIT employees. The Responsible Person must complete a Payroll Authorization (PA) form for the Recipient employee. The Understanding of Taxability form and the PA must be sent to the Controller's office within 30 days of distributing the gift to the employee or calendar year end, whichever comes first.

The IRS does have some exclusions from taxability for non-cash gifts that are beyond the scope of these procedures. The type of gift and the reason for disbursement that is listed on the Understanding of Taxability form will be reviewed by the Controller's Office to determine if it falls within the IRS exclusions. If it is determined the non-cash gift is excludable (non-taxable), the Responsible Person will be notified. However, all proper documents must be submitted at the time of gift, prior to determination of taxation (or exclusion) by the Controller's Office. All cash gifts of any amount are taxable to the employee or are included in the \$600 total gift value for non-employees.

Guidelines

Awards and Prizes

Generally, the value of an award or prize given by an employer is taxable to an employee as wages, included on Form W-2, and subject to Federal income tax withholding, social security and Medicare. If the employer pays the employee's share of taxes on an award, the amount of taxes paid are additional wages to the employee and are subject to all payroll taxes.

Awards Included in Income:

The following awards are taxable as wages to an employee:

- Cash or cash equivalent awards, such as savings bonds or general merchandise gift certificates
- Recognition awards, cash or non-cash, for job performance unless they are qualifying de minimis fringe benefits
- Awards for performance, such as outstanding customer service, employee of the month, or highest productivity
- Achievement awards, cash or non-cash, that do not meet the qualified plan award rules
- Awards for length of service or safety achievement that do not meet the requirements for excludable treatment
- Non-cash prizes (unless de minimis) won by employees from random drawings at employer

sponsored events

There are three types of non-cash awards that may be excluded from income. Each category has specific requirements that have to be met in order to be excludable. These categories are:

- Certain employee achievement awards
- Certain prizes or awards transferred to charities
- De minimis awards and prizes

Other awards, unless they are qualifying de minimis fringe benefits, are nonqualified awards and are taxable.

Employee Achievement Awards

Excludable (Nontaxable) Awards

An employee achievement award is an item of tangible personal property (not cash) for **length-of-service** or **safety**. (Cash awards are always taxable.) The following requirements must be met for an achievement award to be excludable:

- Must be given for length-of-service or safety, **and**
- Must be awarded as part of a meaningful presentation, **and**
- Cannot be disguised wages, or made under circumstances that create a significant likelihood that it is disguised wages.

Achievement awards that do not meet these requirements are taxable, as discussed below.

Includable (Taxable) Awards

Taxable Safety Achievement Awards

An award will not qualify as a safety achievement award if either of the following applies.

- It is given to a manager, administrator, clerical employee, or other professional employee.
- During the tax year, more than 10% of the employees, excluding those listed in point above, have already received a safety achievement award (other than one of very small value).

Eligible employees must have worked full-time for a minimum of one year prior to the award

Taxable Length-of-Service Achievement Awards

An award will not qualify as a length-of-service award if either of the following applies.

- The employee received the award during his or her first 5 years of employment.
- The employee received another length-of-service award (other than one of very small value) during the same year or in any of the prior 4 years.

Note: A traditional retirement award is an exception to the 5-year rule.

Prizes or Awards Transferred to Charities

Certain prizes and awards given in recognition of charitable, scientific, artistic or educational achievement are not taxable if the recipient transfers them to a charitable organization.

The following requirements must apply for a transferred award to be excludable from wages:

- Award is for achievement
- Recipient is selected without entering any contest
- No substantial future services are required
- Recipient transfers the award to a charitable organization recognized under IRC 170(c) prior to receiving the benefit

De Minimis Awards and Prizes

A prize or award that is not cash or cash equivalent, of *nominal value* and provided *infrequently* is excludable from an employee's wages. Prizes or awards that are given frequently to an employee do not qualify as an excludable de minimis award, even if each award is small in value.

Examples of Excludable De Minimis Awards

- Nominal gifts for birthdays, holidays
- Holiday turkey and hams
- Flowers, plaques, coffee mugs for special occasions
- Gold watch on retirement
- Parking for employee of the month, if value is less than statutory limit for qualified transportation fringe benefits (see section 3).

Cliff Provision

If an award that exceeds either the value or frequency limitations for de minimis fringes, the entire award is included in the employee's wages, not just the portion that exceeds the de minimis limits.

Dollar Limitation

The maximum amount of excludable awards to a single employee during a calendar year is limited to: \$400 for awards made under a nonqualified plan, or \$1600 in total for awards made under both qualified and nonqualified plans

References

Publication 5137 - Fringe Benefit Guide published by the Internal Revenue Service – January 2014.

Responsibilities

Department- For cards given as prizes, awards or participant support the department is responsible for providing completed and signed Understanding of Taxability, Payroll Authorization or W-9 forms. It must also provide a spreadsheet reconciliation of card numbers, amounts and names of the individuals to whom the gift cards were distributed. For cards used as business expenses, the department must complete a journal entry form and send all original receipts for the transactions to the Controller's Office. Non cash gifts must be reported to the Controller's Office. Please refer to the Procedures section above for more detailed responsibility guidance.

Controller's Office - Review the reconciliation and UT, PA or W-9 forms to determine whether IIT has a responsibility to withhold taxes or report taxable income for the recipient of the gift card. Review receipts and post journal entry for business expenses transactions.

Required Forms

Incentive Card Collection Sign Off Form:

<https://web.iit.edu/sites/web/files/departments/general-accounting/pdfs/incentive-card-collection-signoff.pdf>

Payroll/Personnel Authorization Form:

<https://web.iit.edu/sites/web/files/departments/payroll/pdfs/payroll-authorization-form.pdf>

Understanding of Taxability Form:

<https://web.iit.edu/sites/web/files/departments/general-accounting/pdfs/understanding-of-taxability.pdf>

IRS Form W-9:

<https://www.irs.gov/pub/irs-pdf/fw9.pdf>

IRF Form W-8BEN:

<https://www.irs.gov/pub/irs-pdf/fw8ben.pdf>