

**STATE OF WISCONSIN
STATE ACCOUNTING MANUAL**

SECTION:	V Expenditures	EFFECTIVE DATE:	January 1, 2005
SUB-SECTION:	16 - Employee Recognition Awards	REVISION DATE:	January 1, 2005
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Background:

Agencies are considering ways to recognize the efforts of their employees. It is important that agencies be very careful with the awards used to recognize employees. Some recognition awards could be considered additional compensation to employees and require inclusion as income on their W-2 and would require the withholding of taxes. Other recognition awards could cause problems with collective bargaining agreements or could create an appearance of inappropriate use of state funds. Agencies must consider the following whenever awards to employees are being suggested.

- IRS Requirements:

The IRS states that, in general, both cash and non-cash awards to employees are taxable and subject to withholding. Cash awards (including gift certificates) of any amount are always taxable and subject to withholding. The fair market value of the non-cash award at the time of giving the award should be included as income on the employee's W-2 and withholding is required. Non-cash awards for length of service and safety awards that are less than certain dollar amounts (see appendix) are exempted and considered nontaxable. Cash and non-cash awards for performance, productivity or similar reasons are taxable and subject to withholding.

Non-cash awards that qualify as de minimis can be excluded from income. De minimis awards are those that are so small in value (see appendix) that it is unreasonable or administratively impractical to keep track of them. The frequency of the award has an impact on whether the award is de minimis. The more frequently an award is given the less likely it qualifies as de minimis. If the award is trackable it is taxable.

- Collective Bargaining Agreements and the Compensation Plan:

The Office of State Employment Relations (OSER) is responsible for negotiating compensation for represented employees with the different bargaining units. These collective bargaining agreements constitute the agreed upon compensation for represented employees. Awards that are not authorized by these agreements that can be considered compensation could be construed as being inconsistent with the agreements. Cash awards (including gift certificates) cannot be given to represented employees unless they are specifically provided for in the agreements.

Similarly OSER is responsible for determining compensation for non-represented employees. The Compensation Plan constitutes the agreed upon compensation for non-represented employees. Awards that are not authorized by this plan that can be considered compensation could be construed as being inconsistent with the plan. Cash awards (including gift certificates) cannot be given to non-represented employees unless they are specifically provided for in the Compensation Plan.

- Appearance of Awards:

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State employees are responsible for the prudent use of state funds. They are responsible to the taxpayers of the State of Wisconsin to ensure that these funds are used appropriately and wisely. It is therefore very important that the types of awards provided to employees avoid any appearance of inappropriate use of state funds. Any award that could be construed as inappropriate should not be given in recognition of an employee's service. For example, awards of personal type items such as, clothing, household goods, jewelry, etc. would not be considered appropriate.

Employee Award Guidelines:

Agencies should establish written guidelines for recognizing employees for achievements. These guidelines should consider the following:

- Awards should be limited to non-cash items that would not be construed as compensation.
- Cash awards including cash equivalents and gift certificates are prohibited unless specifically authorized by the Compensation Plan or collective bargaining agreements.
- Non-cash awards should be of nominal value. Nominal value would mean a fair market value of no more than \$40.
- Awards of work related items are the most appropriate.
- Examples of acceptable awards include:
 - Pins
 - Plaques
 - Pens or pencils
 - Portfolios with the agency name or logo
 - Desktop items with the agency name or logo (including mugs)
- Examples of unacceptable awards include, but are not limited to:
 - Flowers
 - Tickets to concerts, athletic events, etc.
 - Sports equipment
 - Art
 - Collectibles
 - Items of a personal nature
 - Entertainment
 - Meals (luncheons, picnics, etc.)
 - Food
- Gifts or food, for employees retiring from state service, or leaving the agency should not be paid from state funds but require donations or other private funds. However, plaques or pins recognizing years of service for retiring employees are acceptable awards that can be paid from state funds.

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- An appropriate level of review and approval should be established within the agency prior to purchase of the award.

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Appendix

The following information relates to IRS rules and guidance on these issues. It should not be interpreted as state policy on providing length of service or safety awards.

Length of Service Awards and Safety Awards:

Under IRS rules these awards are considered nontaxable to the employee if the value of all non-cash awards given (for length of service or safety) to an employee during the year is less than a certain dollar amount. Non-cash awards for length of service or safety can be excluded from an employee's income if the following conditions are met:

- The award must be given in a "meaningful presentation". This requires some type of "ceremonious observance" designed to emphasize or honor the recipient.
- The award must not be disguised compensation.
- The fair market value of all non-cash awards given during the year to an employee cannot exceed the following dollar limitations:
 - \$1,600 for a qualified plan. The average cost of the award cannot exceed \$400. A qualified plan requires the plan to be in writing and must not discriminate in favor of highly compensated employees.
 - \$400 for a non-qualified plan. A non-qualified plan is one that does not meet the requirements of a qualified plan.
- For length of service awards the award must be recognizing service of five or more years. Additionally, the award cannot be granted to the employee more frequently than every five years.

De Minimis:

The IRS definition of de minimis is an amount that is so small in value that it is unreasonable or administratively impracticable to keep track of. In November of 2000 the IRS was requested to express an opinion on whether non-cash awards of \$100 qualified as de minimis. The Office of Assistant Chief Counsel ruled that non-cash awards of \$100 do not qualify as de minimis. This does not mean that anything less than \$100 is de minimis. It simply means that when asked if \$100 was de minimis the IRS said no.

It is our interpretation that non-cash awards of \$40 or less would be considered de minimis.
