## KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM BUSINESS PROCEDURES MANUAL

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Effective Date: April 1, 2010 Supersedes: November 1, 2006

Applies To: System Office and Colleges

Procedure Responsibility: System Office Payroll

## **Taxability of Awards and Gifts**

#### Sections:

Section 5.12.1 – General

Section 5.12.2 - Length of Service Awards

Section 5.12.3 - Gifts

#### Section 5.12.1 - General

Awards and prizes provided to employees for outstanding achievement, money saving suggestions, incentives, etc., are generally included in the employees' income and are subject to federal income tax, state income tax, and social security income tax and withholding. Refer to Business Procedure 4.10.3 Special Purchase Authority, Taxable Employee Benefits, for details. If the prize or award is in the form of goods or services, the fair market value of the goods or services must be included as income.

### **Section 5.12.2 – Length of Service Awards**

Length of service awards must meet the following criteria to be exempt from taxation:

- A. The award must be in the form of tangible personal property which does not include cash or cash equivalents, vacation, meals, lodging, or tickets to theater sporting events.
- B. The award must not be presented for less than five years of service on the job and must not have been awarded to the same employee within the last four (4) years.
- C. The award must be presented in a meaningful presentation that emphasizes the employee's achievement.

#### Section 5.12.3 - Gifts

Gifts provided to employees must be included in the employees' income and are subject to federal income tax, state income tax, and social security income tax and withholding. Gifts excluded as de minimis fringe benefits include Christmas or other holiday gifts of small value (less than \$10), so long as they do not consist of cash or cash equivalent. Gift certificates and gift cards are considered to be cash equivalents (IRS Publication 525).

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Additionally, the IRS has determined that taxes are to be withheld on items and/or services even when the employer did not purchase the item or service, but distributes the item or service as a pass through to the employee.

**End of Procedure**