

Office/Contact: Accounts Payable Office

Source: IRS De Minimis Fringe Benefits; IRS Fringe Benefit Guide; IRS Form 1099-MISC; SDBOR Policies 4.9.3 and 5.8

Link: <https://www.irs.gov/government-entities/federal-state-local-governments/de-minimis-fringe-benefits>; <https://www.irs.gov/pub/irs-pdf/f1099misc.pdf>; <https://www.irs.gov/pub/irs-pdf/p5137.pdf>; <https://public.powerdms.com/SDRegents/documents/1727136>; <https://public.powerdms.com/SDRegents/documents/1722939>

SOUTH DAKOTA STATE UNIVERSITY Policy and Procedure Manual

SUBJECT: Awards and Prizes

NUMBER: 5:23

1. Purpose

This policy and its procedures set forth the protocols for the purchase and distribution of awards and prizes using University funds to ensure the University is in compliance with applicable IRS regulations.

2. Policy

- a. Regardless of the cost of an award or its fair market value, the following awards are always taxable as wages to an employee and should be processed through the University Payroll Office to ensure proper reporting on IRS Form W-2:
 - i. Cash or cash equivalent awards, such as gift certificates, gift cards, and gift coupons;
 - ii. Recognition awards, cash or non-cash, for job performance, such as employee of the month awards, unless they are qualifying de minimis;
 - iii. Non-cash prizes (unless de minimis) won by employees from random drawings at employer sponsored events;
 - iv. Achievement awards, cash or non-cash, that do not meet specific qualified plan award rules, discussed below; and
 - v. Awards for length of service or safety achievement that do not meet specific requirements, discussed below.

If a check is desired to be presented directly at an award ceremony, the payment may be run through Accounts Payable but will be reported to the Payroll Office for W-2 processing.

- b. Three (3) types of non-cash awards may be excluded from income, subject to dollar limitations, if specific requirements are met:
 - i. Certain employee achievement awards;
 - ii. Certain prizes or awards transferred to charities; and

- iii. De minimis awards and prizes.
- c. Employee achievement awards include items of tangible personal property (not cash) for length-of-service or safety. The following requirements must be met for achievement awards to be excludable:
 - i. They must be given for length-of-service or safety; and
 - ii. They must be awarded as part of a meaningful presentation; and
 - iii. They cannot be disguised wages or made under conditions and circumstances that create a significant likelihood that they are disguised wages.
- d. The amount of the award that is excludable depends on whether the award is considered “qualified.” For the purpose of this policy, an award is a qualified plan award if it meets the following tests:
 - i. The award is made under an established written plan; and
 - ii. The plan does not discriminate in favor of highly compensated employees; and
 - iii. The average cost of all employee achievement awards (qualified and unqualified awards for length-of-service and safety) made by the employer during a single year does not exceed four hundred dollars (\$400). Awards of fifty dollars (\$50) or less are not included in computing the average.
- e. Safety Achievement Awards
 - i. An award will qualify as an excludable safety achievement award unless the following applies:
 - 1. It is given to a manager, administrator, clerical employee, or other professional employee.
 - 2. During the tax year, more than 10% of the employees, excluding those listed in 2.e.i.1. 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 (1) year prior to the award.
- f. Length-of-Service Achievement Awards
 - i. An award made for length-of-service may be excludable; however, it does not qualify if either of the following applies:
 - 1. The employee received the award during their first five (5) years of employment.
 - 2. 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 four (4) years.
- g. Awards other than for safety or length-of-service are always unqualified awards, unless they are qualifying de minimis awards.
- h. The maximum amount of excludable awards to a single employee during a calendar year is limited to four hundred dollars (\$400) for awards made under an unqualified plan or \$1600 in total for awards made under both qualified and unqualified plans.

- i. An award is not a qualified plan award if the average cost of all the employee achievement awards given during the tax year is more than four hundred dollars (\$400), not including de minimis awards when calculating the average cost.
- j. 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:
 - i. The award is for achievement;
 - ii. The recipient is selected without entering any contest;
 - iii. No substantial future services are required; and
 - iv. The recipient transfers the award to a charitable organization recognized under IRC 170(c) prior to receiving the benefit.
- k. Prizes or awards that are not cash or cash equivalent, of nominal value, and provided infrequently, also known as de minimis prizes or awards, are excludable from an employee's wages.
 - i. Prizes or awards that are given frequently to an employee do not qualify as excludable, even if each award is small in value.
 - ii. A nominal value means small in value, relative to the total compensation (non-cash, less than one hundred dollars (\$100) in value).
 - iii. Cash equivalent means readily convertible to cash. Examples include gift certificates, gift cards, and gift coupons which have a face value.
- l. If funds for awards or prizes are provided by an outside party, the award is taxable in the same way as if provided directly by the employer. If the funds are turned over to the University to select and distribute the awards, the University is responsible for all applicable payroll taxes and withholding.
 - i. In the case where the outside party selects and distributes the award directly to an agency employee without any direction or decision making from University personnel, then the award is income to the recipient and must be reported by the outside party on a Form 1099-MISC to the recipient if the total awarded to the employee in the calendar year has a value of six hundred dollars (\$600) or more.
- m. Prizes not directly related to employee performance or achievement may be awarded to employees as long as there is equal opportunity for everyone in the department to receive the prize. For example, an employee may be entered in a drawing at a meeting.
- n. Non-cash awards or prizes (tangible personal property) given to employees are subject to taxation unless the annual value of all non-cash awards received is less than one hundred dollars (\$100) (amount considered to be de minimis).
- o. Awards and prizes given to non-employees are allowed provided there is a clear business purpose. These payments are paid through Accounts Payable. If the non-employee receives prizes or awards exceeding six hundred dollars (\$600) during the calendar year, the State of South Dakota will issue an IRS Form 1099-MISC to the non-employee.

- p. Awards and prizes must be purchased from allowable funds. Allowable funds include funds generated from related activities or registrations, student general activity fees which include prizes and awards in their approved budgets, grants where the budgets allow for specific awards or prizes, or other funds provided by an outside party. The granting of awards and prizes should have a clear University business purpose.
 - q. Awards and prizes may not be authorized if they are restricted by the provisions of SDBOR Policy 4.9.3 and conflicts of interest laws, regulations, and amendments thereto.
3. Procedures
- a. If awards are provided to an employee, they are to be processed through Payroll. If awards are provided to a non-employee, they should be processed through Accounts Payable.
 - b. The reason for providing awards or prizes must be well documented. The explanation must be included either on the attached documentation or in Document Text on the Direct Pay document in Banner. A description of what is being purchased (if that is not apparent from the invoice), the intended recipient, and reason for the purchase must also be included.
 - c. The department should collect appropriate documentation to verify the intended recipient received the item. For example, a record showing the award or prize given, the date received and the signature of the recipient, whenever possible.
 - d. The documentation listing the award or prize recipients must be attached to the Direct Pay document in Banner after all information is gathered. The document can be paid prior to this.
 - e. When a payment is made through Accounts Payable, individuals should use 766450 for the account code and 28000 for the commodity code on the direct pay document.

4. Responsible Administrator

The Vice President for Finance and Budget, or designee, is responsible for the annual and ad hoc review of this policy. The University President is responsible for approval of this policy.

SOURCE: Approved by President on 04/15/2016. Revised 01/29/2024 (clerical).