

Employee Benefits: Gift cards and other employee incentives are counted as taxable income.

Don't forget, gift cards and other employee incentives are counted as taxable income.

Year-end is quickly approaching and with that, many companies are gearing up to dole out bonuses, gifts, and annual incentives. But many business owners may not realize that most of these gifts are considered taxable income by the IRS.

The Internal Revenue Code (Section 102) states, "Gross income does not include the value of property acquired by gift, bequest, devise, or inheritance." However, section (c) (1) of the Code makes an exception for gifts offered to employees. Specifically, it provides that "any amount transferred by or for an employer to, or for the benefit of, an employee" should be included in gross income.

The Code does make exceptions for what are called "*de minimis*" fringe benefits. Since these benefits are so small, they are not considered taxable (e.g., holiday treats, or flowers to celebrate a work anniversary). Because this can be confusing, the law further clarifies that items exceeding \$100 cannot be considered *de minimis* and gifts with an identifiable cash equivalent should be included as employee income even if their value is less than \$100 (e.g. \$50 restaurant gift card).

The reason for this distinction: The Code aims to prevent individuals from being compensated via alternate payment forms without being subject to income tax. Since gift cards and certificates have an obvious cash value, offering payment via these methods is possible. Conversely, even though a flower arrangement may cost upwards of \$75, it is safe to assume most individuals are not being compensated in flowers.

When planning your compensation or gifting strategy for employees this year, be sure to consult a qualified employment or tax attorney who can assist with the proper gifting procedures. Staying on top of these smaller, yet important, rules will keep your organization operating above board and avoid future headaches for you and your employees.

For more detailed information, please feel free to reach out to the attorneys in our [Multiemployer Plans and Employee Benefits Group](#).



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