



Tax Benefits of Employee Awards, Recognition & Safety Programs

(As with any tax benefit – please confirm with your tax accountant
prior to implementation)



Internal Revenue Service
United States Department of the Treasury

Tax Benefits

- Companies who implement recognitions strategies throughout their organization yield higher performance, retention, and safety levels versus those using other forms of incentives. The IRS recognizes the value of employee achievement recognition and makes, specific allowances:
- An employer can deduct up to \$400 for employee achievement awards' given to anyone employee during for 'qualified plans awards' given to any single employee during a tax year."

To be free of taxes as described, awards must:



- All into a “qualified plan” that does not discriminate in favor of highly compensated employees.
- Be an item of tangible personal property awarded as part of a meaningful presentation.
- Fall under an average award cost of \$400 with an upper limit of \$1,600. Awards over \$1,600 are taxable to the recipient for the amount above \$1,600.
- Service awards may be given every five years beginning at five years of service. Typical awards given before five years are protected because they are of nominal value.
- Safety awards must be given to fewer than 10% of eligible employees. Management, administrative, clerical, and professional employees do not qualify.

These are not tax exemptions:

- Cash or cash-equivalent awards
 - (gift certificate, stored-value card, gift card)
- Even if presented as a service or safety award, the only way these types of awards qualify for tax-exempt status is if they can only be exchanged for tangible personal property.



Tax Benefits Continued –

Tax deduction for employee awards:

- Level 1
 - Businesses may deduct up to \$25 per employee per year for gifts given by the employers to their employees.
 - Exceptions:
 - Gifts of nominal value
 - Gifts of advertising nature
 - Gift cards

Tax deduction for employee awards:

- Level 2

- Businesses may deduct up to \$400 per employee per year for achievement awards.
- Requirements:
 - Award is an item of tangible personal property.
 - Award is given by reason of employee's length of service, productivity, or safety achievement.
 - Award is given as a part of a meaningful presentation.
 - Award is given under circumstances free of significant likelihood of its being payment of disguised compensation.

Tax deduction for employee awards:



- Level 3

- Businesses may deduct up to \$1,600 per employee per year if gift is an achievement award meeting the criteria of those awards.

- Requirements:

- Award is an item of tangible personal property.
- Award is given by reason of employee's length of service, productivity, or safety achievement.
- Award is given as a part of a meaningful presentation.

Tax deduction for employee awards:

- Level 3 continued

- Award is given under circumstances free of significant likelihood of its being payment of disguised compensation.
- And, the award is part of the company's permanent written award plan.

-Provided:

- The plan doesn't discriminate in favor of officers, share holders, or highly compensated employees.
- The award meets the above criteria, and the average cost of all employee achievement awards provided by the employer during the year doesn't exceed \$400 per quarter.