

Date: November 20, 2008
To: Department Heads, Faculty and Administrative Staff
From: Paul H. Zimmerman, Controller
Subject: Cash Prizes and Gift Cards (As approved by Senior Staff on 11/26/2008)

In compliance with IRS regulations, Lafayette College's policy concerning the tax treatment and reporting of Cash Prizes and Gift Cards is outlined below:

All cash awards or prizes made to employees (including student employees) are includible in the employee's paycheck with appropriate taxes withheld. These prizes and awards (including cash equivalent prizes such as certain gift cards and non-cash items) will also be included in the employees W-2 for the calendar year in which the employee received the prize or award.

You may know that a cash equivalent prize or award is considered any dollar amount that the IRS considers a cash equivalent. Further, a cash equivalent may also include a gift card or a non-cash item, such as a book, "i-pod", clothing or ticket to an athletic event, including both Lafayette and non-Lafayette events.

College-Required Approvals

The College has procedures to provide bonuses to regular employees who have extended themselves during the year. Gift cards or non-cash items should not be provided to regular employees as a substitute for the College's compensation approval procedures. The College requires prior approval for all gift cards and/or non-cash items from the Division Head prior to the gift card being purchased or the cash prize awarded. Division Head prior approval is required for any expenditure of College funds for this purpose, whether through expense reimbursement or through charging a College account or otherwise.

Gift Cards

Regarding gift cards, for IRS reporting, a gift card is classified as either "general" or "specific", depending on the amount of discretion the recipient has on how and where the gift card can be utilized. Examples of a general gift card are American Express, MasterCard or Visa, or "mall" gift cards. Because a general gift card can be used in a more discretionary way by the recipient, a general gift card is considered a cash equivalent under IRS guidelines. As such, these gift cards are treated as compensation and are subject to withholding.

In some cases, a gift card may be classified as a "specific" gift card (not a general gift card). The use of a specific gift card by the recipient is typically limited to a particular establishment such as I-Tunes, Borders Book Store, and Olive Garden Restaurant, etc. and the recipient has less discretion on what it can be used for. Specific gift cards may or may not be taxable depending on the amount. Specific gift cards are considered a cash equivalent but will not be subject to taxes as long as the value of gift card is considered to be "*de minimis*". The IRS has ruled that the determination of "*de minimis*" depends on the facts and circumstances. For the College's administration of this area, any gift card or in-kind item with a value of \$25 or greater is not "*de minimis*" and is subject to withholding. Multiple smaller awards to an employee should be aggregated and reported if they exceed the "*de minimis*" amount for any single employee in total.

Students

If the Student or individual receiving a prize or award is not an employee of Lafayette College, the Controller's Office will include any taxable cash equivalents on that year's IRS Form 1099-Misc. report. A 1099 Miscellaneous Income Form is filed with the IRS annually for any

individual and appropriate firms receiving non-employee compensation of \$600 or more during the calendar year.

If your department or office is directly responsible for administering prizes and awards to Students and/or Employees, please use the following protocol to ensure accurate and timely processing of these payments:

- A list of all the College employees and students, if any, receiving prizes and/or awards must be submitted to the Administrative Assistant for Payroll at least three weeks prior to the recipients receipt of cash, gift card or non-cash item.
- The list should include the Division Head's signature and approval prior to submission to the Administrative Assistant for Payroll.
- For a cash prize or award, the Administrative Assistant for Payroll will provide to you the listing of student recipients that are classified as employees and therefore can be paid through our Payroll system. Students that are not classified as employees may be paid via Accounts Payable by submitting a check voucher.
- For gift cards and non-cash items, the Administrative Assistant for Payroll will also determine which transactions can be processed through our Payroll system versus those transactions that can be processed via the Accounts Payable system. The value of the gift cards and or non-cash items will then be either: 1) included on the employees W-2 form, or 2) reported as non-employee compensation on that year's IRS Form 1099-Misc.

With your Division Head's approval, please include the following information on the list you submit to the Administrative Assistant for Payroll

- First and last name of the recipient;
- The employee's or student's L-number;
- The dollar amount of the prize or award to be paid and/or the value of the Gift Card or non-cash item provided;
- The appropriate Banner Fund, Organization, Account and Program codes to charge the Expense; and,
- Any special arrangements or information concerning the delivery of either the Payroll Check or Accounts Payable Check to the recipient.

Thank you. Please call Jill Snyder (x5139) with any questions or if we can be of any further assistance.