

General Rule of Thumb

In most cases, incentive and recognition awards are taxable as income to the award recipient. There are only two specific types of achievement awards that the IRS code states are tax exempt. But there are specific regulations governing these tax-exempt awards. When awards are taxable to recipients, program sponsors must meet IRS reporting requirements for those earning the awards.

What type of program are you operating?

Sales Incentives, Employee Engagement & Productivity

- All earnings in these programs are considered taxable income by the IRS.
- Consider "Grossing Up" award values to cover a portion of your employees' tax liability. Consult Human Resources or Finance to learn more.

Rebate Program

Frequent flier, guest programs, credit card points and cash-back are considered rebates and not taxable as income.

Who are your program participants?

Employees

Taxable employee earnings are reported through normal payroll processes

Non-Employees

- All earnings in any program are taxable as income
- Independent contractors and channel partners earning $\geq \$600$ require the sponsor to report through a 1099 process
 - Requires the sponsor to capture SSN or Tax ID Numbers for all participants
- Participants earning $\geq \$600$ are required to report earnings themselves

Customers

Taxation depends on program type.

Safety, Service Anniversary

Some of the earnings in these programs may be tax exempt. Restrictions apply.

- Must meet IRS Code Section 274(j) requirements.

Sweepstakes

Earnings $\geq \$600$ in value are taxable income and must be reported via 1099.

Fair Market Value (FMV)

- FMV applies to merchandise and travel awards. This is an adjustment to remove the value of marketing, award fulfillment and travel expenses that would not be applied to an individual purchase. The FMV must be reported as taxable to the award recipient.
- Calculating FMV
 - Average Merchandise FMV: 70% of the sales price
 - Average Travel FMV: 75% of the land travel cost and no adjustment for air
 - Gift cards and certificates with an explicit \$\$ value cannot be adjusted

This infographic is provided to help guide your tax planning. Discuss all your tax requirements for employees, non-employees and customers with your corporate tax attorney to ensure you are meeting all your tax reporting obligations and your corporate policies and procedures.