

# CAMPUS CORRESPONDENCE

Washington and Lee University

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To: Faculty and Staff

From: Deborah Caylor  
Associate Treasurer and Controller

RE: Employee Gifts

IRS regulations have determined a method by which employees may be given gifts that would avoid taxability with the exception of gifts of cash or cash equivalents. W&L fulfills these regulations by holding the Annual Employee Recognition Banquet in June. Gifts given to employees at this banquet are not taxable except for the gift certificates (or cards) which are cash equivalents. At one time, the IRS allowed gift certificates that could not be exchanged for cash to be non-taxable. However, the IRS has issued an advisory that states that gift certificates are considered like cash, regardless of size and whether or not cash is given in exchange, and as such are to be reported as taxable income to the recipient.

It has become evident that a growing number of departments have been giving gift certificates to employees as a way of saying “thank you” for extra effort or time put forth by their employee(s), get well gifts, congratulations, etc. These are taxable to the employee. For non-exempt (i.e. bi-weekly, hourly) employees, if this “thank you” was for additional work time, then that additional work time needs to be reported to payroll. A “thank you” can not be used to forgo legally earned income. Thus the employee would be taxed on both the additional work time and the gift certificate. For exempt employees, it is additional taxable income.

Small non-cash gifts (under \$50) given to employees are not taxable unless they are frequent in nature. A gift given once a year<sup>1</sup> is infrequent. A gift given once a month, once a quarter, once every six-months, etc. is frequent in nature and becomes taxable to the employee.

<sup>1</sup> For tax purposes a year comprises January 1 through December 31.