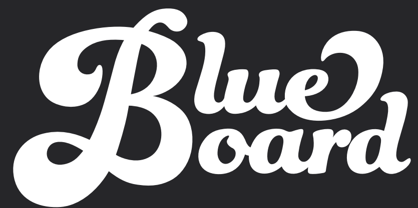

Are there tax implications with Blueboard experiential rewards?

Disclosure: *Neither Blueboard nor its people are tax experts. We do not provide tax advice. All tax related matters are the responsibility of the customer and customers should seek their own tax experts for all tax advice. Employee experience rewards have an inherent cash value which the IRS can consider as compensation, making them generally **taxable**. However, there are some exemptions, which we'll explore at a high-level below.*

Primary official resources:

- For more information on U.S. exemptions, refer to Publication 525 (2022), Taxable and Nontaxable Income (IRS).
- You can also refer to the Internal Revenue Code Secs. 274(j) and 3402(j).
- These webpages on taxable awards and tax implications contain good information for continued reading and research.

Are employee rewards taxable? Which types?

Taxation depends on the type and value of the employee reward that is granted. Rewards that benefit the employee directly such as cash, merchandise, gift cards, or trips, etc., are usually taxable. An example of this is a performance-related award, such as a bonus.

Here are some general guidelines that you can apply to your Blueboard rewards tax and accounting processes:

Taxable: Experiential rewards based on performance.

Generally speaking, rewards, including experiential rewards like those from Blueboard, are taxable since they are given in return for an employee's performance or services. As a result, these awards should be taxed at the total reward value, which is provided by Blueboard, and are subject to federal income tax withholding, FICA and other taxes.

Not taxable: Exceptions—service awards, safety awards.

Of course, there are always exceptions. And when it comes to taxes, this is a good thing. Tangible awards for length-of-service, e.g., a five-year anniversary award, are not considered employee income if the value of the award does not exceed limits specified in the Internal Revenue Code. (See resources on page 1).

The exceptions to this exception include:

- The employee receives the award during his or her first five years of employment.
- The employee received a length-of-service award (other than one of very small value) during that year or in any of the prior four years.

Tangible awards given to employees as safety awards, or for quality assurance award achievement are not considered employee income if the value of the award does not exceed limits specified in the Internal Revenue Code. The exceptions to this include:

- Awards cannot be received by a manager, administrator, clerical employee, or other professional employee.
- Awards cannot be given to more than 10% of the employees during the year.

Both service or safety awards must be awarded as part of a meaningful presentation and awarded under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation.

In both service and safety awards the IRS has value limits:

- $400 per employee per year for all awards presented under a non-qualified plan; or,
- $1,600 per employee per year under a plan that doesn't favor highly compensated employees, and that has an average benefit of $400 or less per employee over the year.

To learn more about taxable and non taxable employee rewards, please refer to this resource for more details.

Who pays the tax - the employee or the employer?

Both are viable options with their own pros and cons.

Option 1: Employee pays the tax.

- **Pros:** This option relieves your organization of the tax burden, which can help your bottom line.
- **Cons:** Your employees would pay a percentage (that varies by an individual's state and income tax obligations) of the value of the reward in income tax. The amount would likely come out of their paycheck after receiving their reward, which could sour the experience. The negative fallout from passing on the taxes from an experiential award could also hurt your company's overall recognition program efforts.

Option 2: Employer pays the tax.

- **Pros:** Your employees can enjoy their reward without worrying about taxes or seeing a deduction on their next paycheck.
- **Cons:** You will need to increase your company's recognition budget to cover the taxes—all Blueboard rewards are taxable.

While we don't recommend passing the tax liability from recognition rewards to employees, if you decide to, you could phrase this information as follows:

- *"Taxes will be the responsibility of the recipient."*
- *"Applicable taxes will apply to your reward. The full value of the experience the employee chooses will be taxed as supplemental income. The taxes will be deducted from the employee's paycheck on the last payday of the month."*

Blueboard best practice tip:

Clearly communicate tax information regarding employee rewards early on. For example, you could socialize tax info at the recognition program launch or during a dedicated, all-company event like your next all-hands meeting.

To maximize the impact of your experiential rewards program, we recommend that your organization pay the taxes so your employee gets the total face value of the reward. You can do this by "grossing up" the employee reward by including the taxes the employee would've had to pay out of pocket.

For example, if the reward is a romantic wine tasting weekend in Napa Valley valued at $1,000, then the company would "gross up" the reward value in their accounting system to accommodate any applicable taxes. For this example that would mean that the employer would pay $257.54 extra to compensate for the taxes on the $1,000 wine tasting reward. Calculating the gross up is fairly simple to do and most payroll systems can do this with little effort. *Note that tax rates can vary by state and country.*

How do I calculate the taxes on my employee rewards and recognition program?

For Blueboard clients:

Blueboard clients can find the taxable reward value in your Blueboard Admin Tools and export this as a CSV file at any time. Program admins can also set up the tax report as an automated, recurring report that can be sent directly to their team that handles taxes on a specific cadence.

Grossing up at the time of issuance (when a reward is sent) is a best practice. Typically, our clients pull reports with all rewards sent and their reward values on the same cadence that they run payroll. Doing so means their payroll team can gross up taxes on a rolling basis with each payroll cycle. Consult your finance and accounting team for more details on your internal processes.

International considerations – IFRS guidelines.

Awards are a universally loved employee perk, so when providing them to your international employees the local tax laws must be taken into consideration.

Sharon Spiteri, corporate controller at Malta-based international e-payments company RS2, stated that in Europe, they only gross-up performance awards. Other awards fall into a "staff welfare" category and aren't taxed. She recommends following IFRS guidelines for European companies. A good source for these guidelines can be found here on the IFRS website.

Who's responsible for tracking employee rewards?

For companies giving rewards to individuals (i.e. employees of resellers, dealers, etc.), that company must track the reward value and issue a 1099 if the total amount given is over $600 in a calendar tax year. If the reward goes to a corporation, that corporation is responsible for tracking the rewards given to it.

Ready to transform the way you reward, recognize, and incentivize your employees?

Connect with our team of experts

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