



EMPLOYEE ACHIEVEMENT AWARDS AND THE IRS

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The General Principle

As you might expect, since awards are given to an employee or associate for work related to their employment or relationship to the company, they are typically taxable as gross income. There are, however, three exceptions to this general principle that exclude non-cash awards from tax.

Excludable Awards

There are three types of non-cash awards that may be excluded from tax (subject to dollar limitations, discussed below). The three excludable non-cash awards are:

1. Certain employee achievement awards (length-of-service and safety awards).
2. Certain prizes or awards transferred to charities.
3. De-minimis awards and prizes.

Each type of excludable award has specific requirements that must be met to be excludable from tax. This document only discusses employee achievement awards.

Employee Achievement Awards

An employee achievement award is an item of tangible personal property (not cash) for length-of-service or safety. Awardco's program for employee achievement awards can be offered in compliance with the following requirements, so that the awards are excludable from tax: I.R.C. § 274(j)(3)(A)(i)

1. To be excludable, the award:
 - (a) must be given for length-of-service or safety;
 - (b) must be awarded as part of a meaningful presentation; and



- (c) cannot be disguised wages or made under conditions and circumstances that create a significant likelihood that it is disguised wages.
2. To be qualified: I.R.C. § 274(j)(3)(B)
- (a) the award must be made under an established written plan;
 - (b) the plan may not discriminate in favor of highly compensated employees (generally, for 2020, those whose compensation exceeds \$130,000); and
 - (c) the average cost of all employee achievement awards (both qualified and nonqualified awards for length-of-service and safety) made by the employer during a single year may not exceed \$1,600 (including up to \$400 for awards that aren't qualified plan awards).

If an employer does not have a way to track the fair market value (FMV) of items redeemed, it is recommended the employer have a policy of not making awards that exceed \$400 per employee annually. Awardco provides a way to track the FMV of items redeemed, which can help employers have more certainty in excluding up to \$1,600.

The Tax Cuts and Jobs Act of 2017 clarified that “tangible personal property” does not include:

“...cash, cash equivalents, gift cards, gift coupons or gift certificates (other than arrangements conferring only the right to select and receive tangible personal property *from a limited array of such items pre-selected and pre-approved by the employer*), or vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.”

The word “*limited array*” is defined as something that restrains or confines (so not unlimited). Furthermore, the organization can make “*arrangements for conferring only the right to select and receive tangible personal property*” (i.e. points program) from a limited array (Products from Amazon) that have been pre-approved by the employer.

Awardco’s program is limited both by the employer’s pre-selection of available awards and by the budget allowed.

Length-of-Service Program using the Awardco/Amazon Business Integration

The following is a guide to launching a qualified length-of-service program that can be excluded from income using Awardco:

Pre-Launch Instructions



1. The Company creates and documents a written length-of-service plan to ensure their organization follows a “qualified plan award”
2. The Company pre-selects and approves a limited array of items the employees can redeem from Amazon.
 - a. The Company activates the Awardco/Amazon integration
 - b. The Company uses the keyword selector tool to remove items they do not want their employees to redeem.

Launch Instructions (Example)

1. The employee reaches a 5-year work anniversary for the Company on June 1, 2020. The employee didn't receive another length-of-service award excluded from income in any of the prior 4 years.
2. 30 days prior to the employees work anniversary colleagues of the employee write a meaningful note of appreciation using a software application (Awardco). The comments are held in a queue and will be sent to the employee on his work anniversary date.
3. On June 1, 2020, the employee receives all the messages, plus gets a digital presentation of all the notes emailed to him/her.
4. On June 1, 2020, the Company also gives the employee a \$200 USD budget to redeem tangible gift(s) that have been pre-approved by the Company.
5. The employee redeems a \$50 Alexa, and a \$150 headphone = \$200 USD.
6. Awardco charges the Company \$200 USD for the tangible goods redeemed.

FAQ: Why would the employee gifts not be included as income?

1. The employer has a written length-of-service award policy
2. The employer did not discriminate in favor of highly compensated employees
3. The employer awarded less than \$1,600 for a qualified length-of-service award program
4. The award was given as part of a length of service achievement award and the award was for a service award greater than five years.



5. The employee did not receive an achievement award that was excluded from income in the previous four years.
6. The employer used a software application (Awardco) to create a limited array of tangible personal property for the achievement award. The employer selected and pre-approved the vendor Amazon.
7. Items awarded were for tangible personal property and not cash or gift cards.
8. Award was given as part of a meaningful presentation that was delivered electronically.

FAQ: With a points program can I combine a length-of-service program with a performance-based program and still receive the taxable benefits?

Often an organization is running multiple recognition programs. An example would be an employee received \$150 worth of points in a performance-based program, and then an additional \$200 in a length-of-service award program. The total amount of points the employee can redeem is \$350. This begs the question, can the employee combine the points to get something of greater value on Amazon, and the item not to count as income to the employee?

Program	Points Awarded	Redemption	Amount	Length-of-service Deduction	Included as Income
Length-of-Service	200				
Performance Program	150				
		Vitamix Blender	\$329		
				\$200	
					\$129

In the example above the item redeemed was a Vitamix Blender. The item was chosen out of the pre-approved Amazon catalog and the item is not cash, but tangible personal property. Therefore, take the item redeemed at \$329, subtract the \$200 limitation, and the employee would count \$129 towards taxable income.

The IRS does not specify this type of situation, but in the [2020 Fridge Benefits Guidelines](#) page 47 the IRS provides multiple examples where one can deduct the length-of-service dollar limitation to stay within the IRS guidelines. Awardco provides organizations a way to export the data to help follow the guidelines the IRS has provided for qualified award programs.



As always, Awardco is committed to providing best in class solutions to make employee recognition more rewarding. We are committed to eliminating unnecessary costs and simplifying the recognition process.

DISCLAIMER & REFERENCES:

The information contained herein is not legal or tax advice and is not intended to be used, and cannot be used, for purposes of avoiding tax penalties or tax. The information contained herein is general in nature and contains the opinions and conclusions of Awardco only. Awardco assumes no obligation or responsibility to inform the reader of any changes in tax laws or other factors that could affect information contained herein. Before making any decision based on this information you should consult with the appropriate legal or tax advisor.

The following sections of the United States tax code have been used to reach the conclusions contained herein.

I.R.C. Section 274(j) generally.

I.R.C. § 274(j)(3)(A) Employee Achievement Awards

I.R.C. § 274(j)(3)(A)(i) In General — The term “employee achievement award” means an item of ***tangible personal property*** which is—

I.R.C. § 274(j)(3)(A)(i)(I) — transferred by an employer to an employee for length of service achievement or safety achievement,

I.R.C. § 274(j)(3)(A)(i)(II) — awarded as part of a meaningful presentation, and

I.R.C. § 274(j)(3)(A)(i)(III) — awarded under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation.

I.R.C. § 274(j)(3)(A)(ii) Tangible Personal Property — For purposes of clause (i), the term “tangible personal property” shall not include—

I.R.C. § 274(j)(3)(A)(ii)(I) — cash, cash equivalents, gift cards, gift coupons, or gift certificates (***other than arrangements conferring only the right to select and receive tangible personal property from a limited array of such items pre-selected or pre-approved by the employer***), or

I.R.C. § 274(j)(3)(A)(ii)(II) — vacations, meals, lodging tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

IRS Publication 5137

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