

CFAES Resource Guide

IRS Reporting for Gift Cards and Non-Cash Items

IMPORTANT NOTE Below is the most current IRS and University information related to taxable benefit reporting (September 2021). The University is planning to review these policies and procedures in the future. The following is to be applied until more University information is available.

OVERVIEW The IRS classifies both gift cards and non-cash items as taxable benefits (income). This presents substantial risk and audit exposure for the University, CFAES, Department *and* recipient. Duty of care must be applied. Additionally, processes to report taxable income is a complex and administratively burdensome task for departments and the college.

- **Gift Cards:** IRS requires gift cards issued to individuals be reported. This regardless of dollar amount and/or purpose (why).
- **Non-Cash Items:** IRS requires branded items issued to individuals be reported. This regardless of item type, value, or cost. If apparel, then Departments must proactively consult with Tax Compliance for determination if apparel is deemed uniform or non-uniform.
- **Business/Organization Prohibited:** Gift Cards and non-cash items are prohibited to be issued to businesses or organizations in lieu of payment for goods or services. University payment must be initiated via applicable Workday function.
- **Future Payment Tool Prohibited:** Gift cards are prohibited to be purchased with intent to use for future business needs (e.g. Walmart gift card for office supplies). Business purchases require University payment be presented at time of purchase.

CFAES GUIDING PRINCIPLES The following are to be applied by Departments opting to distribute gift cards and/or non-cash items.

- **Department Owns Accountability & Responsibility:** Department accepts ownership of:
 - Duty of care and diligence similar to cash-handling or protection of University property.
 - Gather required information from recipients and complete all tasks related to the IRS reporting process.
 - Manages all documentation for purchase, distribution, inventory control and IRS reporting. Provide for compliance and audit reviews.
 - Respond to all internal and external audit inquiries related to IRS reporting.
- **Revisit Practices:** It's recommended purposes and practices (why) of distributing taxable benefits be reevaluated to determine if managing the complex reporting process continues to warrant the Business Purpose. Reducing frequency may result in budgetary and administrative savings.
- **Alternatives:** Departments consider issuing check payment via Workday in lieu of issuing a taxable benefit. University check issuance automatically initiates IRS reporting requirements (e.g. less administrative work and risk for department).
 - **Employee Payment:** HR transaction of "One-Time Payment" requesting funds to be added to paycheck.
 - **Non-Employee:** "Miscellaneous Payment" (MP) will automatically initiate a 1099 using individual's "Payee" status.
- **Inform Recipients of Taxable Benefit:** Departments have obligation to inform recipients of taxable income implications. Recipients should be given opportunity to decline accepting the benefit.
- **Loss Prevention:** "On-hand" quantities of gift cards and/or non-cash items is not recommended. Departments must establish and manage ongoing inventory control measures to protect items from loss, and/or, issuance without IRS reporting occurring.
- **Consultation with Central Finance:** The majority of circumstances will require IRS taxable reporting. However, some may qualify for IRS exemption as an "unreasonable administrative burden". Exemptions primarily based why or who, and/or quantity. Consultation with CFAES Central Finance should occur prior to distribution to further clarify and define a specific circumstance's expected reporting standards.

Below is a high-level summary to assist Departments in navigating tax reporting requirements. This not all-inclusive.

Recipient	Tax Reporting Required	Department Tasks	Service Center Tasks	Alternative / Comments
Employee including Students*	<p>Yes. All circumstances <u>must</u> be reported.</p> <p>Employees receiving any taxable benefit represents the highest level of risk. No exceptions.</p>	<p>Ensure the employee aware they will be taxed.</p> <p>Submit a “One-Time Payment” for value of gift card or non-cash item.</p> <p>On Req or ER: Substantiate the “One-Time Payment” entry has occurred. Attach all other required documentation.</p>	<p>Review Reqs and ERs for required documentation including recipient name(s) and verification the “One-Time Payment” entry has occurred.</p>	<p>Alternatives:</p> <p>Not provide a card or non-cash item.</p> <p>Submit a “One Time Payment” for funds to be added to future paycheck. The tax reporting process will be automatically initiated.</p>
Non-Employee with Established Relationship* (e.g. non-employed student, volunteer, etc.)	<p>Yes. All circumstances <u>must</u> be reported.</p> <p>Some may be conditional. Consult with CFAES Central Finance prior to issuance.</p>	<p>Ensure the non-employee aware they will be taxed.</p> <p>Non-employee must complete “Supplier Paperwork”.</p> <p>Request non-employee be created in Workday as a “Payee”.</p> <p>On Req or ER: Document the “Payee” status. Attach all other required documentation.</p>	<p>Review Reqs and ERs for required documentation including recipient name(s).</p> <p>Initiate a “1099 Reporting Adjustment” in Workday using “Payee” information.</p>	<p>Alternatives:</p> <p>Not provide a gift card or non-cash item.</p> <p>Submit a “Miscellaneous Payment” for University check issuance. The 1099 reporting process will be automatically initiated.</p>
Non-OSP Research Participants	Conditional	Based on conditional circumstances.	Based on conditional circumstances.	Proactively discuss research project parameters with CFAES Central Finance.
Raffle Winner*	<p>Employee: Yes</p> <p>Non-Employee: Conditional</p>	<p>Employee: “One Time Payment” required.</p> <p>Non-Employee: Based on conditional circumstances.</p>	Based on conditional circumstances.	Proactively discuss raffles with CFAES Central Finance.
Award Winner*	<p>Employee: Yes</p> <p>Non-Employee: Conditional</p>	<p>Employee: “One Time Payment” required.</p> <p>Non-Employee: Based on conditional circumstances.</p>	Based on conditional circumstances.	Proactively discuss awards with CFAES Central Finance.

*Students (employed and non-employed) may have different reporting procedures based on their specific tuition circumstances (e.g. financial aid, grants, etc.). The University is continuing to clarify student parameters and reporting processes. Until this time students should be classified as “employees” or “non-employees” respectively.