Awards, gifts, and prizes are allowed to the extent the expense is reasonable and necessary to carry out the mission of the University. They may not be lavish or extravagant, and must comply with any funding source restrictions. Proper classification of payments is necessary to differentiate between those considered scholarships, which may be tax-free, and those that are awards, gifts, or prizes, which may be taxable.

Definitions

Awards: Cash, gift certificates, or non-cash merchandise given for meritorious performance, productivity, or other reasons connected with employment; or for non-employees, given in recognition of an accomplishment, achievement or activity that does not require the performance of a service, as well as for other valid business reasons.

Gifts: Non-cash items of nominal value given to express appreciation or gratitude; not related to job performance and no negotiation conducted in advance.

Prizes: Cash or items of value received as a result of a game of chance, drawing or contests of skill, either with or without the purchase of a chance or ticket.

Chance or Ticket: Something of value that is given to participate in a game or contest.

Awards to Employees

Awards to employees are an acceptable practice. However, they must be part of a formally established program and approved by the President, Vice-President for Finance and Administration or the Provost.

In most cases, awards provided to employees will be reported as taxable compensation. This may include Staff Recognition Awards, Employee of the Month Awards, awards to boost employee morale, as well as awards originating with a gift to the University from a third party.

The award must be reported as employee compensation on the employee's Form W-2 and is subject to federal withholding and FICA taxes. Since the award must be recorded in the Payroll
system the department presenting the award must notify Payroll unless the award qualifies for one of the exceptions below.

1. Certain achievement awards of tangible property (not cash or gift certificates redeemable for cash) may not be reported as taxable to an employee if they are awarded in a meaningful presentation that emphasizes the purpose of the award. The value of the award funded by the University may not exceed $400 per year per employee. These awards and additional criteria are as follows:
   - A "length of service" award is not reported as taxable if it is not granted to an employee more frequently than every five years.
   - A "safety award" is not reported as taxable so long as the award does not exceed $400 per year per employee and both of the following conditions are met:
     - It is provided to no more than 10 percent of eligible employees; and,
     - Managers, administrators, clerical, and professional staff are ineligible for the award.
   - For awards to volunteers, a state agency may expend funds to purchase engraved certificates, plaques, pins, and other awards of a similar nature that do not exceed $50 in value per volunteer. The awards may be purchased only to recognize volunteers’ special achievement and outstanding service and only if the agency has established a volunteer program that complies with Chapter 2109, Texas Government Code, or with other applicable general law.

2. Non-cash, de minimis awards are not reported as taxable to an employee unless readily convertible into cash. IRS regulations use the example of holiday gifts of property with a low fair market value to define "de minimis." For University purposes, de minimis is defined as having a value less than or equal to $50. Awards of gift certificates of $50 or less will not be reported as taxable, unless redeemable for cash.

3. IRS guidelines dictate that if an employee is given the choice of taking an award as cash or having the award amount put into a university account to support their work (travel, research, etc.), the amount is taxable to the employee in either case. Awards that an employee opts to have put into a university account will be taxed as taxable perquisite.

If the employee is not given the choice of taking the award as cash (the award can only be a contribution to a university account to support their work), then it will not be considered taxable to the employee.

**Awards to Non-Employees**

Awards may be given in recognition of past accomplishments or activities as well as for other valid business reasons. Granting/awarding financial aid is not considered an award for purposes of this policy. Awards to students that are related to academic performance are considered financial aid and, as such are not subject to the provisions of this policy.

Awards given to non-employees are generally considered reportable as taxable income, regardless of value. Non-cash awards to non-employees that have little intrinsic value, such as medals, trophies, and plaques are not reportable. The University will file a Form 1099-MISC to
report the awards when the value of cash and the fair market value of non-cash awards to an individual total $600 or more in a calendar year.

**Gifts**

To qualify as a gift, there should be no negotiation in advance for the gift. Cash and gift certificates redeemable for cash, are not allowed as gifts. Gifts should be of nominal value and, ideally, bear the University's licensed logo. Gifts less than or equal to $100 are usually not reportable to the IRS.

**Gifts to Employees**

Gifts - including those for birthdays, weddings, showers, and other personal events - are **never** allowable expenditures of University funds. At their discretion, co-workers may contribute personal funds for this purpose. In limited circumstances, gifts of flowers or other expressions of sympathy are allowed if approved by the employee's Dean, Director, Department Head or Vice President and paid from a discretionary account.

Gifts presented to employees in recognition of service (including retirement gifts) are awards and fall under the rules discussed above.

**Gifts to Non-Employees**

Non-cash gifts may be presented as a token of appreciation to a donor, dignitary, guest, volunteer, visitor (or in certain circumstances, customer or client) when a valid and documented business purpose exists such as to recognize contributions to the University or to honor a distinguished visitor. Examples are token items given to donors by the Alumni Association or mugs given to conference attendees.

**Prizes**

Cash and non-cash prizes may be awarded to individuals for participation in games of chance or contests of skill. Games of chance include raffles and door prize events. Raffles and games of chance must be approved by the office of the Vice President of Finance and Administration. Examples of contests of skill include an essay-writing contest and basketball shooting contest. In certain instances, the purchase of a chance or ticket may be required.

Prizes may only be awarded where benefits are expected to accrue to the University, such as a fund raising event. No prize may be awarded to a University employee except where the individual's employment is incidental to the basis in which the prize is awarded. For example, a University employee would be eligible to win a door prize awarded at random or an essay-writing contest.
The department or organization sponsoring the contest must maintain detailed records of all receipts and expenditures associated with the contest, including the winner's name, amount spent for a chance or ticket (if any), and the value of the prize won. All contests associated with games of chance or skill must be conducted in accordance with Texas state law.

Federal law requires the University to report prize winnings to the IRS and to the recipient on a calendar year basis. Federal regulations also require that a specific percentage of the winnings must be withheld under certain conditions. Non-cash winnings are reported at their fair market value.

Prizes of $600 or more that involve the purchase of a chance or ticket are reported on a Form W-2G if the winnings are at least 300 times the amount of the chance or ticket. Prizes of $600 or more that do not involve the purchase of a chance or ticket are reported on a Form 1099-MISC if the recipient is not an employee.

Non-cash prizes given to employees having a value of $100 or less that do not involve the purchase of a chance or ticket will be considered de minimis and will not be reported. Prizes awarded to an employee that do not involve the purchase of a chance or ticket are reported on a Form W-2 if cash, or non-cash over $100 value. Contact the accounting office on your campus for further details.

<table>
<thead>
<tr>
<th>SUMMARY</th>
<th>Cash and Gift Certificates Redeemable for Cash</th>
<th>Other Than Cash and Gift Certificates Redeemable for Cash</th>
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<tbody>
<tr>
<td><strong>Employee:</strong></td>
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</tr>
<tr>
<td>Award (W-2)</td>
<td>Taxable</td>
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<tr>
<td>Prize (W-2G)</td>
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<td>Taxable **</td>
</tr>
<tr>
<td><strong>Nonemployee:</strong></td>
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<tr>
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</tr>
<tr>
<td>Gift (Noncash)</td>
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<tr>
<td>Prize (W-2G)</td>
<td>Taxable **</td>
<td>Taxable **</td>
</tr>
</tbody>
</table>

*Unless a length-of-service or safety award
**Reportable to IRS if $ > $600

**Funding Sources**

Expenses for gifts and awards described above may only be paid for with auxiliary or discretionary funds (‘3’ or ‘5’ accounts in FAMIS, respectively) where this type of expenditure is expressly allowed.
As with all tax issues, documentation is required to support the decision regarding the taxability/non-taxability of the gift or presentation. Contact the fiscal office for additional guidance on this issue and related tax implications.

Procedures

Pro Card Purchases

Cash awards, gift cards and gift certificates are **not** allowed purchases with the university pro-card. Other awards, gift or prizes can be purchased with the pro-card but the receipt must be submitted with the following documentation:

1. Reason for award, gift or prize;
2. Value of award, gift, prize itemized per person;
3. Name, address and telephone number of person to whom given;

Requisitions / Purchase Orders

Purchase orders can be processed for all awards, gifts and prizes. Requisitions should be routed for all appropriate approvals. Requisitions/purchase orders are required for gift card, gift certificate purchases and cash awards so that checks can be made payable to the vendor or recipient of a cash award. Requisitions should include the following:

1. Reason for award, gift or prize;
2. Value of award, gift, prize itemized per person;
3. Name, address and telephone number of person to whom given;
4. For cash awards a W-9 will be required, since the check will be made payable to recipient.