

## **EMPLOYEE ACHIEVEMENT AWARDS**

The general rule is that prizes and awards are includable in income. These cover amounts received from give-away shows, door prizes, contest awards, and awards from an employer to an employee.

There is an important exception.

An employee achievement award is not taxed to an employee and is deductible by the employer. An employee can exclude from income \$400 of an employee achievement award and \$1,600 of a qualified plan award.

To qualify, the award must:

1. Be in property and **not** cash.
2. Given for length of service or safety.
3. A length of service award cannot be given in the first five (5) years of employment.
4. Cannot have received a service award during the prior four (4) years.
5. Safety awards cannot be given to more than 10% of the employees.
6. Safety awards cannot be given to manager, administrator, clerical employee, or other professional employee.
7. The award must be a part of a meaningful presentation.
8. Cannot be of a condition that it is disguised compensation.

### ***Qualified Plan Award:***

If you have a Qualified Plan Award, you can give up to \$1,600 to an employee. In order to qualify:

1. The plan must be in writing.
2. Cannot discriminate in favor of highly compensated employees.
3. The average cost per recipient of all achievement awards made under all such qualified award plans during the year does not exceed \$400.00.

### ***Employer Deduction Limits***

There are separate deduction limits for employee achievement awards and qualified plan awards. There is also a \$400 limit on the employer's deduction for all employee achievement safety and service awards (other than qualified plan awards) provided to the same employee during the tax year. If the award is a qualified plan award, the deduction ceiling is raised to \$1,600 for safety or service awards made to the same employee. The \$400/\$1,600 limit is based on the cost, not the fair market value, to the employer or the award item.

### ***Aggregation Limit***

The \$400 and \$1,600 limit cannot be added together to allow a deduction exceeding \$1,600 in aggregate for employee awards made to the same employee during the tax year.