

Lafayette College

Tax Treatment for Awards and Prizes (with focus on Gift Cards)

Purpose & Scope

The purpose of this policy is to set forth guidelines and procedures for the purchase and distribution of cash equivalent prizes and awards, such as gift cards, gift certificates, books, technology items, tickets to events, etc. purchased using Lafayette College's funds. College faculty and staff occasionally want to use cash equivalent prizes and awards to compensate individuals such as event volunteers or research study participants. As cash-equivalent instruments, these awards and prizes are governed by tax rules and internal control requirements.

Policy

The College must comply with Internal Revenue Service (IRS) regulations as it pertains to cash equivalent awards and prizes at all times. Under Internal Revenue Code Section 132, a gift card, gift certificate, store-value card or a prepaid credit card, collectively referred to as a gift card, is considered a cash or cash equivalent that is subject to taxes regardless of the face value. The value of gift cards given to students and non-employees is taxable and reportable income on IRS form 1099-MISC if the value of gift cards received aggregates to an amount of \$600 or more per calendar year.

In addition, gift cards can be susceptible to fraud or misappropriation because they lack the audit trail that exists with a check or other forms of payment. As a result, the College places strict restrictions concerning the purchase and distribution of gift cards.

The College recognizes that departments may want to use gift cards for awards, incentives, and raffles, or as a thank you to a student or other third party (e.g. volunteer or alumni). As such, when the use of gifts cards is necessary, the policies and procedures outlined below must be adhered to at all times.

Cash equivalent prizes and awards may be purchased using the College's P-Card or through reimbursement of personal funds and be accounted for via their T&E expense report within thirty (30) days of purchase. Cash equivalent prizes and awards may be purchased for non-employees only as a thank you for volunteering, to compensate research and survey participants (confidentiality protocol may apply), or as a prize for an event, raffle or survey. Individual prizes may not have a face value greater than \$50.

Without written approval by the Division's Vice President, no more than \$500 worth of gift cards may be purchased at one time. Multiple purchases of less than \$500 for the same purpose to avoid the required approval are strictly prohibited.

Cash equivalent prizes and awards purchased with College funds can never be given to College suppliers, consultants and speakers at any time.

Gift cards to employees are strongly discouraged. If an employee is to receive a gift card for an approved reason, the department that is distributing the gift card(s) must notify the Controller's Office via payroll@lafayette.edu so that the employee can be taxed appropriately on the following pay cycle after receipt of the gift card. In addition, the [Cash Equivalent Prize & Award Distribution Log](#) must be completed as well.

Student workers may not be given gift cards for work related activities (e.g., bonuses, incentives, rewards, etc.) except as part of programs administered by Human Resources. Gift cards should not be purchased using Federal, State, City or other types of grant or endowment funds unless the terms and conditions of the grant or endowment permits such purchase.

Maintaining and Distributing Cash Equivalent Prizes & Awards

Cash equivalent prizes and awards must be documented in the previously [Cash Equivalent Prize & Award Distribution Log](#) that must uniquely identify each payment in order to document the appropriate use of the card for audit purposes.

Gift cards should only be purchased as needed and be secured at all times (i.e., in a safe, locked cabinet, locked drawer or other secure location) until distributed. Gift cards must be distributed within thirty (30) days of purchase.

Information to be included for each card shall include at a minimum:

- Recipient name or study subject ID (the study subject ID is any number assigned by the school or department to identify the individual in order to protect confidentiality)
- Lafayette ID #
- Date purchased and date given to recipient
- Purpose of payment
- Type of gift card
- Payment amount

Receipts for cash equivalent prizes and awards must be submitted along with Distribution Log within thirty (30) days after purchase. These purchases must be identified as "Cash Equi Prize – Category (i.e. Gift Cards)" in your expense description on P-Card Reports and/or T&E reimbursement reports.

Failure to follow the policies and procedures as stated above and to maintain appropriate supporting documentation can result in the suspension of the privilege to purchase and distribute gift cards.