

Controller's Office

Phone (574) 631-3288  
Fax (574) 631-3138

**TO: All Faculty and Staff**  
**FROM: Rick Klee, Tax Director**  
**DATE: January 1, 2007**  
**RE: Gifts, Prizes and Awards**

The IRS continues to increase their audits of colleges and universities across the country. As part of their standard audit program when they arrive on campus, the IRS looks at the treatment of gifts, prizes and awards by the University to determine that these have been recorded properly for tax purposes. It is our goal to be in compliance with IRS regulations in the event of such an audit.

You should be aware that, in general, the tax reporting rules are the same for gifts as they are for prizes and awards, i.e. they are treated as taxable income to the employee. The amount of a gift from the University must be included in their W-2, and is subject to all income and FICA withholding taxes, which will be deducted from the recipient's paycheck subsequent to their receipt of the gift.

**Please note that for 2007, the attached policy allows that gifts, prizes and awards of tangible personal property (other than cash or cash equivalents, such as gift certificates) of \$90 or less are excludable from gross income (this is an increase from \$75 in prior years. However, any gift of cash or gift certificates is considered completely taxable, from the first dollar given.**

We are asking for your help and cooperation in processing these items, which typically come to the attention of the Controller's Group when an employee requests reimbursement for the gifts they have purchased for someone else at Notre Dame. **If you are spending University monies for these gifts, we would ask that you identify the recipients of these gifts. Also please include their ND ID # (e.g. 90xxxxxx) if an employee and social security number if a non-employee and indicate the amount given as a gift to each individual (or the equivalent fair market value of each gift, if property other than cash is given). We will be unable to process the request for reimbursement without this information.**

It will also be important for you to inform the employees receiving these gifts of the income tax consequences of the gifts, especially since under the Banner system, all withholding taxes will be ultimately withheld from the recipient of the gift. Thank you for your help in meeting the IRS rules and guidelines regarding these reporting requirements.

**UNIVERSITY OF NOTRE DAME**  
**GIFTS, PRIZES, AND AWARDS**  
**POLICY AND PROCESSING REQUIREMENTS**  
**JANUARY, 2007**

---

I. ***What is considered a gift, prize or award?***

Prizes and awards are typically gifts of cash or other tangible personal property bestowed on Notre Dame faculty, staff or students in recognition of outstanding achievement in teaching, research, academic performance or other performance-related activities. Gifts are typically gifts of cash or other tangible personal property given to Notre Dame faculty, staff or students in recognition of, or in connection with the holiday season, retirement, or some other purpose not specifically related to job performance.

Notre Dame departments also present prizes and awards to non-Notre Dame faculty, staff and students.

II. ***Are gifts, prizes and awards considered taxable income to the recipient?***

In almost all circumstances, yes gifts, prizes and awards are includible in the recipient's gross income, if the gift is paid for (either directly or indirectly) by the University. If the recipient is a member of the Notre Dame faculty/staff (or their spouse), the gift, prize or award is considered supplemental wages and must be processed through the Payroll system with appropriate federal, state, county and FICA taxes withheld. The gift, prize or award is then included in the recipient's Form W-2, *Wage and Tax Statement*.

**Gifts, prizes and awards of tangible personal property (other than cash or cash equivalents, such as gift certificates) of \$90 or less are excludable from gross income. Similarly, the value of a turkey, ham or other item of merchandise of similar nominal value distributed to an employee at Christmas is not taxable. However, any gift of cash (including gift certificates) is considered completely taxable, from the first dollar given.**

**You should note that gifts that should be reported to Accounts Payable are not just those items for which you are requesting reimbursement. Gifts (as well as prizes and awards) that must be reported as income would also include items directly charged to your budget unit (e.g. something purchased at the bookstore), or purchased using the procurement card.**

For non-Notre Dame recipients, the prize or award can be processed without tax withholding but is still considered income to the recipient (except for payments to non-resident aliens which may be subject to withholding see *Note* below.) Such payments are reported as taxable income to the recipient using Form 1099-MISC, *Miscellaneous Income*. (Note that Form 1099-MISC is only required if the total payments to the recipient exceed \$600 in the calendar year.)

**UNIVERSITY OF NOTRE DAME  
GIFTS, PRIZES, AND AWARDS  
POLICY AND PROCESSING REQUIREMENTS  
JANUARY, 2007-PAGE 2**

For Notre Dame students, if the prize or award is related to services performed for Notre Dame (e.g., outstanding student worker in a department), the prize or award must be processed as supplemental wages through Student Employment and Payroll with appropriate income taxes withheld. However, if the award is not related to services (e.g., the Beta Alpha Psi Accountancy Award), it is still taxable income to the recipient and must be reported on Form 1099-MISC, but it is not subject to withholding.

*Note: There are special withholding rules related to payments made to non-resident aliens (faculty, staff, students, and non-ND recipients.) Please call Becky Laskowski at 631-7051 regarding these requirements.*

**III. Are there any exceptions?**

Yes. Certain employee achievement awards (items of tangible personal property) are excludable from gross income if awarded to an employee as part of a meaningful presentation for length of service or safety achievement under circumstances that do not create a significant likelihood of disguised compensation.® If you believe the prize or award you are processing qualifies under this exception (note that it must be tangible personal property, and this is typically not gift certificates), please clearly note this on the form submitted.

Of course, if a gift is paid for by an individual, and not reimbursed by the University, then that gift is not taxable to the employee either.

**IV. How do I request prizes and awards?**

*Faculty/staff:* Requests for prize or award payments for Notre Dame faculty/staff should be made using the CHECK REQUEST form (available on the Controller's website at [http://controller.nd.edu/forms/Check%20Req\\_excel.xls](http://controller.nd.edu/forms/Check%20Req_excel.xls) ), if the prize or award is unrelated to services provided by the recipient. If the prize or award is service-related, the the payment should be requested on a Faculty/Staff Additional Payment for Services form (available on the Controller's website at <http://controller.nd.edu/forms/employee%20one-time%20pay.xls> ).

*Students:* All payments to Notre Dame students should be processed using the CHECK REQUEST Form, with a clear indication of the purpose of the prize or award.

**UNIVERSITY OF NOTRE DAME  
GIFTS, PRIZES, AND AWARDS  
POLICY AND PROCESSING REQUIREMENTS  
JANUARY, 2007-PAGE 3**

*Non-Notre Dame recipients:* Requests for prize or award payments to non-Notre Dame recipients should be made using the CHECK REQUEST form. On the form, you must mark that the recipient is not a Notre Dame faculty/staff member, and the form will be processed through Accounts Payable without tax withholding (unless it is a non-resident alien payment, which may be subject to withholding. See *Note* in II. above.)

**V. *How should I describe the prize or award?***

Please describe the prize or award as explicitly as possible on the form, or attach supporting documentation, including name of the recipient and their social security number. Your explicit explanation and/or support will save review and processing time for the payment.

**VI. *How do I report the gifts I distribute?***

We would ask that you identify the recipients of these gifts, include their social security number, and indicate the amount given as a gift to each individual (or the equivalent fair market value of each gift, if property other than cash is given). We will be unable to process the request for reimbursement if this information is not provided. *Please note that this information must be provided to Accounts Payable even if the gift is directly charged through a budget unit, or purchased using the procurement card.*

**VII. *The gift, prize or award is \$500, but the net check after tax is only \$300! I want to present the recipient a \$ 500 award. What can I do?***

One option for the department would be to ask, on the form, for the gift, prize or award to be “grossed up” so that the net payment is the prize or award amount. For example, to get a \$500 net check, the total prize would be approximately \$830 (reflects \$330 in withholding). The recipient will then receive \$500, and their tax records will show a \$830 prize and \$330 of associated withholding. Please note that the requesting department will be charged this higher amount of \$830 against their budget, since this represents the total cost of the gift, prize or award payment.

We anticipate that this Policy will not address all circumstances. If you have additional

***Questions about PRIZE, GIFT OR AWARD PAYMENTS?  
Call Jackie Fuzey at 631-3936.***

***Questions about PAYMENTS TO NONRESIDENT ALIENS?  
Call Becky Laskowski at 631-7051.***