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for August 2015

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IRS Rules Regarding Gifts/Part 3 — by Diane DeClercq

Employee Awards

Tax issues with employee awards, are complex. In our June issue I stated that all monetary gifts, prizes or awards, including gift certificates and points cards redeemable for merchandise (even those in amounts that could be considered de minimis), are taxable. So the gift of a holiday turkey is not a taxable benefit, but a gift certificate to purchase one is.



Therefore, employee recognition awards that involve money are taxable, both as income for the employee and as

compensation for the employer.

However, “non-cash” awards may be tax deductible. Non-cash awards such as plaques, recognition certificates, and watches presented for length of service to a company or for achievements in safety are generally deductible.

Length-of-service awards are defined as noncash awards of no more than \$1,600 in value (\$400 if they are not part of a previously written program not favoring highly compensated employees). They must be given during a meaningful presentation for employees who’ve been employed by the company for five years or more and have not received another length-of-service

award during the prior four years. These are not taxable.

In addition, noncash, tangible awards given to employees for safety achievements can be nontaxable if they are awarded during a meaningful presentation to a non-management, non-clerical, non-administrative or other non-professional employee, and no more than 10% of eligible employees have already received their safety achievement awards in the past year. As mentioned above, the award can have no more than a \$1,600 value (or \$400 if not part of a previously written program not favoring highly compensated employees).

Meals & Entertainment Expenses

Generally speaking, business meals and entertainment are not fully deductible. Business owners may take a 50% deduction for qualifying expenses however, the meeting must meet several tests, including having the purpose of the meal or entertainment be business-related and having the expectation of a business benefit as a result of the meeting. Expenses related to eating and entertainment while traveling on business may be deductible.

While there

is a 50% deduction limitation on meals with clients, meals for the benefit of employees are 100% deductible to the business. This includes company picnics, holiday parties, staff meetings, and employees who work thru a meal time due to a funeral service.

Many employers reward employees or clients with tickets to sporting events or shows. The IRS considers these to be intangible gifts, like cash, but they have different deduction rules. The employee has no tax liability. However, the employer must treat the cost as an entertainment expense if he/she also attends the event. If the employer does not attend or there is no clear business purpose, the expense may not be deductible or classified as a gift and subject to the \$25 tangible gift deductibility limit.

As always, maintain good records and keep receipts.

This ends our series on IRS rules regarding gifts. Still confused? Call Dan Isard or Diane DeClercq at 800-426-0165.

For more information about how our Accounting Services can make a strategic impact on your business call Dan Isard at 800-426-0165.

