

Some small businesses struggle with employee morale for various reasons, one of which may be economic uncertainty. If you want to boost employees' spirits without a significant financial outlay, an achievement awards program is a low-cost fringe benefit that may be a win-win addition.

Under such an initiative, you can hand out awards at an appointed time, such as a year-end ceremony or holiday party. If you follow the rules, the awards will be tax-deductible for your company and tax-free for recipient employees.

Fulfilling the Requirements

To qualify for favorable tax treatment, achievement awards must be tangible items, ranging from a gold watch or a smartphone to a plaque or a trophy, which are granted to employees for either length of service or for promoting safety in the workplace. The award can't be disguised compensation or a payoff for closing a big deal. Examples of awards that would violate the rules are gift certificates, vacations, or tickets to sporting events or concerts.

The awards program also must meet the following three requirements:

1. Safety awards can't go to managers, administrators, clerical workers, or other professional employees. Also, an award doesn't qualify for favorable tax treatment if the company grants safety awards to more than 10% of eligible employees in the same year.
2. Any employee can receive a length-of-service award, but the recipient employee must have worked for the business for at least five years to obtain one. In addition, an employee is ineligible if he or she received a length-of-service award within the last five years.
3. The award must be part of a "meaningful presentation." That doesn't mean you have to host a gala awards dinner at the Ritz, but the award should be marked by a ceremony befitting the occasion.

Nonqualified vs. Qualified

There are limits on an award's value depending on whether the achievement awards program is nonqualified or qualified. If you establish a nonqualified program, the annual maximum award is \$400. Conversely, the maximum for a qualified program is \$1,600 (including nonqualified awards). Any excess above these amounts is nondeductible for the employer and taxable to the employee. If an employee receives multiple awards in one year, these figures apply to the total, not to each award.

You must meet two additional requirements to establish a qualified program and benefit from the higher limit. First, awards must be granted under a written plan, open to all eligible employees without favoritism. Also, it must not discriminate in favor of highly compensated employees regarding eligibility or benefits. For 2024, the salary threshold for a highly compensated employee is \$155,000.

Awards of nominal value are generally not taxable. These are small, infrequent gifts such as a coffee mug, a T-shirt, or an occasional meal.

Explore The Idea

If an achievement awards program makes sense for your company, you must meet these requirements to avoid adverse tax consequences. [Contact us](#) for guidance in setting up a program that checks all the boxes.