

Internal Revenue Service Publication 535 (2008)

You can generally deduct amounts you pay to your employees as awards, whether paid in cash or property. If you give property to an employee as an employee achievement award, your deduction may be limited.

Achievement awards.

An achievement award is an item of tangible personal property that meets all the following requirements.

- It is given to an employee for length of service or safety achievement.
- It is awarded as part of a meaningful presentation.
- It is awarded under conditions and circumstances that do not create a significant likelihood of disguised pay.

Length-of-service award.

An award will qualify as a length-of-service award only if either of the following applies.

- The employee receives the award after his or her first 5 years of employment.
- The employee did not receive another length-of-service award (other than one of very small value) during the same year or in any of the prior 4 years.

Safety achievement award.

An award for safety achievement will qualify as an achievement award unless one of the following applies.

- It is given to a manager, administrator, clerical employee, or other professional employee.
- During the tax year, more than 10% of your employees, excluding those listed in (1), have already received a safety achievement award (other than one of very small value).

Deduction limit.

Your deduction for the cost of employee achievement awards given to any one employee during the tax year is limited to the following.

1. \$400 for awards that are not qualified plan awards.
2. \$1,600 for all awards, whether or not qualified plan awards.

A qualified plan award is an achievement award given as part of an established written plan or program that does not favor highly compensated employees as to eligibility or benefits. A highly compensated employee for 2007 is an employee who meets either of the following tests.

1. The employee was a 5% owner at any time during the year or the preceding year.
2. The employee received more than \$100,000 in pay for the preceding year.

You can choose to ignore test (2) if the employee was not also in the top 20% of employees ranked by pay for the preceding year.

An award is not a qualified plan award if the average cost of all the employee achievement awards given during the tax year (that would be qualified plan awards except for this limit) is more than \$400. To figure this average cost, ignore awards of nominal value.

Deduct achievement awards as a nonwage business expense on your return or business schedule.



****The information listed here is for informational purposes only. Tax or legal advice is not being provided. Consult your company's professional tax advisor to ensure your program is in compliance with applicable tax laws.***