**Ask an HR Advisor: Tax on Holiday Gifts and Bonus Pay**

**Q:** How should we handle the taxation of holiday gifts and bonus pay?

**A:** As employers consider employee holiday gifts and year-end bonuses, it is a good time to review the IRS regulations on taxation and wage and hour laws on inclusion of bonus in regular rate.  Employer-provided gift cards, prepaid credit cards, year-end bonuses or money in any form are all taxable to the employee regardless of the amount.   Only non-cash holiday gifts with a low market value to employees are non-taxable; for example, food gifts, theater tickets, or holiday parties.  For other examples that escape taxation, see [http://j.mp/irs-fb](https://www.irs.gov/pub/irs-pdf/p15b.pdf).

Discretionary gifts, such as holiday gift cards *do not*have to be included in pay for the calculation of regular rate for overtime.  However, year-end bonuses or other payments based on a prior announcement or that are based on attendance, production or efficiency must be included in pay, and will require recalculation of the regular rate for overtime purposes.

For information on discretionary and non-discretionary bonuses and exclusions from regular rate, see [elaws - FLSA Overtime Calculator Advisor.](http://webapps.dol.gov/elaws/whd/flsa/otcalc/docstatexc.asp%22%20%5Ct%20%22_blank)

If you have additional questions, please contact Catapult’s Advice Team at 919‑878‑9222.

Written by a Catapult Advisor