



Gifts to Employees, Independent Contractors and

Volunteers

Volunteers are at the heart of ministry, and appreciating volunteers is important. But giving monetary thank you gifts to an employee, independent contractor or volunteer can create a taxable event. Read below for information and tips on gifts of appreciation.

Taxable Income: Richard Hammar writes in his article, [How Do We Report Gifts Provided to Volunteers](#), "Taxable income does not include any de minimis fringe benefit. Section 132(e)(1) of the tax code defines such a benefit as "any property or service the value of which is so small as to make accounting for it unreasonable or administratively impracticable." Cash can never be a de minimis fringe benefit since it is not unreasonable or administratively impracticable to account for its value. The same conclusion applies to "cash equivalents" such as gift coupons and certificates."

What kind of gift can be given to an employee, independent contractor or volunteer that would be considered a de minimis fringe benefit? Richard Hammar gives some examples in the same article, "a group meal, picnic for employees and their guests, birthday or holiday gifts of property (not cash) with a low fair market value, occasional theater or sporting tickets, coffee, donuts, flowers, fruit and books." The more expensive the item, the more frequent it's use, the less likely it is to qualify as a de minimis benefit. A de minimis fringe benefit should never be a form of disguised compensation.

If our employee is given a \$100 gift certificate, would this need to be reported? Yes, the employee is receiving a cash equivalent. For this reason, it is administratively practical to account for this expense and therefore must be included on their W-2.

If the employee makes less than \$600 in a year including the gift certificate, do we need to report their wages? Yes, the dollar amount threshold only applies to independent contractors (Form 1099-Misc), not employees (Form W-2). If the employee received \$25 for work done in a year, a W-2 must still be generated.

How does the Department of Labor define a volunteer? A volunteer is "an individual who performs hours of service...for civic, charitable, or humanitarian reasons, without promise, expectation or receipt of compensation for services rendered." While it is allowed to thank a volunteer monetarily, it can raise suspicion and is something the church should exercise caution in.

Can an employee also serve as a volunteer and receive money or a gift card? Employees can never serve as a volunteer for a position or responsibilities for which they are already paid. For example, the church administrator is an employee who Monday through Friday performs administrative tasks such as bookkeeping, copying, printing, scheduling, and answering the phone. On Sundays, the church requires the administrator be present for 2 hours to handle any administrative requests of the pastor. The administrator agrees to do this as a volunteer. The church gives her a \$200 gift card at the end of the year as a thank you for her volunteer service. This would be a violation of the Fair Labor Standards Act (FLSA). The FLSA prohibits an employee from performing the same work as a volunteer for which they are paid. The administrator must be paid for the hours she is required to be at church.