



# Awards and Prizes Procedures

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## NMIMT Faculty, Staff, and Students

New Mexico Tech Business Office

Last modified March 5, 2021

The purpose of this document is to establish guidelines for handling Awards and Prizes for New Mexico Institute of Mining and Technology's (NMIMT) Students, Staff, and Faculty.

This document is continually being updated; we would appreciate any information and/or insight that would help us develop documentation for NMIMT's departments.

## I. Summary

These procedures support the Awards and Prizes Policy.

## II. Definitions

Following definitions are applied in these procedures:

- **Cash Equivalents:** stored-value products such as gift certificates and gift cards.
- **Commensurate:** with size or degree in proportion to the value of the service rendered or the magnitude of the risk taken
- **Disguised Compensation:** An award is considered disguised compensation if the conditions and circumstances surrounding the award create a significant likelihood that it is payment of compensation, such as the making of the award at the time of annual salary reviews or in lieu of a prior bonus program.
- **Grossing Up:** is an additional amount of money added to a payment to cover the income taxes the recipient will owe on the payment.
- **Intangible property:** Includes, but is not limited to, trademarks, copyrights, patents and patent applications; such property as loans, notes and other debt instruments; lease agreements; stock and other instruments of property ownership. (2 CFR 200)
- **Non-NMIMT recipient:** individual or entity that is not a faculty, staff, or student of NMIMT.
- **Public Funds:** All moneys handled by NMIMT and other state institutions are public funds and must be treated as such and accurately accounted for.
- **Tangible personal property:** Tangible property other than real property having a physical existence, including but not limited to, supplies, equipment, materials and printed materials.

## III. Tax Consequences

### A. General

Awards and prizes (both hereafter called “awards” in this Procedures except when referring to the Award or Prize Form) are subject to applicable tax rules and treatments.

#### *a. NMIMT Employees*

Except for the limited exceptions noted below, if the recipient of an award is a member of faculty, staff, or a student employee or his or her spouse, an award is considered to be supplemental wages, which include but are not limited to, bonuses, severance pay and awards. Supplemental wages must be processed through the NMIMT payroll system with appropriate federal, state, city (if any) and FICA/Medicare taxes withheld. The award will be included in the recipient’s Form W-2, Wage and Tax Statement.

Qualified employee achievement awards are excludable from an employee's gross income. To qualify as an employee achievement award, the award must be of tangible personal property given to an employee for length of service or safety achievement, awarded as part of a meaningful presentation, and awarded under circumstances that do not indicate that the payment is disguised compensation. Excludable employee achievement awards are not subject to the Federal Unemployment Tax Act (FUTA). The employee achievement award exclusion does not apply to awards of cash or cash equivalents.

Except as indicated in the last sentence of this paragraph, awards of tangible personal property (but not awards of cash or cash equivalents) to any individual worth less than \$75 in the aggregate in any calendar year are not taxable and are excludable from the individual's gross income. For example, the value of a poinsettia and other items of merchandise awarded to an employee is not taxable and is excludable if the aggregate value of the poinsettia and other items of merchandise awarded to the employee in a calendar year is less than \$75. However, any award of cash or a cash equivalent is taxable and excludable regardless of dollar value. Tangible personal property presented to an employee for performing a specific task for NMIMT is taxable income to the employee, even if the value of the property is less than \$75.

All non-cash awards to NMIMT employees worth \$75 or more, individually or in the aggregate, in any calendar year, all cash awards to NMIMT employee, and all cash equivalents awarded to NMIMT employees must be reported on the Award or Prize Form. Such reportable awards include items awarded to employees and charged on account (e.g. something purchased at the NMIMT bookstore) or purchased using the procurement card.

#### *b. Non-NMIMT Recipients*

For non-NMIMT recipients, an award can be processed without tax withholding, but is, nevertheless, considered income to the recipient. Such awards are reported as taxable income to the recipient using Form 1099-MISC, Miscellaneous Income.

#### *c. NMIMT Students*

For students, if an award is related to employment services performed for NMIMT (e.g., an award to the outstanding student worker in a department), the award must be processed as supplemental wages with appropriate income taxes withheld. If not related to employment services performed for NMIMT (e.g., the Cramer Award), the award is still taxable income to the recipient and is processed through NMIMT Payroll but it is not subject to withholding. If the student is not employed at the time of the award, the payment will be processed similarly to payments to non-NMIMT recipients.

#### *d. Non-Resident Aliens*

Payments to Nonresident Aliens (NRA) (non-U.S. Citizens), including international student workers, may be subject to additional tax rules depending on circumstances and the applicable Tax Treaty. Where applicable, taxable income will be reported on Form 1042-S and may be subject to 14% - 30% withholding.

NMIMT is required to withhold 30% from an award given to a NRA and remit the amount withheld to the IRS. The NRA will receive the balance.

## B. Exceptions

Certain employee achievement awards made in tangible personal property if awarded under a length-of-service or other achievement program may be excludable from gross income. Please refer to the table below. Cash equivalents are always taxable income to the employee and do not qualify under this exclusion. If you believe the award you are processing qualifies for exclusion under this exception (note that it must be tangible personal property and not cash equivalents). Also see Award and Prizes Policy, Section II, Limitations.

Award Type	Taxable	Conditions	Maximum Allowed (for non-taxable)
Cash	Yes	<ul style="list-style-type: none"> <li>Any Amount</li> </ul>	\$0
Cash Equivalents	Yes	<ul style="list-style-type: none"> <li>Any Amount</li> </ul>	\$0
De Minimis – award is any property or service provided to an employee that has so little value (taking into account how frequently you provide similar benefits to employees) that accounting for it would be unreasonable or administratively impracticable.	No	<ul style="list-style-type: none"> <li>Awards with NMIMT logo and a cost of \$4 or less.</li> <li>Awards of tangible personal property (not a cash equivalent) of \$75 or less are non-taxable. Cumulative non-taxable awards for a calendar year exceeding \$75 become taxable for that calendar year.</li> </ul>	Value less than \$75
Length of Service Award or Retirement Award	No	<ul style="list-style-type: none"> <li>Award received after a minimum of 5 years of service.</li> <li>No other length of service awards received within the previous 5 years.</li> <li>Award is not cash or a cash equivalent.</li> <li>Value of award does not exceed \$500.</li> </ul>	Value less than \$500
Length of Service Award or Retirement Award (continued)	Yes	<ul style="list-style-type: none"> <li>Award for less than 5 years of service.</li> <li>Employee received a length of service award within the previous 5 years.</li> <li>Award is cash or a cash equivalent regardless of value.</li> <li>Value of award is greater than \$500.</li> </ul>	Value less than \$500
Student Achievement Award	Yes	<ul style="list-style-type: none"> <li>All awards regardless of type are taxable.</li> </ul>	Value less than \$7,500

## **II. Procedure for Awards or Prizes**

### **A. Awarding Department**

The awarding department must complete the Award or Prize Form and submit it directly to Payroll Office if the award is in cash, a cash equivalent, or tangible personal property in any amount.

If the award is a payment in the form of a check, then the awarding department must complete the Award or Prize Form, as well as a direct payment form, and provide documentation supporting the award. This information is to be submitted to Accounts Payable.

### **B. Accounts Payable**

Accounts Payable will record receipt of Award or Prize Forms and route for approval of issuing by the Controller or Assistant Controller. Payments to Non-Resident Aliens (NRAs) are forwarded to the Compliance Office to review taxable status. The documents are then routed to Payroll for review to determine if the recipient is an employee. If backup withholding is required and the recipient is not an employee, Accounts Payable will withhold the appropriate amount.

Cash and cash equivalent awards to non-NMIMT recipients and students not currently employed over \$600 in any calendar year will result in the issuance of a 1099-MISC at year end.

### **C. Compliance Office**

The Compliance Office will review the paperwork for the NRAs to determine their taxable status. Cash and cash equivalent awards to students and student workers who are NRAs for tax purposes are issued a 1042-S at year end, and are assessed 14% to 30% income tax withholding in the month following the award event. The tax is posted as a charge to their student account or paid by the awarding department via a journal voucher, at the awarding department's choice. The NRA must also contact the Compliance Analyst to create a profile in GLACIER and will receive a 1042S tax reporting form by March 15 of the next calendar year reflecting the amount awarded, taxes withheld, and net amount received.

### **D. Payroll Office**

The Payroll Office will retain completed Award or Prize Forms and determine if the aggregate value of tangible personal property received by any individual in any calendar year exceeds \$75 and apply the tax rules accordingly. Paperwork from Accounts Payable is reviewed for employees, including student employees. If an individual is an employee at the time of issuance, the payment will be processed in an interim payroll run. Backup withholding from Accounts Payable will be submitted with the appropriate tax payments.

### **E. Payment and Grossing Up**

As explained in the Awards and Prizes Policy, many awards are subject to personal income tax. The recipient of the award or the awarding department must be responsible for tax liability.

For awards to employees *not exceeding* \$7,500 in value, the awarding department may request the Payroll Office to “gross up” the value of the awards so that the net payment received is the full amount of the award, without reduction for taxes. For example, an employee receives an award valued at \$100. The employee will incur payroll tax withholding on the value of \$100. The exact amount withheld will depend on the employee’s personal payroll tax withholding elections. For this example, assume a 25% withholding rate. Without “grossing up”, 25% would be withheld from the employee’s paycheck. However, with “grossing up”, the awarding department will pay the 25% amount that without “grossing up” would have been withheld, with the result that the award is “grossed up” to \$133.33. The employee will receive a net value of \$100 after tax ( $1 - 0.25 = 0.75$ ;  $\$100.00 / 0.75 = \$133.33$ ;  $\$133.33 \times 25\% = \$33.33$  tax;  $\$133.33 - \$33.33 = \$100.00$ ). The awarding department will be charged the “grossing up” amount of \$33.33.

“Grossing up” is not available to salaries and bonuses and may not be used as a substitute for a base salary increase.