[Reviewed with no changes: November 12, 2012]

Angelo State University
Operating Policy and Procedure

OP 50.01 **Reporting Withholding Taxes on Employee Bonuses, Awards, and Prizes**

DATE: November 12, 2012

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to establish policy and procedure in compliance with federal regulations relating to the taxation and reporting of employee awards and prizes.

REVIEW: This OP will be reviewed in November of even-numbers years by the payroll coordinator, in conjunction with the associate vice president for finance and administration, with recommendations for revision forwarded through the vice president for finance and administration to the president by December 15th of the same year.

POLICY/PROCEDURES

1. General Policy

Generally, all bonuses, awards, prizes, and gifts given to employees are subject to taxation and withholding pursuant to Internal Revenue Code 74. Decisions on issues relating to awards, prizes, and gifts are based on Internal Revenue Service (IRS) rulings, which are subject to change. Current IRS rules will be followed and will supersede policies included in this OP.

2. Cash Awards, Prizes, and Gifts

a. Cash awards, prizes, and gifts to employees in any amount are considered wages subject to Federal Insurance Contributions Act (FICA) and federal income tax withholding and must be processed through the Payroll Services Department.

b. The department paying the cash award should notify the Payroll Service Department in writing.

c. Federal Income tax will be withheld from the recipient's award at a flat rate of 25 percent, or current rate established by the federal government (in accordance with Internal Revenue Code, 74 and 3402, reg. 1.74 and 31.3402). FICA will be withheld from the recipient's award at the applicable rate.