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Jeb Spaulding, Secretary

MEMORANDUM

TO: Agency and Department Heads; Deputies; Business Managers
CC: Angela Rouelle; John Berard; Tom Ball; Brad Ferland; Sue Zeller
FROM: Jeb Spaulding, Secretary of Administration 
RE: Gift Cards and Certificates as Merit Awards
DATE: July 30, 2014

It has come to our attention that some departments are purchasing gift cards and certificates and awarding them to employees as merit, achievement, or recognition awards. This practice creates a number of reporting problems, as gift cards or gift certificates of any amount are considered a cash equivalent instrument by the IRS, and therefore, taxable income to the employee and the State. There is no IRS de minimus amount for cash equivalent instruments. Currently, these merit award cards and certificates are not being reported as income or taxed appropriately.

The Administration is considering whether to develop statewide policies and procedures that would address the equitable use of gift cards/certificates, the proper reporting of associated taxes and the implementation of internal controls surrounding their purchase and storage. **Until a final policy determination is made, and effective immediately, Agencies and Departments are not authorized to purchase gift cards or gift certificates, or award them to employees. If your agency or department currently has an inventory of gift cards or certificates that have not been issued, please report the number of cards/certificates and corresponding cash values to your respective Finance and Management Budget Analyst.**

In the interim, departments who elect to grant small cash awards may do so as regular, non-recurring, cash merit bonuses administered through established payroll processes in accordance with their approved merit policies.

Thank you for your cooperation and attention to this matter. Please contact Deputy Secretary of Administration Michael Clasen if you have any questions.