

How Do We Report Gifts Provided to Volunteers?

What to know before giving holiday and thank-you gifts.

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Q. Our church provides gifts to several employees and volunteers each year at Christmas. Staff members receive either a check or a gift certificate to a local grocery or department store. Key volunteers receive either a turkey, fruit basket, or gift certificate to a local grocery or department store. The amount of these gifts varies depending on the position, but the range is \$20 to \$250. Are these gifts taxable to the recipients? Should we add the value of the gifts to employees' W-2 forms? How do we report the gifts the church provides to volunteers?

A. 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, even though the property acquired with a coupon or certificate would have been a nontaxable de minimis fringe benefit had it been provided by the employer.

The income tax regulations provide several examples of de minimis fringe benefits. They include "occasional typing of personal letters by a company secretary; occasional personal use of an employer's copying machine; group meals, or picnics for employees and their guests; traditional birthday or holiday gifts of property (not cash) with a low fair market value; occasional theater or sporting event tickets; coffee, donuts, and soft drinks; local telephone calls; and flowers, fruit, books, or similar property provided to employees under special circumstances (e.g., on account of illness, outstanding performance, or family crisis)." Similarly, a congressional committee report listed "traditional gifts on holidays of tangible personal property having a low fair market value (e.g., a turkey given for the year-end holidays)" as examples of de minimis fringe benefits.

The IRS has noted that "it is not administratively impracticable to account for even a small amount of cash provided to an employee because the value of the amount provided is readily apparent and certain. Accordingly ... accounting for cash or cash equivalent fringe benefits such as gift certificates is never considered administratively impracticable."

In conclusion, the turkeys and fruit baskets that your church provides to volunteers are nontaxable de minimis fringe benefits that need not be reported as taxable income by the volunteers. The cash and gift certificates the church provides to employees do not qualify as de minimis fringe benefits, and must be reported as taxable income on the employees' W-2 forms.

The cash and gift certificates the church provides to volunteers do not qualify as de minimis fringe benefits, and so they constitute a taxable benefit. However, since the volunteers are not employees, the church is not required to report the amount of these gifts on a W-2 form. No Form 1099 is required either, assuming that the volunteers do not receive compensation of \$600 or more during the year. It will be up to the volunteers themselves to decide how to handle the certificates for tax purposes.

Many churches treat the staff to a holiday lunch or dinner at a local restaurant. According to the income tax regulations, the value of these meals ordinarily would be a nontaxable de minimis fringe benefit. The regulations give several examples of de minimis fringe benefits, including "group meals, or picnics for employees and their guests."

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