



OFFICE OF THE  
**STATE AUDITOR**

## **Auditor Alert 2017-02**

**Date:** September 6, 2017

**Subject:** Cash Equivalents Reporting and Controls

The Office of the State Auditor (“Office”) has recently investigated or been advised of instances where public entities have not appropriately reported gift cards provided to employees. The intent of this alert is to make entities aware of resources that clarify Internal Revenue Service (IRS) rules regarding this issue, as well as recommend policy controls for gift card usage. As you award gift cards to employees, note that they are a taxable benefit that should be reported to the IRS and included as wages on the Utah Public Finance Website.

### **Cash Equivalents Awarded to Employees**

The IRS considers gift cards “cash equivalents.” Cash equivalents given to employees are considered taxable income, with few exceptions.

If gift cards are offered through an incentive program, this program should be defined in policy, with amount limits and disbursement frequency specified within the policy.

### **Cash Equivalents Distributed for Business Purpose Use**

Gift cards used for entity business or to provide services are not considered a taxable benefit.

When gift cards are issued to employees for entity business use or issued to members of the public to provide services, policy should define a usage and tracking process.

### **Additional Resources**

As you consult with your legal counsel in applying these rules, please review the following resources for further information, which include exceptions to cash equivalent requirements, and value thresholds for rewards of achievement, safety, and service:

1. [IRS Publication 5137 \(Fringe Benefit Guide\)](#)
2. [IRS Publication 535 \(Business Expenses: For Use in Preparing 2016 Returns\)](#)