

Are retreat prizes taxable income?

Q. We hold a team-building retreat every year where we give employees prizes after completing certain challenges. Are those prizes considered taxable income?

A. It depends on both the nature and the value of the prizes. Internal Revenue Code section 132(a)(4) provides that gross income does not include any fringe benefit that qualifies as a de minimis fringe benefit.

The code defines a de minimis fringe benefit as any property or service the value of which is so small as to make accounting for it unreasonably or administratively impracticable. This definition takes into account the frequency with which similar fringe benefits are provided.

U.S. Department of the Treasury's regulations provide examples of de minimis fringe benefits that may be excluded from an employee's gross income:

- Traditional birthday and holiday gifts of property (not cash) with a low fair market value
- Occasional cocktail parties, group meals and picnics for employees and their guests
- Occasional theater or sporting event tickets
- Coffee, doughnuts and soft drinks
- Flowers, fruit, books or similar property provided to employees under special circumstances (for example, on account of illness or to recognize good performance)
- Occasional personal use of the employer's copying machine
- Local telephone calls.

Examples of fringe benefits that are not excludable from gross income as de minimis fringes include:

- Season tickets to sporting or theatrical events
- The commuting use of an employer-provided vehicle for more than one day a month
- Membership in a private country club or athletic facility
- Use of employer-owned or leased facilities (such as an apartment, hunting lodge, boat, etc.) for a weekend.

Note also that cash is never a de minimis fringe benefit and always taxable, no matter how little (except in the limited cases of money paid for a meal or local transportation required because of overtime work).