



**State of Minnesota
Department of Finance**

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DATE: December 27, 2005
TO: Agency Payroll Staff and Accounting Coordinators
FROM: Don Smith, Director
Statewide Payroll Services
SUBJ: Gift Cards for Employees

If allowed by bargaining unit contracts, compensation plans or in memos of understanding, state agencies may choose to give gift cards or gift certificates to employees as an incentive or reward. We are unaware of any current contract or plan that allows agencies to give gift cards or certificates to employees. However, if an agency has this authority and chooses to use it, the value of the gift card or certificate, in any amount, is considered by the IRS to be taxable income to the employee for W-2 and tax withholding purposes. Agency payroll staff are required to report this income in mass time entry using earn code **GFT**. (This earn code is not available to employees in Employee Self Service time entry.)

Earn code GFT does not pay employees, but it adds the amount entered to employees' federal, state, FICA and Medicare taxable grosses, withholds taxes at supplemental rates, and is reported on W-2 forms. It is also subject to retirement deductions. An employee given a \$100.00 gift card, will receive a paycheck where taxes and retirement have been withheld on the gift card amount as follows:

Federal tax	22.00%	\$22.00
State tax	6.25%	\$6.25
FICA tax	6.20%	\$6.20
Medicare tax	1.45%	\$1.45
Retirement (MSRS)	6.00%	\$6.00
Total deducted	41.90%	\$41.90 (Net pay will be less by this amount)

Agency payroll or accounting staff should contact Jennifer Goossen in Statewide Payroll Services at (651) 201-8072 or deductions.mmb@state.mn.us, if there are questions.