



Key global employment
tax considerations
impacting employee
recognition programs

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The steady rise of global employee recognition programs has caused many employers to reassess (or, in some cases, assess for the first time) the core compliance obligations around their programs, as well as potential opportunities to take advantage of tax efficiencies. Since many jurisdictions around the world seek to promote the use of such recognition programs through tax exemptions, those employers that invest the time to understand the global rule set can also potentially unlock savings to reinvest in their recognition programs.

Recognition programs are often designed to acknowledge achievements, recognize milestones, or otherwise celebrate what is meaningful to individual plan participants. These programs are broadly recognized as an effective tool to strengthen morale, boost retention, enhance culture, and encouraging behaviors that drive organizational success. Recognition programs can take many forms, including, but not limited to, spot bonuses, gift cards, merchandise, travel experiences, or points-based platforms. While each type of award carries distinct tax considerations that differ by jurisdiction, monetary and in-kind recognitions, relative to other forms of incentive compensation, tend to be smaller in value and more frequent (not always, but often), and many employers choose to "gross up" these benefits for tax purposes to help plan participants retain a more meaningful experience. As discussed below, failure to account for these tax nuances can expose organizations not only to compliance risks, but unnecessary spending and a potentially negative participant experience. Thoughtful

tax planning can strike a balance between meeting employee needs and fulfilling regulatory obligations, ultimately benefiting both the organization and its workforce.

Awards granted through an employee recognition program will often generate some form of taxable compensation to employees/program participants as a starting point. As a result, employers often have a corresponding payroll compliance obligation, including accurately reporting these benefits through payroll and withholding any applicable taxes as required by each national/regional/local jurisdiction where plan participants perform services that give rise to the taxable compensation. However, there may also be opportunities to structure recognition programs to be tax exempt pursuant to current laws and regulations, providing a savings to employers on their own employment taxes, lower gross up expenses, and reduced administration. There are several factors that drive the complexities associated with managing rewards and recognition programs in multiple jurisdictions, including:

1. Initial taxability profile of the benefit;
2. Nature of the tax liabilities (i.e. what types of employment taxes are payable on the benefit and how is the taxable benefit valued);
3. Payroll and employment tax obligations;
4. Possible exemptions;
5. Employer-funded individual taxes; and
6. Charge out considerations.



When an employee recognition program is designed with specific global tax exemptions in mind, it creates meaningful advantages for both the employee and the organization. Each country has its own unique set of tax regulations and exemptions to consider, and are subject to change. Employers should determine which local country tax exemptions may apply to their specific recognition program, or which exemptions they want to take advantage of and whether their program should be adjusted by location in order to apply such exemptions. Examples of country-specific exemptions include:

1. In Ireland, an employer may provide up to 5 awards annually to the employee that may be exempt from taxation under the small benefits exemption. The exemption is subject to an annual limit of EUR 1,500, assuming certain conditions are met.
2. In Switzerland, awards for special occasions (i.e. birthdays, Christmas, marriage, etc.) may be provided to employees tax-free up to CHF 500 per occasion, per employee.
3. In Canada, an employer can provide non-cash gifts and awards to an employee for special occasions such as religious holidays, birthdays, weddings, or the birth of a child, tax-free up to \$500 CAD annually, assuming certain conditions are met.
4. Service anniversary awards provided to employees in the UK may be exempt from taxation, assuming the employee has worked for the company for at least 20 years, and the employee has not received a similar service anniversary award in the past 10 years. The exemption applies to awards valued at GBP 50 per year of service or less.
5. Awards provided by employers to employees in Belgium for Christmas, Saint Nicolas' Day, or the New Year may be exempt from taxation up to EUR 40 per employee per year (with potentially larger exemptions based on specific facts and circumstances).

As mentioned, oftentimes organizations will choose to gross-up the taxes on employee recognition awards. A gross-up occurs when an employer increases an employee's recognition award value to cover the taxes owed on that amount. Grossing up allows for employees to receive the full intended benefit after taxes are deducted, though from an employer cost perspective the gross up itself generates more taxable income to the employee, requiring a circular calculation to achieve the ultimate employer cost, which in percentage terms can be significantly higher than the original recognition value.

Today, many employers place the burden on HR and payroll teams to interpret tax codes, track diverse recognition types, and be compliant. As a result, employers often adopt sweeping policies, such as grossing-up awards using the highest income tax rate and/or choosing a conservative route of taxing all recognitions (including those which might be eligible for exemption relief based on specific facts) – leading to unnecessary tax overpayments by the company.

However, a more targeted approach to identifying exemptions and more individual-specific gross up methodology can result in meaningful employer savings.

Electing special benefits reporting and/or tax approaches in jurisdictions where preferential tax treatment is available can also generate employer savings. For example, in the United Kingdom, an employer can agree with HMRC to report taxable non-cash awards on the employer's PAYE Settlement ("PSA"). By reporting taxable benefits on the PSA, employees are not subject to income tax on taxable awards, nor do they have to report the gift on their personal tax return. In Germany, employers may elect to use the lump-sum taxation approach for non-cash benefits. This allows the employer to cover the taxes due on non-cash benefits, generally at a flat rate of 30%.



Employers looking to operate effective and compliant global employee recognition programs should consider the following:

1 Inventory current rewards and recognition program offerings

Identify all recognition programs and award types offered to employees across the organization. Catalog the conditions for employees to be eligible to receive awards, including the geographic footprint for each program and/or award type.

2 Understand key global employer tax considerations applicable to current rewards and recognition programs

Conduct a comprehensive global taxability review for all employee recognition programs to determine the taxability of awards, potential tax exemptions or tax efficiencies, and the employer's payroll withholding and/or reporting obligations.

3 Reduce program costs

Identify potential opportunities to reduce program costs through tax efficiencies by taking advantage of potential income exclusions and tax exemptions. Additionally, consider potential cost savings associated with employee specific gross ups by referencing employees' specific earnings.

4 Educate employees

Communicate the relevant tax implications and considerations related to rewards and recognition programs to employees. Consider publishing trainings or other resources for employees to access regarding what to expect when they receive recognitions and awards from a payroll and/or employment tax perspective.

Get in touch



Sandy Shurin
GES US Rewards Market
Leader, Principal
Deloitte Tax LLP
+1 713 982 2163
ashurin@deloitte.com



Annie Bearden
GES Rewards
Senior Manager
Deloitte Tax LLP
+1 713 982 2931
abearden@deloitte.com



Amy Kaye McKinney
GES Rewards Manager
Deloitte Tax LLP
+1 713 331 4383
akmckinney@deloitte.com



Hunter Jenkins
GES Rewards Senior
Deloitte Tax LLP
+1 713 982 4687
hujenkins@deloitte.com

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