tion as their employees, peer-to-peer programs “capture many more of their wonderful accomplishments and achievements,” Smith added.

Encouraging employees to recognize one another for exceptional performance or cooperation can enhance teamwork, strengthen bonds between employees and instill pride.

Organizations also are linking rewards and recognition to corporate results, and using them as a means to underscore the organization’s core mission, vision and values, said Anthony Luciano Jr., senior vice president of marketing at the rewards and recognition firm TharpeRobbins Co.

Rewards and recognition are becoming more frequent, Smith said. Rather than simply rewarding someone at the end of the year for hitting a sales goal, a company might make incremental rewards to motivate certain behavior, such as making a certain number of sales calls in a month or setting a certain number of appointments, she said.

That gives employees more opportunities to reach their goals throughout the course of the year, and encourages the best behavior to meet the overall goal, Smith said.

Many organizations are adding a social component to the mix, so peers can respond when someone is recognized. “Recognition, by its nature, is a social activity,” Luciano said.

And it fits with today’s mobile society, as employees often move from job to job or location to location within an organization. By adding a social aspect, current and former co-workers will know when an employee has received recognition, Fina said.

EMPLOYEE INPUT

Organizations need to be sure to gather feedback from employees to ensure the programs meet workers’ needs and suit generational and individual differences, Hill said. That’s particularly important with multiple generations in today’s workforce.

Ceridian’s survey found 64 percent of respondents would like their company to offer nonmonetary rewards. Favorite rewards include personal days off, free food and free event tickets.

Gen Xers tend to prefer financial rewards or work flexibility, Hill said.

But it’s the millennial generation that has helped drive the expansion of rewards and recognition programs. These young workers expect recognition, and expect it more frequently than other generations. “They were raised in a culture where everyone gets a trophy in T-ball,” Smith said.

Rewards programs these days can run the spectrum, including everything from music downloads to merchandise to travel to experiential rewards, such as a spa day or golfing day to donations to charity in an employee’s name.

Delivering Holiday Bonuses? Remember These Rules

By Rachel L. Schaller and Richard Y. Hu

As the year draws to a close and the holiday spirit abounds, employers can anticipate reviewing year-end figures to determine who goes on the naughty or nice list. Whether erring on the side of Scrooge or St. Nick, here are a few points on bonuses and gifts to keep in mind.

1. Employees must report bonuses as taxable income. Bonuses are considered taxable income to be included on an employee’s Form W-2. Federal, state and local income taxes and FICA taxes must be withheld, the Social Security portion of which is subject to an annual compensation limit, which for 2013 is $113,700. Employers should also be mindful whether they agreed to a gross-up arrangement with the employee as the employer will have to pay the entire bonus amount and the tax as well.

2. Employers may deduct bonuses under certain circumstances. Bonuses can generally be deducted by the employer if they are ordinary and necessary business expenses. Namely, bonuses must be reasonable, as additional pay for services performed rather than as a gift, and paid or incurred in the year in which the deduction is claimed. An “ordinary” expense is one that is common and accepted in your trade or business. A “necessary” expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable in order to be “necessary.” Of note, employers can also deduct the costs of a holiday party for employees as a business entertainment cost.

3. Gift cards are taxable as income unless de minimis. Most gift cards and gift certificates to employees that are redeemable for general merchandise or have a cash equivalent value are taxable as income. Gifts from employers are taxable because ultimately an employer does not provide the gift out of disinterested generosity, but rather to reward past performance or to provide an incentive for future performance. There are, however, de minimis fringe benefits that do not constitute taxable income. Nevertheless, de minimis fringe benefits do not cover cash no matter how small the amount. For example, giving a low-cost theater ticket to an employee may not be taxable, but giving the employee the cash for the ticket would be.

4. Bonuses may be earned pro rata. If the terms of a bonus plan are definite, a promise to pay a bonus as an incentive for continued service may constitute an enforceable contract, rather than a mere gratuity. But, where an employer has full discretion whether to issue a bonus and the amount of the bonus, or the terms of the bonus plan are indefinite, a bonus will likely be construed as a gratuity. If a promise to pay a bonus is enforceable, employees in most jurisdictions are entitled to a pro rata share of the bonus if terminated without cause before the distribution of bonuses. Ordinarily, an employee who voluntarily terminates employment is not entitled to any portion of a bonus.

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