

Lehigh University Guidelines for Departments Conducting Contests Involving Prizes

From time to time, student organizations and departments may consider offering prizes through contests in order to encourage participation in a campus program or as a student entertainment event. University policy governs our decisions regarding the appropriate use of University resources to support such programs. State and federal regulations govern the way in which prize programs can be conducted and reported. This summary is provided to assist departments in understanding the relevant policies, procedures and regulations. If, after reading these guidelines, a department would like to proceed with a prize program, please initiate the proper approvals and reporting by using the Prize Support form found on the General Accounting forms section of the Controller's Office website.

University Business Expense Policy

The University Travel and Business Policy on Prizes states as follows:

Prizes

Prizes may be awarded to University employees and students if supported by a valid institutional purpose and with supervisor approval. However, the IRS considers all prizes, including cash, gift cards, gift certificates and non-cash merchandise, to be taxable income to the recipient, regardless of value. The University's obligation to report the prize to the IRS, or withhold taxes, depends upon the value of the prize, the recipient's employment status, and the recipient's immigration status. Departments that are considering a prize program should first consult with the Controller's Office for a full explanation of the tax and reporting considerations. Within five days of awarding any prizes, departments must send the following information to the Accounts Payable department: recipient's name, address, social security number, purpose of the award, description of the award, and market value of the award. Academic achievement and financial aid awards are separately administered within Academic Affairs.

Pennsylvania Law:

The Commonwealth of Pennsylvania considers all forms of gambling to be illegal unless specifically excepted by law. For purposes of Pennsylvania law, the elements of gambling are:

- 1) The payment of consideration or a fee**
(for example: cash bets, participants must purchase something to enter the contest, participants must be present at the drawing, participants must fill in an application or contest form, participants must follow any rules or expend any time or personal effort).
- 2) For the chance to win a prize**
(for example: cash, property or any advantage that is given to some, but not all, participants in a contest)
- 3) The winner of which is determined by chance**

Door prizes are specifically excluded from the definition of gambling. Bingo is excluded only if conducted pursuant to the Bingo Law. Gambling conducted under the Local Option Small Games of Chance Act are excluded (but the games of chance must be licensed)

Federal Law:

The Internal Revenue Service requires that the University report prize winnings on a form W-2G, 1042-S or W-2, depending on the recipient's relationship with the University, the amount of the prize and way in which it was awarded. By following the award procedures listed below, the University will be able to meet its tax reporting and withholding obligations.

When Considering Prize Programs

- 1) If your prize program **meets the definition** of gambling under Pennsylvania law (above) then the program is **not allowable**. If you uncertain whether or not your program would be considered gambling, please contact the General Counsel's Office for guidance (The appropriate University faculty or staff should contact the Office on behalf of a student organization).
- 2) If your prize program **does not meet the definition of gambling**, obtain prior approval from your supervisor for the parameters of the program and the expenditure of the funds and funding source to purchase the prizes. Provide the Controller's Office with advance notice of the pending contest. Depending upon the nature and scope of the prize program, it may be advisable to work with the General Counsel's Office to formally document and publicize the rules of the contest.

Reporting the Winners

For proper tax reporting and withholding, please note the following requirements for the reporting of the prizes awarded:

- 1) If the **winner is currently paid through the Payroll Office** for services to the University, determine if the prize was at all related to the recipients' employment status. For example, prizes awarded to employees for responding to a survey on campus would be related to their employment status. If the answer is yes, report recipient and prize value to the Payroll Office.
- 2) If the winner is a **nonresident alien for tax purposes**, the prize is subject to 30% tax withholding. Obtain the prize winner's tax identification number and contact the Payroll Office for instructions regarding the tax withholding. Please note that if the prize is not monetary, the department will be responsible for funding the cost of the tax withholding.
- 3) If the winner is a U.S. citizen or resident alien who does not have an employment relationship with the University, and the value of the prize is less than \$600, no tax reporting or withholding is required.
- 4) If the winner is a U.S. citizen or resident alien who does not have an employment relationship with the University and **value of the prize is \$600 - \$4,999, obtain a Form W-9** from the recipient that indicates their social security number and provide the prize and recipient information to the Accounts Payable department.
- 5) If the winner is a U.S. citizen or resident alien who does not have an employment relationship with the University and the **value of the prize is \$600 - \$4,999, but the winner does not provide a Form W-9** with a valid social security number, 28% tax withholding is required. Provide the prize and recipient

information to the Accounts Payable department. If the prize is not monetary, the department will be responsible for funding the cost of the tax withholding.

- 6) If the winner a U.S. citizen or resident alien who does not have an employment relationship with the University and the **value of the prize is \$5,000 or more**, 25% tax withholding is required. Provide the prize and recipient information to the Accounts Payable department. If the prize is not monetary, the department will be responsible for funding the cost of the tax withholding.