



## Use of Gift Cards

Many PTAs use gift cards for teacher appreciation, as membership incentives, as an student program award, for teachers to buy classroom supplies, as a fundraising tool, and for volunteer appreciation. Inherent with the use of gift cards, however, is the potential for misuse and fraud.

### What Are the Potential Problems with Using Gift Cards in These Ways?

- **Taxable Income.** Giving a gift card is the same as giving someone cash. The IRS considers cash gifts (including gift cards and gift certificates) as reportable income on the recipient's tax filings. If your PTA provides an individual with more than \$600 in cash or cash equivalents, then this is reportable income on IRS form 1099-MISC. Gift cards should not be given in exchange for services.
- **Turning volunteers into employees.** If a PTA attempts to "compensate" a volunteer for their service by providing a gift card, then they are no longer a volunteer. The IRS considers de minimis fringe benefits to be small in value and provided so infrequently that accounting for it would be unreasonable or impractical. So, while appreciating volunteers with occasional snacks, discounts or a gift may be okay, compensating volunteers with gift cards (as a cash equivalent) places your PTA at risk of violating IRS code.
- **Opportunity for fraud.** Gift cards, like cash, can be used by anyone for anything. Without adequate documentation of the purchase and distribution of gift cards, there is limited accountability and no audit trail.
- **Public vs Private Interest.** A public charity is prohibited from allowing more than an insubstantial accrual of private benefit to individuals or organizations. This restriction is to ensure that a tax-exempt organization serves a public interest, not a private one. If a private benefit is more than incidental, it could jeopardize the organization's tax-exempt status. (IRS Publication 4221)

### How Can These Problems Be Avoided?

- **Stay Mission Focused.** Verify that the purpose you are purchasing gift cards for benefits your entire school community and meets PTA's mission, values and purpose.
- **Strong Record Keeping.** Whether purchased or donated by a family or local business, treat gift cards like cash.
  - Gift cards should be tracked in an approved PTA budget line-item with the same controls that would be in place for handling cash. Gift cards should ideally be for less than \$25 each when purchased.
  - Document the number purchased/received, the card number, the store/type, the dollar amount, the purpose of the gift card and who received the gift cards. Much like a check register, record when it comes in, when it goes out, and keep a running balance of all gift cards on hand. Verify that they are all present and accounted for at least monthly, when bank statements are reviewed.
  - Create a "receipt" for the recipient to sign as acknowledgment that they received card #1234. The receipt, signed by each prize/gift card recipient, should be attached to the PTA Treasurer Request form used for the purchase (or donation acceptance) of the gift cards.
- **Limit Use.** Eliminate use of gift cards - or cash - for teacher supplies, volunteer reimbursements or volunteer thank you gifts as this creates an employer-employee relationship. Teachers and volunteers should submit invoices or receipts for approved purchases and be reimbursed according to the approved plan of work and/or budget line item.