workhuman*

The Value of Billing on Issuance

THE SMARTER, COMPLIANT METHOD – WITH THE BEST RETURN

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When investing in or finding a new solution for an employee recognition program, you'll need to decide how rewards are billed. If you're following best practices for optimal return, that's a lot of activity to track.

> **Recognition providers will use one of two methods for billing:**
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> 1. The old, manually intensive method is **bill on redemption (BOR)**, in which the customer is billed for the value of merchandise items that have been redeemed and shipped to employees.
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> 2. The smarter, compliant method is **bill on issuance (BOI),** in which the customer is billed for the value of the purchasing power employees get upon issuance of an award.

Companies billed on redemption are flirting with fiscal danger and run a high risk of noncompliance, which could result in a failure to satisfy a rewards program audit. **Companies billed on issuance ensure compliance, reduce audit risk, and allow the finance team to stay focused on business-critical objectives.**

Workhuman® provides a BOI model to power the success of your Social Recognition® program – it's part of our Recognition Done Right philosophy. Our global, complex, sophisticated clients, including banks and other financial institutions, have chosen this approach to billing as a best practice because it eliminates many of the accounting complexities inherent in a BOR model.

There are important compliance reasons why partnering with Workhuman and using a BOI model is a smart business imperative.

Accounting efficiencies

Accounting rules require that a balance sheet liability for earned rewards must be created when employees gain unfettered access to awards, because there is an assumed obligation to pay. Therefore, the company carries the liability until the award is actually redeemed (i.e., when the employee receives the gift card or merchandise item). With a BOR model, this is an accounting nightmare with a high volume of unredeemed awards.

The bill-on-issuance approach eliminates the accounting complexities inherent in a bill-on-redemption model.

There is typically a delay between when the employee receives the award and when they ultimately receive the gift card or merchandise. This delay between issuance and receipt forces companies to put in place complex accounting procedures to assess an assumed value in order to create and update the liability on an ongoing basis. This becomes complex and cumbersome for a variety of reasons:

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Accounting adjustments need to be made when unredeemed awards are carried across fiscal periods to accurately reflect liabilities in each fiscal period.

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It's difficult to manage to GAAP when the tax gross-ups for awards occur in one fiscal year and the corresponding expense of redemption occurs in subsequent fiscal years.

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There's further complexity when employees move from one business unit to another. Guidelines must be developed and an ongoing process established to accurately track and assign organization ownership of the unredeemed awards as employees move around the company, including maintaining financials.

Tax compliance

When an employee is issued an award, they gain purchasing power in the form of points. These points allow the employee immediate (i.e., "unfettered") access to a rewards network where they can reward themselves with gift cards, merchandise, and experience options, or donate to charity.

With Workhuman, they have access to one of the world's largest and most unique e-commerce destinations, ranking among the top 30 globally when compared to public e-commerce retailers. The redemption experience ensures all employees have a consistent, celebratory experience, regardless of location, with a vast global assortment and locally curated gift cards and merchandise from top brands. This connection between strategic recognition and redemption transforms recognition into a tangible, impactful moment, deepening employees' emotional connection to the company and their colleagues.

Most companies interpret the "constructive receipt" reference in IRS income reporting regulations as requiring that employees be taxed on award income when they earn their award rather than when they redeem it. That is because upon issuance, employees have unfettered purchasing power they can use whenever they like. The value of the award is, in essence, received compensation.

> **Calculating employment taxes on unredeemed rewards is complex with BOR:**
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> First, the value of the awards earned must be specifically calculated at each interval to estimate the employment taxes owed because the company does not have that exact amount readily available, as it would with BOI.
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> Also, a company must track which awards to pay taxes on, given that vendors typically offer no reporting on unredeemed rewards.

The Workhuman solution

The Workhuman BOI model provides companies with a concise and straightforward solution, using the world's #1 employee recognition and engagement platform, that ensures tax compliance and accounting efficiencies.

Billing on issuance through the Workhuman platform gives better predictability, transparency, and visibility for your administrative leaders. Most important, billing on issuance with Workhuman ensures compliance and provides you with audit-proof documented processes and reporting.
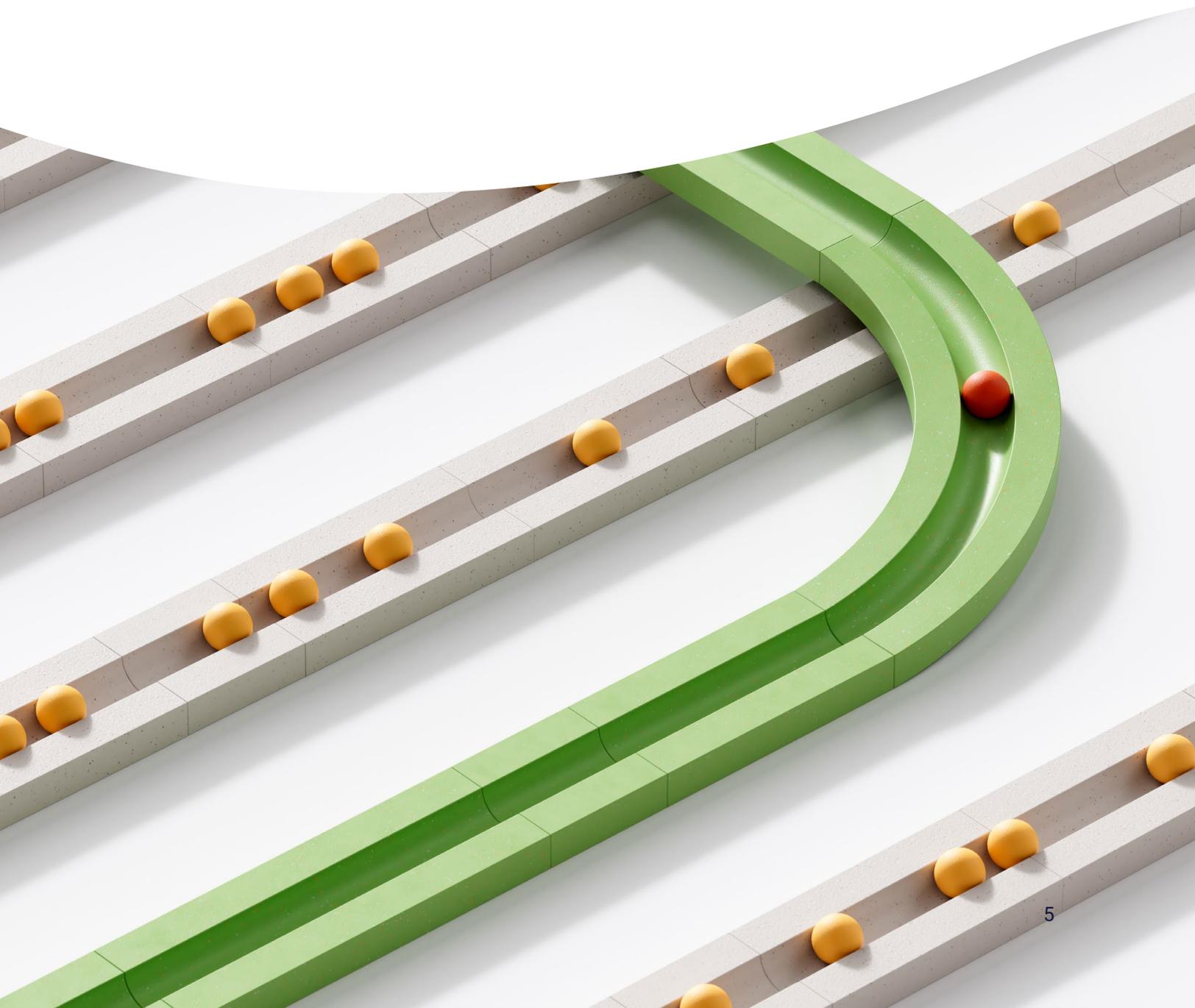
With Workhuman, you'll receive:

✓ Robust reporting that includes an awards activity file (set up during implementation) to ensure your company receives the correct detailed information to allow you to properly account, accrue, and tax employees.

✓ Real-time visibility into each individual award, down to the person's name, department, division, country, and day award was given – configurable by the customer.

✓ A spend management tool to keep your program on budget with configurable options to manage and regulate spend.

✓ Millions of gift card, merchandise, experience, and charity options via the most relevant, global, and robust e-commerce rewards network in the industry. No matter where someone is in the world, we have reward options to meet varied needs and tastes.

To learn more about billing best practices for employee recognition, give us a call.

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Or read more on our blog: workhuman.com/blog

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