



|| Gift Card Purchasing

GENERAL GUIDANCE

Generally speaking, the purchase and issuance of gift cards using public funds are an unallowable expense.

The fundamental reason behind this principle is that the purchase and distribution of gift cards using public funds are typically considered unallowable expenses. This means that public funds, especially Federal Funds, should not be used for this purpose unless there are specific, authorized exceptions in place. The reason for this is to maintain transparency and accountability in public spending and ensure that funds are utilized for their intended, appropriate purposes.

Conflicts of Interest & Audit Trail

What's the reasoning behind the scrutiny of gift card purchases with public funds?

Conflicts of Interest/Personal Benefit: One of the primary concerns surrounding gift card purchases is the potential for conflicts of interest and personal benefit. When public funds are involved, it's crucial to ensure that decisions related to expenditures are made in the best interest of the public entity rather than for the benefit of individuals. The purchase of gift cards can raise questions about whether they are being used for personal gain or favoritism, which can undermine the integrity of the funding process.

Audit Trail: When using public funds, it is essential to have a clear audit trail. An audit trail is a documented record of financial transactions and actions taken, and it helps ensure that funds are used appropriately. The tracking of how public funds are spent is a crucial aspect of fiscal accountability. Gift cards do not provide the required audit trail. Gift cards are essentially cash substitutes, making it challenging to determine how they are used and whether they comply with the specific spending guidelines associated with the funds. Therefore, to maintain transparency and accountability, the purchase of gift cards using public funds is typically discouraged or restricted. Understanding these principles is essential for school administrators to make informed financial decisions and ensure the responsible use of public funds. It helps in maintaining trust, transparency, and compliance with funding regulations.

IRS De Minimis

Why Are Gift Cards Not Considered “De Minimis” By The IRS?

Historically, the IRS had a threshold of \$25 as the maximum amount that could be given without being subject to taxation. However, this threshold no longer applies. The IRS has redefined its stance on de minimis fringe benefits, and gift cards, regardless of the amount, are now considered taxable. The key reason behind this shift is the nature of gift cards themselves. They are essentially the same as cash in that they have a cash equivalent value, are easily transferable, and can be used for a wide range of purposes. In the eyes of the IRS, treating gift cards as de minimis benefits could lead to potential abuse and circumvention of tax obligations. Gifts, awards, and prizes, including gift cards, may not be provided as substitutes for payment for services rendered.

Protecting Employee Pay

How do restrictions on gift cards protect employee pay?

The IRS's perspective on gift cards is rooted in the protection of employee pay. If gift cards were exempt from taxes, it could incentivize companies to redistribute how employees are paid in an effort to avoid or reduce additional taxes. For example, companies might choose to provide employees with gift cards instead of part of their regular salaries, which would result in a reduction in payroll taxes. This approach can lead to potential underreporting of wages and, consequently, reduced tax revenue for the government. To prevent such tax avoidance strategies and ensure that employees are fairly compensated, the IRS has clarified that regardless of the amount, a gift card given to employees is not considered a de minimis fringe benefit. Therefore, it should be included in employees' wages on Form W-2 and is subject to tax withholdings. The IRS provides comprehensive guidance on fringe benefits and taxation in [Publication 15-B](#) for reference.

Gift Cards & Federal Funds

What does the law say about the use of federal funds and purchasing gift/store cards?

Federal funds come with specific regulations to ensure their proper and accountable use. Every Student Succeeds Act (ESSA) refers to The Uniform Grant Guidance (UGG), which mandates that districts must establish and maintain financial management systems

Gift Cards & Federal Funds

compliant with federal systems management requirements outlined in the Code of Federal Regulations (CFR).

§200.445 (a) Goods or Services for Personal Use:

Costs of goods or services for personal use by non-Federal entity employees are generally unallowable. This applies regardless of whether the cost is reported as taxable income to the employees. The intent is to ensure that federal funds are used for legitimate public purposes, not for personal benefits.

§200.303 Internal Controls:

The non-Federal entity must establish and maintain effective internal control over the Federal award, providing reasonable assurance that it manages the Federal award in compliance with federal statutes, regulations, and the terms and conditions of the Federal award. Internal controls help in ensuring funds are used correctly and transparently.

§ 200.405 Allocable Costs:

A cost is considered allocable to a particular Federal award if the goods or services involved can be attributed to that Federal award or cost objective based on the relative benefits received. This includes being incurred specifically for the Federal award, benefiting both the Federal award and other work, and being necessary for the overall operation of the non-Federal entity, assignable in part to the Federal award.

§200.423: Alcoholic beverages and §200.438: Entertainment costs:

Federal regulations specifically prohibit the use of federal funds for the purchase of alcoholic beverages (§200.423) and entertainment costs (§200.438). Compliance with these regulations is crucial to uphold the integrity of financial management when using federal funds.

Gift Card Exceptions?

What exceptions exist for using federal funds to pay for gift cards?

Certain exceptions permit the use of federal funds to purchase gift cards under specific circumstances:

Gift Card Exceptions?

Homeless Children and Youth (HCY):

The McKinney-Vento (MV) Act defines "homeless children and youth" as individuals who lack a fixed, regular, and adequate nighttime residence. The Act addresses the challenges these individuals face in education. In this context, the purchase of store cards with federal funds for students who meet this definition is allowable under specific circumstances. For detailed guidance, refer to [SDE Page: Title IX-A: Education for Homeless Children & Youth Program](#) or contact the SDE Program Coordinator ([Emily Sommer](#)) at (208) 332-6904.

Migrant Education:

Door prizes, movie tickets, gift certificates (gift cards), and other prizes that are "reasonable and of nominal cost" may be used, especially to encourage participation in the local Parent Advisory Council (PAC) or parent events supporting Measurable Performance Outcomes (MPOs). The Office of Migrant Education suggests focusing on prizes with educational merit. For further information, consult the details provided in the resource: [Federal Programs Allowable Use of Funds](#) for the Migrant Education Program.