

Taxability of Wellness Program Rewards

Summary of Tax Rules Workplace wellness programs often incorporate incentives or rewards to promote healthy lifestyle choices and avoid or even treat chronic health conditions. Employer-sponsored wellness programs often incorporate rewards or incentives to encourage employees to participate. As a general rule, wellness incentives are subject to federal tax rules as other employee rewards or prizes.

The Internal Revenue Code (Code) provides that all employee compensation (including fees, commissions, fringe benefits, and similar items) is taxable. The rewards must be included in gross income on the employee's Form W-2, subject to federal income tax withholding. It is also generally subject to federal employment tax withholding (FICA and FUTA).

Tax Rules for Common Incentives

The following tax rules apply to common wellness program incentives: Cash and cash equivalents (for example, a \$30 gift card for taking a health risk assessment) are always taxable. The cash amount (or gift card value) must be included in the employee's income and is subject to payroll taxes. Any reward, incentive, or other benefit provided by a wellness program that is not medical care is included in an employee's income.

Links and Resources

IRS Chief Counsel Memorandum [201622031](#), addressing the general tax rules for wellness program incentives

IRS Chief Counsel Memorandum [201703013](#), addressing the taxability of fixed indemnity payments from wellness programs

IRS [Publication 15-B](#), Employer's Tax Guide to Fringe Benefits