

Will Employees Be Taxed on Our Company's New Wellness Incentive?

EBIA Weekly (March 19, 2026)

QUESTION: Our company is planning to offer a series of “healthy lifestyle” information sessions next year to promote wellness. Employees who attend every session will receive a cash bonus of \$200 at the end of the year. Will employees be taxed on this wellness incentive?

ANSWER: While the actual health benefits provided under wellness programs are generally tax-free, the rewards that employers provide to employees who participate may be taxable. Rewards such as lower major medical plan premiums or additional employer contributions to a health FSA, HRA, or HSA would be excluded from an employee's income and would not be subject to income or employment tax withholding, provided that applicable nondiscrimination requirements are satisfied. But rewards that take the form of cash (e.g., cash bonuses, as under your company's program) or cash equivalents (e.g., gift cards or gift certificates) are subject to federal income and employment taxes and withholding. They are also reportable on the recipient's Form W-2.

Note that certain wellness program designs have been promoted as a way to provide tax-free payments to employees. These programs are typically funded with employee salary reduction contributions—i.e., employees pay a high “premium” to participate. The programs then provide cash payments as a tax-free “reward” for the employee's participation in certain wellness activities. However, the payments are effectively repayments of the employees' pre-tax salary reduction contributions and there is no basis for excluding them from income. Employers considering such arrangements should carefully review them with counsel or simply avoid them. Wellness programs are typically implemented by employers and funded by employer contributions, so programs requiring employee salary reductions should be closely scrutinized. Arrangements that purport to provide additional take-home pay or additional benefits with no reduction in net pay are especially suspect.

Laws such as HIPAA, GINA, and the ADA must also be considered when designing wellness programs and incentives. Because your company's wellness incentive does not depend on health results or require employees to provide health information, it avoids many of the more complex issues. Nevertheless, it is a good idea to consult legal counsel for help in understanding the tax and other compliance considerations that may apply to any proposed wellness incentive.

For more information, see EBIA's Consumer-Driven Health Care manual at Sections VI.A (“Introduction to Wellness and Disease-Management Programs”) and VI.C.1 (“Wellness and Disease-Management Programs: Taxation of Employer-Provided Rewards”).

Contributing Editors: EBIA Staff.