

Employee bonus policy template

This employee bonus policy template is ready to be tailored to your company's needs and can be a starting point for setting up your employment policies.

Policy brief & purpose

Our employee bonus policy explains how our company distributes bonuses to employees. We want to reward employees whenever possible, since we all contribute to our company's success with our hard work. This policy clarifies how we choose which employees to reward and how we calculate bonus amounts.

Scope

This policy applies to all regular full-time and part-time employees and employees with contracts of more than *one year*. Seasonal employees, interns and temporary employees with a contract of less than *one year* are not eligible for bonuses.

We may modify this policy and our bonus plans at any time without notice.

Only written promises of bonuses will be considered valid. If your manager or another executive (including the C-suite) verbally promises you a bonus, they can not follow through unless they put it in writing and HR approves it.

Bonuses can be either discretionary or nondiscretionary:

- Discretionary bonuses are determined at our company's sole discretion. They aren't promised to employees and we can't guarantee anyone will receive them. For example, we may pay a bonus to reward an employee who showed exemplary performance at a particular time.
- Nondiscretionary bonuses are promised or announced to employees and guaranteed to those who meet our established criteria for the bonus. For example, we may promise to pay nondiscretionary bonuses to reward teams for meeting specific targets.

One important difference between discretionary and nondiscretionary bonuses in the U.S. is that nondiscretionary bonuses must be included in overtime pay calculations. Our company will follow its legal obligations.

Policy elements

Our company rewards employees for outstanding individual performance, as well as their contributions that help us achieve company goals. For this reason, we award bonuses in three forms:

- Lump sum bonus.
- Year-end bonus.
- Incentive plans.

Lump-sum bonuses

Our company may award lump-sum bonuses (one-time bonus payments) to employees who show exemplary performance. We define “exemplary performance” as:

- Exceeding goals, either financial or nonfinancial.
- Performing additional duties from what is expected.
- Serving as a good example of professional behavior to other employees (e.g. teamwork, ethics, leadership.)

When managers know their team member deserves a bonus, they should send a formal written recommendation to their Department Head and HR, explaining how their team member showed exemplary performance.

HR will:

- Review and approve recommendations with the input of Department Heads based on available budget. Lump-sum bonuses can not exceed [*10% of base salary/ \$2,000/ etc.*] Bonuses [*for executives/ that exceed \$1,000*] need to be approved and signed by [*CEO/ President.*]
- Send a formal letter to the team member who showed exemplary performance congratulating them and informing them that they will receive a bonus.
- Coordinate with the Finance Department to arrange for paying bonuses on time. Employees should receive their bonus within [*the next two pay periods/ one month after approval/ etc.*]

Lump-sum bonuses are discretionary.

Year-end bonus

Our company’s policy gives the executive team the ability to decide on year-end bonuses for all employees. There are two conditions for this bonus:

- Our company should have exceeded its annual financial goals.
- The board of directors must approve the bonuses.

If these two conditions are satisfied, then our company will give bonuses to employees who:

- Are employed by our company on the day when the bonus must be paid.
- Have not announced they intend to resign either verbally or in writing.
- Have received at least satisfactory performance reviews.

We will pay out bonuses according to this tiered system:

- Employees who were employed by our company for the entire year will receive a year-end bonus payment of *10%* of their annual salary.
- Employees who are employed for at least *six months* will receive a prorated amount.
- Employees who are employed for fewer than *six months* will receive a *2.5%* bonus.

Bonus incentive plans

Our company may set up incentive plans at the beginning of each year. These plans may involve:

- **Incentive bonuses to encourage employees to achieve annual company financial goals.** These are company-wide bonuses that may be announced at the beginning of the year by senior leaders. [*These bonuses may be calculated with a tiered system (e.g. 5% for hitting 80% of the goal, 10% for hitting the goal and 20% for exceeding the goal.)*] HR should give a formal payout plan to each employee.
- **Incentive bonuses for achieving or exceeding individual and team targets.** Department Heads are responsible for formulating these plans and setting specific goals. For example, they may decide to pay a quarterly bonus (a percentage of individual sales) to sales teams that exceed their sales or revenue targets. Department Heads should submit their plan to HR and the CEO for approval [*within the first quarter of the year.*]

Keep in mind that bonuses are subject to taxation (local, state and federal taxes.)