



## ACCOUNTABLE EXPENSE REIMBURSEMENT PLANS

Accountable reimbursement plans are a means by which an organization can legally reimburse employees for business related expenses while eliminating any IRS reporting or employee taxation.

Per IRS guidelines, an accountable reimbursement plan must meet the following requirements: (1) there must be a business purpose for the expenses – that is, you must have incurred or paid deductible expenses while performing services as an employee of your employer, (2) proper substantiation of expenses to the employer within a reasonable period of time, and (3) the return of any unused, excess reimbursements within a reasonable period of time. If these guidelines are not strictly followed, reimbursements are to be counted as income to the reimbursed person.

### IRS Rules for an Accountable Reimbursement Plan

1. The organization must budget funds for the accountable reimbursement plan. The budgeted funds cannot come from or be included in an employee's salary package. Funds should be budgeted just like any other organization expense, such as utilities or maintenance expenditures.
2. The plan should be written and must be organization-approved, but the plan does not have to be voted on by the organization or leaders. If the organization's governance empowers the finance committee or executive staff to make the determination of budgeted funds for the accountable reimbursement plan, then this is acceptable to the IRS.
3. The accountable reimbursement plan is a "use it or lose it" process. If the employee does not use the entire budget line item designated for reimbursement, he cannot receive the overage.
4. The substantiation of expenses and the return of excess reimbursements must be handled within a reasonable time as defined below:
  - + An advance can be made within **30 days** of when an expense is paid or incurred.
  - + The employee must provide the organization a **receipt** and **written explanation** (see #6 below) within **60 days** of incurring the expense.
  - + Any excess amount is to be returned to the organization **within 120 days** after the expense is paid or incurred.
5. Original receipts are required for all expenditures over \$75. If a receipt is not provided, the reimbursement becomes taxable income.
6. The receipt plus written explanation should document the amount, date, place (for transportation, travel, and entertainment expenses), business purpose and, for



entertainment expenses, the business relationship of the person(s) entertained. For business mileage reimbursements, this means an itemized log that details the above for each separate trip.

7. The committee or staff overseeing the plan has the right to determine if a receipt presented for reimbursement is an acceptable organization related business expense for reimbursement.
8. The organization should not report any expenses reimbursed properly under an accountable reimbursement plan as taxable income on the employee's W-2 other than moving expenses. However, all advances and/or reimbursements without timely or adequate documentation should be added to the employee's W-2 as wages in box 1. We recommend allowing this only on an infrequent basis as allowing for reimbursement outside of the plan requirements may cause all other reimbursements to be considered unaccountable by the IRS as well.

## What Can Be Reimbursed?

The organization can agree to reimburse reasonable organization-related business expenses such as the following:

- + **Conventions, conferences, seminars, and other workshop fees or costs.**  
If the continuing education event furthers the employee's learning for their current position and the educational event does not qualify the employee for a new position, then the organization can reimburse the employee for associated costs.
- + **Organization-related business travel.**  
The IRS allows the organization to reimburse its employees the IRS standard mileage rate plus parking fees and tolls for business miles driven for organization-related purposes. The IRS does not allow an organization to reimburse for commuting miles from home to the organization no matter how many times the employee goes back and forth each day. Also, the organization can reimburse meals its staff incurs if the required travel takes the employee away from the organization field during mealtimes. *Individual meals are heavily scrutinized by the IRS and should be infrequent in occurrence.*
- + **Costs associated with organization-related business overnight trips.**  
The organization can reimburse its employees for lodging, meals, and other costs associated with overnight organization-related business travel.
- + **Subscriptions, books, tapes, CDs, DVDs, equipment, and other similar tools.**  
Sermon resources and other educational materials can be reimbursed by the organization if the resource has a organization-related business connection. Likewise, the organization can pay for organization-related business equipment like PDAs and computers. Any equipment purchased is the property of the organization and should be retained by the organization if the employee leaves or is terminated.
- + **Hospitality expenses required by the organization to entertain others.** The organization can reimburse its employee's expenses associated with providing a business meal for individuals like prospects or organization members if the meal had a clearly identified organization-related purpose.



## + What Should Not Be Reimbursed? (Best Practices)

- + **Bills and other expenses of the organization.** Business Expenses directly related to the organization such as utility payments, repair costs etc should be paid directly to the company from the Organization.
- + **Benevolent payments paid directly to individuals.** All benevolent payments should be paid by the organization through the organization's benevolent policies and approval processes. These payments should not be paid by employees and then reimbursed afterward.
- + **Payments to Contract Workers or other Employees to be reimbursed later.** All payments to contract workers and Employees such as childcare workers, caterers, maintenance workers, missionaries, etc. should be paid from an account of the organization. Certain tax payment and reporting requirements accompany these payments.

