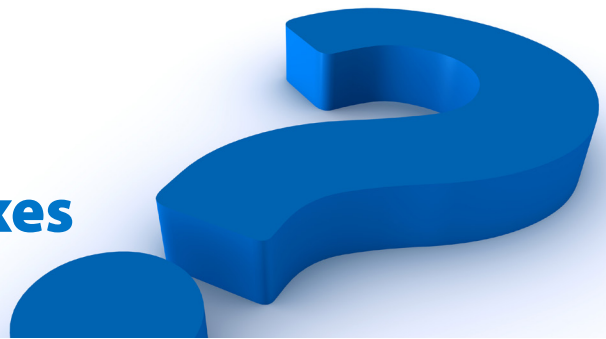


FAQ on Reimbursable Business Expenses and Taxes



1. Is an employee's reimbursement for business travel ever taxable?

Yes and No: An employee's reimbursement for business travel may or may not be taxable depending upon the type of plan the employer has. An Accountable plan is not taxable to your employees; a Nonaccountable plan is taxable to your employees.

2. What is the difference between an Accountable and a Nonaccountable plan?

Accountable Plans (not subject to income tax withholding): In order for your plan to qualify as an accountable plan, your reimbursement or allowance arrangement must require that your employees meet all three of the following rules:

1. Business Connection: There must be a business connection to the expenditure.
2. Substantiation: Employees must provide receipts for all expenses of \$75 dollars (your company may set a lower limit) or more and all lodging receipts, regardless of the amount. Along with the receipts the employee should include the date, amount, business purpose and the place the expenses were incurred.
3. Return of Money: Employees must be required to return money advanced or unsubstantiated amounts within a reasonable time* after the travel takes place.

*If an employee fails to return amounts in excess of the substantiated amounts within a reasonable time, only the amounts not in excess of the substantiated amounts are excludable from gross income. The unsubstantiated amounts are considered gross income subject to income tax withholding and must be reported on Form W-2.

Nonaccountable Plans (subject to income tax withholding): Your payments would be considered and treated as paid under a nonaccountable plan if:

- Employees are not required to or do not substantiate their expenses with receipts and other documentation in a timely manner, and
- You advance an amount to your employee for business expenses and your employee is not required to and does not return any amount he or she does not use for business expenses.

3. Can an employer provide employees a Per Diem allowance for travel expenses instead of reimbursing expenses after they have been incurred?

Yes, an employer can provide a per diem amount to employees rather than having them incur business expenses on their personal credit cards.

4. Are Per Diem Allowances taxable to the employee?

No, as long as the Per Diem Allowance meets the following criteria:

- **Reasonably Expected Expenses:** The allowance must be paid with respect to expenses incurred, or which the payer reasonably expects will be incurred, by an employee for meal and or incidental expenses for travel away from home in connection with the performance of services as an employee.

- **Reasonably Calculated:** The Per Diem amount must be reasonably calculated not to exceed the amount of the expense or the anticipated expense.
- **Applicable to the Federal Per Diem Rate:** The Per Diem amount must be paid at the applicable federal per diem rate, a flat rate or stated IRS scheduled rate.

*The portion of a per diem allowance received from an employer that is less than or equal to the amount computed at the applicable federal rate under any of the substantiation methods is not includable in an employee's income if the elements of time, place, and business purpose are substantiated.

5. What is the Federal Per Diem Rate?

The Federal Per Diem Rate is the highest amount that the federal government will pay expenses while traveling away from home in a particular area.

6. Where can I find the Federal Per Diem Rate?

You can find the Federal Per Diem Rates at www.gsa.gov/perdiem. The rates are published each year, generally in September.

7. What is the Meals Only Per Diem Allowance?

A Per Diem allowance is treated as paid only for meals and incidental expenses if the employer:

- Pays the employee for actual expenses for lodging,
- Provides the lodging in kind,
- Pays the actual expenses for lodging directly to the provider of the lodging, or
- Does not have a reasonable belief that lodging expenses were or will be incurred by the employee.

8. Where can I find the Federal Meal and Incidental Expense (M&IE) rate?

The range of the M&IE rates is designated by regions in the IRS code. Additional information on M&IE Rates can be found at www.gsa.gov/mie.


9. Some of our employees use their personal cell phones routinely for business purposes. We reimburse them on a monthly basis for a predetermined amount. Is any of the reimbursement taxable to the employee?

Businesses can provide cash allowances and reimbursements for work-related use of personally-owned cell phones. Under this approach, employers that require employees, primarily for noncompensatory business reasons, to use their personal cell phones for business purposes may treat reimbursements of the employees' expenses for reasonable cell phone coverage as nontaxable. This treatment does not apply to reimbursements of unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee's regular wages.

Additional IRS guidance on the tax treatment of cell phones can be found [here](#).

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