

# Expense Reimbursements for Employees



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### Employer Reimbursements

An employer may reimburse you for travel and meal expenses incurred while performing services for the employer. The tax treatment of the reimbursement, including per diem allowances, depends on whether the employer has an “accountable plan” or a “nonaccountable plan.”

If expenses are reimbursed under an accountable plan, the employer deducts the amount allowable as travel and meal expenses, and you exclude the reimbursement from income.

If the expenses are reimbursed under a nonaccountable plan, the employer reports the reimbursement as taxable wages to the employee on Form W-2 and takes a wage expense deduction.

**Note:** Only Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses may file Form 2106, *Employee Business Expenses*, to claim any unreimbursed business expenses due to the suspension of miscellaneous itemized deductions subject to the 2% AGI limit.

### Accountable Plan

To qualify as an accountable plan, you must:

- 1) Have paid or incurred deductible expenses while performing services as an employee,
- 2) Adequately account to the employer for these expenses within a reasonable period of time, and
- 3) Return any excess reimbursement or allowance within a reasonable period of time.

An arrangement under which the employer advances money to you is treated as meeting (3), previous column, only if the following requirements are also met.

- The advance is reasonably calculated not to exceed the amount of anticipated expenses.
- The employer makes the advance within a reasonable period of time.

**Excess reimbursement.** Any amount advanced to the you that exceeds the amount adequately accounted for by you must be returned to the employer within a reasonable period of time.

If a reimbursement arrangement provides for meal expenses in excess of the federal per diem rate, there must be a mechanism in place to track the actual expenses for purposes of returning the excess to the employer. If such a mechanism is not in place, the entire amount of reimbursement is included in your taxable wages, not just the amount in excess of the federal per diem.

**Reasonable period of time.** Facts and circumstances determine what is reasonable in a given situation. Actions that take place within the following list will be treated as taking place within a reasonable period of time.

- The employer reimburses an expense within 30 days of the time the employee incurred the expense.
- The employee adequately accounts for the expense within 60 days after the expense was paid or incurred.
- The employee returns any excess reimbursement within 120 days after the expense was paid or incurred.
- The employer gives the employee a periodic statement, at least quarterly, that asks the employee to either return or adequately account for outstanding advances, and the employee complies within 120 days of the date of the statement.