

Accountable v. Nonaccountable Plans

Methods of Reimbursing Employees for Expenses

Accountable Plans

A plan under which an employee is reimbursed for expenses or receives an allowance to cover expenses is an *accountable* plan **only** if the following conditions are satisfied:

- there must be a business condition for the expenses;
 - the expense must be in connection with performance of services as an employee
 - the reimbursement must be for an expense the employee could deduct on his/her tax return
- the employee must either substantiate or be deemed to have substantiated the expenses;
 - Generally substantiation consists of receipts and/or cancelled checks and invoices that show the nature and amount of the expenditure
 - Expenses deemed to have been substantiated are such things as using the mileage allowance rate (50 cents per mile) rather than actual expenses for operating a vehicle or use of a per diem rate for overnight travel rather than requiring receipts for meals
- the employee must return to the employer amounts in excess of the substantiated (or deemed substantiated) expenses within a reasonable time
 - there are 2 methods of determining a reasonable time
 - Periodic Statement
 - a statement from the employer is given to the employee **at least** quarterly setting forth the amounts paid under the plan in of the substantiated amount and requesting the employee either substantiate or return excess amounts within 120 days of the statement date
 - Fixed Date
 - Advance Payments – 30 days before the reasonably anticipated expenses are paid or incurred
 - Substantiation – 60 days after expenses are paid or incurred
 - Return of excess amounts – 120 days after expenses are paid or incurred



Amounts paid under accountable plans are not income to the employee and are not shown on Form W-2.

Remember that all of the requirements must be met in order for it to be an accountable plan!

Nonaccountable Plan

A nonaccountable plan is a reimbursement plan or policy which does not meet all the requirements for an accountable plan.

Amounts paid under a nonaccountable plan are income to the employee and must be included in wages with appropriate tax withholdings.

An employer can have an accountable plan for some items, and a nonaccountable plan for others.