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EMPLOYEE REIMBURSEMENT PLANS

Two reimbursement strategies: accountable vs. nonaccountable plans

Companies can cover employees' expenses in two ways: through an "accountable plan" or a "nonaccountable plan."

- An accountable plan is a reimbursement arrangement adopted by the company that requires employees to substantiate their business-related expenses to the company within a reasonable time (no more than 60 days from the date of the expense) and to refund to the company any excess advances within a reasonable period (no more than 120 days from the date of incurring or paying the expense); no advances can be made more than 30 days prior to the time of the expense.
- A nonaccountable plan is a reimbursement that does not satisfy the requirements of an accountable.

Tax treatment under the two strategies

If there is no accountable plan in place, then the company must report reimbursements as income to employees. This means the reimbursements are taxable compensation reported on the employees' W-2 forms; the reimbursements are also subject to payroll taxes. The employees report the income and then, if they itemize, can deduct their business expenses as miscellaneous itemized deductions to the extent they exceed 2% of adjusted gross income. However, if employees are "high-income taxpayers," they lose some of the benefit from any deduction because of the phase-out of itemized deductions. If they are subject to the alternative minimum tax (AMT), they lose all of the benefit because itemized deductions are not deductible for AMT purposes.

With an accountable plan, reimbursements are not reported as income so the employer avoids payroll taxes and W-2 reporting. The employer deducts the business expenses. The employee does not have any income to report and does not have any expenses to claim as miscellaneous itemized deductions. Not having additional income means that adjusted gross income is minimized; this in turn may increase eligibility for certain tax breaks and/or avoid triggering certain phase-outs or additional taxes.
ACCOUNTABEL PLAN = EMPLOYEE GOES ON A TRIP BRINGS RECEIPTS FOR $489.22 GETS PAID ITS NOT PAYROLL
Mileage Log presently it 57.5cents per mile

NON ACCOUNTABLE PLAN = EMPLOYER PAY THE EMPLOYEE $500 ROUND UP SAYS I DONT NEED RECEIPTS THAT IS PAYROLL