

IRS Publication 463 – Travel, Entertainment, Car Allowances
Employee Reimbursements Under an Accountable Plan

What is an Accountable Plan?

When an employer reimburses its employees for business expenses, the tax implications for the employee (i.e., treatment on an employee's Form W-2) depend in part on whether the employer has an accountable plan in place. Treatment of the reimbursements for tax purposes varies depending upon the type of plan:

- ✓ Reimbursements paid under an accountable plan are not reported as income to the employee.
- ✓ Reimbursements as paid under nonaccountable plans are reported as income on an employee's Form W-2.

Accountable Plan Criteria

According to IRS Publication 463, in order for reimbursements not to be included in an employees' income and reported on Form W-2, certain specific criteria must be adhered to. To qualify as an accountable plan, RIT's reimbursement or allowance arrangements must include all three of the following rules:

1. Your expenses must have a clear ***business connection*** – That is, you must have paid or incurred RIT business related expenses while performing services as an employee.
 2. You must adequately account for these expenses within a ***reasonable period of time***.
 3. You must return any ***excess reimbursement or allowance*** within a reasonable period of time.
- ✓ ***Business Connection*** – Requires that you establish a clear business purpose for the expenditure including “who” was involved or in attendance; “what” the connection was to RIT (i.e., a brief description of the purpose of the meeting).
 - ✓ ***Reasonable Period of Time*** – Depends on the facts and circumstances of your situation. However, regardless of the facts and circumstances, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.
 - You receive an advance within 30 days of the time you expect to incur the expense.

- You adequately account for your expenses within 60 days after they were paid or incurred.
 - You return any excess reimbursement within 120 days after the expense was paid or incurred.
 - You are provided a periodic statement (at least quarterly) asking you to either return or adequately account for outstanding advances within 120 days of the statement.
- ✓ ***Excess Reimbursement or Allowance*** – Any amount you are paid that is more than the business-related expenses that you adequately accounted for to RIT.

What Happens When the Accountable Plan Rules Aren't Met

Failure to adhere to the IRS' rules regarding accountable plans jeopardizes the status of RIT's plan. Those expenses that fail to meet all three rules for accountable plans will be treated as having been reimbursed under a nonaccountable plan. RIT is required to combine the amount of any reimbursement or other expense allowance paid to you under a nonaccountable plan with your wages, salary, or other pay, reporting the total in box 1 of your Form W-2.



Submit requests for reimbursements as soon as they are incurred.

- ✓ Use a Travel Expense Report to account for travel when there's airfare, an overnight stay, or an advance.
- ✓ Submit other reimbursement requests on an Invoice Payment Form.
- ✓ To expedite the reimbursement process, include original receipts and information about the business connection (e.g., who and what/why).

To obtain more information about RIT policies and procedures related to employee reimbursements, refer to the Controller's Office web page:
<http://finweb.rit.edu/controller/>.