Accountable Reimbursement Plans

Q: Why is it important to create an accountable reimbursement plan?

A: An accountable reimbursement plan is a policy adopted by the church board that allows employees to be reimbursed for business expenses. When employees make purchases for the church, they can report these expenses to the church for reimbursement, rather than report these to the IRS on their personal tax return as a tax deduction.

The accountable reimbursement plan, in order to meet IRS specifications, ought to have the following qualities:

- There must be a business connection of the expenses reimbursed.
- The employee must make an adequate accounting of the expenses (according to IRS standards) within a reasonable period of time.
- Any excess reimbursements or advances must be returned to the church employer and may not be retained by the employee.
- Reimbursements may not be made out of salary reductions – this means that reimbursements may not reduce the employee's taxable wages.

If these standards are not followed, but the church reimburses the employee, the church has engaged in a non-accountable reimbursement plan. Non-accountable reimbursements are considered taxable income and must be accumulated on the employee's W-2 at yearend.

There are several advantages of having an accountable reimbursement plan versus a non-accountable reimbursement plan. Expenses that are reimbursed via an accountable reimbursement plan are treated favorably for tax purposes for two reasons.

- First, these reimbursements are not counted as taxable income to the employee. Expenses reimbursed under non-accountable plans, by contrast, are counted as income to the employee.
- Second, the employee gets 100 percent of the tax advantage of the expense versus claiming it as an employee business expense on his/her tax return.

Here's why: When employee expenses are claimed as business expenses on an individual's tax return, these expenses are reduced by both the application of the Deason Rule and the two percent of adjusted gross income that employee business expenses must exceed before becoming eligible as itemized deductions. Further, an employee can only deduct these expenses if he/she itemized deductions on Schedule A of their individual income tax return.

Additional Information:

1. For an explanation of how to make travel expense reimbursements comply with an accountable reimbursement plan, see our January 2014 Q & A. http://ag.org/top/General_Treasurer/ChurchAdminEssentials/articles/January-2014-Q&A.pdf
2. To dig into IRS rules about accountable reimbursement plans, see chapter 6 in IRS publication 463, *Travel, Entertainment, Gift, and Car Expenses*. http://www.irs.gov/pub/irs-pdf/p463.pdf

This Q & A was excerpted from the pamphlet titled "*Frequently Asked Questions – Personnel and Payroll Matters*", which can be downloaded in English and Spanish at http://generaltreasurer.ag.org.