REIMBURSEMENT PLANS

"Accountable" reimbursement plans. An accountable plan is one under which the employer reimburses the employee for employment-related expenses (or pays an expense allowance) but requires the employee to "adequately account" for the expenses. This means the employee must submit to the employer an expense record (account book, diary, expense statement, etc.) along with receipts and other documentation indicating the expense amount, time and place, business purpose, and business relationship to anyone else involved (e.g., a client, supplier, etc.).

In lieu of submitting detailed expense records, the employer may pay a per diem allowance. IRS provides a number of ways of calculating the per diem amount, including the regular federal per diem rate, the standard meal allowance, and the high-low substantiation method.

For the plan to qualify as an accountable plan, it must also require the employee to pay back any excess payments received. For example, if the employee receives $1,000 under an expense account arrangement and only incurs $800 in expenses, in order for the plan to qualify as accountable, it would have to require the employee to return the $200 not spent.

If the employee is reimbursed (or receives an allowance) for expenses under an accountable plan, the tax treatment is simple: do nothing. The transaction is treated as a wash. The reimbursement or allowance shouldn't be included in the employee's income on the W-2 form received from the employer and the employee doesn't take a deduction for the expense. The rules in this paragraph apply for all years.

Nonaccountable reimbursement plans. If the employer doesn't maintain an accountable plan, any expense reimbursements or allowances received from the employer will be included in the employee's wages on the W-2 form received from the employer. After 2017, the employee can no longer deduct these expenses as a miscellaneous itemized deduction.