

Employee Reimbursements Under an Accountable Plan

A. 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.

B. Accountable Plan Criteria

According to IRS Publication 463, in order for reimbursements not to be included in an employee's 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 for the university as an employee.
 - ✓ **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).
2. You must adequately account for these expenses within a **reasonable period of time**.
 - ✓ **Reasonable Period of Time** – Based on IRS guidance, RIT has determined that it is *reasonable* to account for travel related expenses within 60 days from the last day of the business trip. Therefore, in order to be reimbursed for travel related expenses on a non-taxable basis, employees must complete and submit their online Travel Expense Report no later than 60 days from the last day of the trip.
 - If the reimbursement request is completed and submitted online after 60 days from the last day of the trip, **the reimbursement will be made to the employee on a taxable basis**. This means that the total reimbursable expenses will be reported as income and added to the traveler's Form W-2.
 - Travel Expense Reports submitted after 120 days from the last day of the trip, will not be processed.
3. You must return any **excess reimbursement or allowance** within a reasonable period of time.

- ✓ ***Excess Reimbursement or Allowance*** – Excess reimbursements or allowances include any amount you are paid that is more than the business-related expenses that you adequately accounted for. If this amount is not returned to the university within 60 days of the last day of the trip, it will be added to the traveler’s W-2 wages.

Note: It is important that expenses be accounted for in the fiscal year (July 1 – June 30) in which they were incurred. Accounts Payable will seek the approval of the Division Vice President before processing reimbursements that cross fiscal years.

C. What Happens When the Accountable Plan Rules Aren’t Met?

Failure to adhere to IRS rules regarding accountable plans jeopardizes the status of RIT’s plan. Those expenses reimbursed between 61 through 119 days after the last day of the trip will be considered reimbursed on a non-accountable plan basis (e.g., taxable). RIT is required to combine the amount of any reimbursement or other expense allowance paid to you under a non-accountable 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, using the Oracle Online Application: ***RIT Reimbursement for Travel***

- ✓ Use a Travel Expense Report to account for travel when there’s airfare, an overnight stay, or an advance.
- ✓ Submit other reimbursement requests using the Oracle Online Application: ***Reimbursement for Expenses*** (i.e., reimbursement for a one day trip, reimbursement for refreshments purchased for an office meeting, etc.)
- ✓ To expedite the reimbursement process, attach a file of all receipts to the Online Request and include 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:

<https://www.rit.edu/fa/controller/content/travel-policies-procedures-manual#A>.

Reference: IRS Publication 463 – Travel, Entertainment, Car Allowances