Accounting for IRS Travel Laws: Using Accountable Plans

Matt Willis, CPA

Overview

- What is an accountable plan?
- Advantages and disadvantages of an accountable plan
- How to establish an accountable plan
- Maintaining both an accountable and nonaccountable plan
- Automobile expense under an accountable plan
- Per diem allowances and an accountable plan

What Is an Accountable Plan?

An **accountable plan** is a reimbursement or other expense allowance arrangement “plan” that requires employees to substantiate covered expenses and return unsubstantiated advances. For a plan to be accountable, the following requirements must be met.

1. Business connection
2. Adequate substantiation
3. Excess advances must be returned to employers

Business Connection

- There must be a business connection between the expense incurred by the employee and the employer’s trade or business.
- Deductible business expenses must satisfy the rules for deductibility under Part VI of Subchapter B of the Code, including Section 162 (ordinary and necessary) and Section 167 (depreciation) expenses.
- Reimbursements must not be disguised wages or compensation.
- Reimbursements for personal expenses do not have a business connection and are treated as made under a nonaccountable plan.

Adequate Substantiation

- To qualify as an accountable plan, employees must substantiate reimbursed expenses within a reasonable period of time from the time they were paid or incurred.
  - Two safe harbor methods:
    1. The fixed date method
    2. The periodic statement method
- Substantiation requirements are generally separated into two categories:
  1. Travel and entertainment governed by IRC Sec. 247(d)
  2. Expenses not governed by IRC Sec. 247(d)

Excess Advances

- An accountable plan must restrict advances to reasonable amounts for anticipated expenses and must require employees to return excess advances.
- Excess advances can be used to pay other business expenses that were not originally anticipated as long as documentation is provided.

Excess Advances continued

- Reasonable period for substantiations and return of excess advances
  - A reasonable period is determined based on the facts and circumstances of the situation. Unfortunately, this is not defined in the regulations. The IRS does offer two safe harbor methods for establishing a reasonable period: fixed date method and periodic statement method.
  - Fixed date method
    1. Advances are made within 30 days of when the expense will be paid or incurred.
    2. Expenses must be substantiated within 60 days after they are paid or incurred.
    3. Excess advances must be returned within 120 days after the expense is paid or incurred.
  - Period statement method
    - The employer provides a periodic statement, at least quarterly, to the employee showing all unsubstantiated expenses and all excess advances. The employee has 120 days to provide the required substantiation or return the excess advances.

Advantages and Disadvantages of an Accountable Plan

Advantages

- Reduces payroll taxes
- Reduces income taxes of employees

Disadvantages

- Additional paperwork for employer
- Employer is limited to 50% deduction on meals and entertainment expenses.

How to Establish an Accountable Plan

- Employers should adopt a written accountable plan document that is clear and concise.
- Procedures that should be put into place should include:
  1. Formatting and designing the company's expense report to confirm adequate information is obtained to maintain the plan's accountable status.
  2. Establish a system to monitor the timelines of excess advance reimbursements and substantiation requirements.
  3. Educate employees to be able to handle both accountable and nonaccountable plan payments.
  4. Reimbursement and allowance payments should be separately identifiable. It is recommended that they not be paid with payroll and separate payments made. If made with payroll, a breakdown of what is included in the check should be provided to the employee.

Maintaining Both an Accountable and Nonaccountable Plan

- Requirements for an accountable plan apply on an employee by employee or reimbursement by reimbursement basis. The employer should have both an accountable and nonaccountable plan in place to account for both types of reimbursements.

Automobile Expense

- Reimbursement of an employee's automobile expenses under an accountable plan is excludable from the employee's income.
- In lieu of reimbursing an employee's actual automobile expenses, the employer may pay a mileage allowance.
- IRS mileage rate for business miles in 2016 is $0.54/mile. The rate for 2017 has not yet been announced.

Per Diem Allowance

- **Per diem allowance** means a payment under an arrangement that meets the following requirements:
  1. The arrangement must be an accountable plan.
  2. Expenses must be ordinary and necessary business expenses incurred by an employee for either lodging, meal and incidental expenses, or for meal and incidental expenses, for travel away from home in connection with performing services as an employee.
  3. The allowance must be reasonably calculated not to exceed the expenses. Employers use the applicable federal per diem rates provided by the IRS.
  4. The allowance must be paid at or below the applicable federal per diem rate under a flat rate or stated schedule.

Per Diem Allowance continued

- Per diem allowances may be structured in the following ways:
  1. Full allowance plans—This plan covers lodging, meals and incidental expenses while the employee is traveling.
  2. Meals and incidental plans (M&IE)—This plan only covers meals and incidental expenses incurred while the employee is traveling. Actual lodging can be reimbursed by the employer or paid directly by the employer.

Per Diem Allowance continued

- Advantages:
  1. Generally, there are no limitations on how or when a per diem allowance plan can be used.
  2. They eliminate the need for employees to provide documentation on expenses.
  3. Per diem rates that do not exceed the federal rate are exempt from wage and tax withholding.
- Substantiation methods for per diem plans:
  1. Per diem substantiation method
  2. High/low substantiation method
  3. Meals and incidentals substantiation method (M&IE)

Per Diem Allowance continued

- Other

1. Once selected, the per diem or high/low method must be used for the entire year.
2. The General Services Administration (GSA) annually updates the per diem rates (CONUS) for travel within the U.S. The update is released on October 1.
3. Per diem rates can be obtained from the GSA at www.gsa.gov.
4. Employees traveling to more than one location in one day should be paid the per diem rate based on the locality that the employee stops to sleep or rest.
5. Employers who pay per diems above or below the federal rate will still qualify as having an accountable plan if payments are consistent.
6. Meals and incidentals are based on a full day. If travel is less than a full day, defined as 24 hours, the amount must be prorated.
7. Meals and incidentals reimbursements are subject to the 50% disallowance rule under IRC Sec. 274(n) as meals and entertainment.
8. Other expenses not covered under the per diem can be reimbursed separately under an accountable plan.

Primary Destination (1, 2)	County (3, 4)	Max lodging by Month (excluding taxes) 2015 Oct	2015 Nov	2015 Dec	2016 Jan	2016 Feb	2016 Mar	2016 Apr	2016 May	2016 Jun	2016 Jul	2016 Aug	2016 Sep	M&IE (5)
Standard Rate	Applies for all locations without specified rates	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$51
Carlsbad	Eddy	$148	$148	$148	$148	$148	$148	$148	$148	$148	$148	$148	$148	$54
Las Cruces	Dona Ana	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$94	$59
Santa Fe	Santa Fe	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$99	$64
Taos	Taos	$93	$93	$93	$93	$93	$93	$93	$93	$93	$93	$93	$93	$69

Primary Destination (1, 2)	County (3, 4)	Max lodging by Month (excluding taxes)												M&IE (5)
		2015			2016									
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Standard Rate	Applies for all locations without specified rates	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$89	$51
Grand Canyon / Flagstaff	Coconino / Yavapai less the city of Sedona	$124	$89	$89	$89	$89	$124	$124	$124	$124	$124	$124	$124	$64
Kayenta	Navajo	$112	$112	$112	$112	$112	$112	$112	$112	$112	$112	$112	$112	$59
Phoenix / Scottsdale	Maricopa	$113	$113	$113	$161	$161	$161	$120	$120	$89	$89	$89	$113	$59
Sedona	City Limits of Sedona	$134	$134	$134	$134	$134	$141	$141	$141	$141	$141	$141	$134	$74
Tucson	Pima	$89	$89	$89	$106	$106	$89	$89	$89	$89	$89	$89	$89	$59

Total	Continental Breakfast/ Breakfast	Lunch	Dinner	IE
$51	$11	$12	$23	$5
$54	$12	$13	$24	$5
$59	$13	$15	$26	$5
$64	$15	$16	$28	$5
$69	$16	$17	$31	$5
$74	$17	$18	$34	$5

This table lists the amount federal employees receive for the first and last calendar day of travel. The first and last calendar day of travel is calculated at 75 percent.

Total	First & Last Day of Travel
$51	**$38.25**
$54	**$40.50**
$59	**$44.25**
$64	**$48.00**
$69	**$51.75**
$74	**$55.50**

Questions?

Contact Information

Matt Willis, CPA
Bolinger, Segars, Gilbert & Moss, LLP
8215 Nashville Ave.
Lubbock, TX 79423
P (806) 747-3806
F (806) 747-3815
mwillis@bsgm.com