IRS Publication 970

To be an accountable plan, your employer's reimbursement arrangement must require you to meet all three of the following rules.

- Your expenses must have a business connection. This means your expenses must be allowed under the rules for qualifying work-related education explained earlier.
- You must adequately account to your employer for your expenses within a reasonable period of time.
- You must return any reimbursement or allowance in excess of the expenses accounted for within a reasonable period of time.

If not reimbursed under an accountable plan, your employer must include all of those reimbursements as income on your Form W-2

Accountable Plans for Reimbursing Employees


•••Jcomp / Getty Images
By Jean Murray
Updated August 12, 2019

An accountable plan is an employee reimbursement allowance arrangement or a method for reimbursing employees for business expenses that complies with IRS regulations.

Tax Law Changes and Accountable Plans

The 2017 Tax Cuts and Jobs Act (TCJA), effective for 2018 through 2025 tax years, has made major changes in a number of business tax-related issues, including taxability of employee moving expenses. In brief, here are the changes:

Unreimbursed Moving Expenses No Longer Deductible to Employees. Employee costs for a business move that are not reimbursed by employers are no longer deductible under the "Miscellaneous Expenses" section of Schedule A.

Reimbursed Moving Expenses Taxable to Employees. In previous years, if the company's reimbursement program was an accountable plan (as described below), the employee benefit wasn't taxable to the employee. Now (2018-2025) these benefits are always taxable to employees. You must withhold and pay all employment taxes and include these costs on the employee's W-2 form and with

Moving Expenses Still Deductible to Employers. Whether or not you have an accountable plan, the expense of moving employees for business reasons is still a deductible expense for your business.

Why Have an Accountable Plan?

Beginning in 2018, having an accountable plan for reimbursing employee moving expenses isn't going to change the fact that employees must pay tax on these benefits in all cases. So why have an accountable plan?

The Most Important Reason to Have an Accountable Plan

Businesses still must have an accountable plan so that reimbursed expenses that meet specific limits are not taxable to employees. If the employer doesn't have an accountable plan, ALL reimbursements could be taxable to employees.

A good reason to use the criteria and processes of an accountable plan is to set up processes and checks to avoid issues with the IRS if you get audited.

Another good reason is that "accountable' also applies to employees. Having an accountable plan means they must provide receipts and return excess amounts, so there is less ability to over-report and pocket the excess.

How an Accountable Plan Works

Accountable plans may include reimbursement for a number of different employee-related expenses, including:

- Employee travel expenses, including meals
- Purchase of tools and equipment
- Employee home office expenses
- Mileage costs
- Required uniforms not suitable for ordinary wear;
- Dues and subscriptions; and
- Job search expenses for employees who have been laid off.

The accountable plan also must include a procedure requiring employees to return excess reimbursements (those in excess of allowable amounts) to the employer. If an employer sets up and maintains an accountable plan, employee travel expenses do not have to be treated as taxable income.

Allowable Plan Requirements

In order to be considered an "accountable plan" by the IRS, your arrangement must include ALL of the following:

1. The expenses must have a ***business connection***; that is, they must have been paid or incurred while performing services as an employee.

2. The employee must ***adequately account to the employer for*** these expenses within a reasonable time. You must require employees to provide you with detailed information on these expenses, including date, time, place, amount, and business purpose for the expense.
3. You must require the employee to ***return excess reimbursements*** within a reasonable and specific period of time, depending on the circumstances. If employees are not required to turn in excess amounts, these amounts must be included in their income and they increase the cost of the bene

If all three of these requirements are not met, the plan is determined by the IRS not to be accountable.

Excess Reimbursements

Excess reimbursement is reimbursement greater than allowable amounts. If the employee doesn't return excess reimbursements within a reasonable period of time, these excess amounts are taxable to the employee. The most common circumstance would be a case in which you give an employee an advance before they leave for a trip, and the expenses during the trip are less than the amount advanced.

A reasonable period of time for a return of excess reimbursements is determined by the IRS as, for example:

- An advance received within 30 days of the time of the expense.
- The employee furnishes an adequate account of expenses within 60 days after they were paid or incurred.
- The employee returns any excess reimbursement within 120 days after it was paid or incurred.
- The employee is given a statement (at least quarterly) that request return or adequate accounting for outstanding advances, and the employee complies within 120 days after receiving the statement.

Keep Detailed Records of Payments

No, there's no requirement that you submit a written plan to the IRS. But you should be able to prove you have defined your requirements for reimbursing employees for expenses.

It's a good idea to put these requirements in writing, as part of your employee policy and procedures manual.

Document all transactions with employees for their reimbursements of expenses, keeping records to show that all requirements of the accountable plan were followed.