

Tax obligations related to employer reimbursed business expenses

There are two types of expense reimbursement arrangements which determine whether reimbursed expenses are included in wages and, therefore, taxable.

- accountable plan
- non-accountable plan

Under an **accountable plan**, reimbursed expenses are not included in employees' income and are not taxed. To have an accountable plan, an employer must require its employees to meet all three of the following rules:

1. The employee must have paid or incurred allowable expenses while performing services. The reimbursement or advance must be payment for the expenses and must not be an amount that would have otherwise been paid to the employee as wages.
2. The employee must substantiate these expenses to the employer within a reasonable period of time.
3. The employee must return any amounts in excess of substantiated expenses within a reasonable period of time.

In short, in an accountable plan, employees submit receipts and expense reports and get reimbursed for the exact amount of the expense, and, therefore, the reimbursement is not reported as income and taxes are not withheld.

If the above requirements aren't met, then the plan is a **non-accountable plan** and reimbursements are included in the employees' wages and are taxed. In a non-accountable plan, an employer provides a set amount of allowance across the board for everyone without requiring employees to substantiate their expenses. As such, some employees will get more than their actual expenses, and some will get less. In this situation, the reimbursement is taxable income and taxes will be withheld.

Employee Taxes

Employees can deduct the expenses on their state tax returns (in CA and NY) if the employer reports them as income, only if the employee itemizes their deductions (subject to limitations for the applicable state). This deduction is not allowed for federal taxes. The tax law that was passed in December 2017 no longer allows the deduction of employee expenses on the federal individual tax return.

These are intended to be general guidelines and should not be specifically relied upon. We would advise you check with your tax adviser/preparer to ensure the utmost accurate and updated information applicable to your individual situation.