

(Church or Entity Name)

(April 15, 2021)

Expense Reimbursement Policy

The expense reimbursement process allows (Church Name) to pay back employees and/or other individuals who have spent their own money for business-related expenses. When employees and/or individuals receive an expense reimbursement, typically they will not be required to report such payments as wages or income.

This type of reimbursable expenses tends to occur when employees or designated individuals travel for the organization but can also be associated with other activities related to their involvement, including, for example, certain purchases of work-related supplies or tools.

Page 15 of IRS [*Publication 15*](https://www.irs.gov/pub/irs-pdf/p15.pdf), (Circular E), Employer's Tax Guide, states that expense reimbursements do not have to be included in an employee's wages if the business has an “accountable” plan.

In order to have an accountable plan, an expense reimbursement policy or advance payment program must meet the following three conditions:

1. **Business connection:** The expense must occur in the performance of services as an employee of the employer.
2. **Substantiation:** The employee [must substantiate their business expenses](https://justworks.com/blog/expenses-101-proper-substantiation-business-expenses.html) by providing the employer with evidence of the amount, time, place, and business purpose of the expense. The employee also must submit business expenses within a reasonable period of time after they occurred.
3. **Returning excess amounts:** If any amounts the employer pays to the employee exceed the amounts the employee spent, the employee must return excess amounts to the employer within a reasonable period of time.

An accountable plan must meet three conditions: having a business connection, substantiation, and returning excess amounts.

IRS [*Publication 15*](http://www.irs.gov/pub/irs-pdf/p15.pdf), (Circular E), Employer's Tax Guide, states that the employee must substantiate their business expenses by providing the employer with evidence of the amount, time, place, and business purpose of the expense within a reasonable period of time after they are paid or incurred.

There are two methods of determining a reasonable period of time for substantiation and returning excess amounts:

1. **Fixed-date method** – The expense must be substantiated by the employee within 60 days of being paid or incurred, and the excess amount of any advance must be returned to the employer within 120 days of when the expense was paid or incurred.
2. **Periodic statement method** – The employer can issue a periodic statement to the employee detailing amounts that have been paid and not substantiated and require the employee to either substantiate the excess amount or return it to the employer within 120 days of receiving the statement. Periodic statements must occur at least quarterly.

(Church Name) has implemented the (\_\_\_\_Fixed-date OR Periodic statement \_\_\_\_) method.

In addition, (Church Name) will issue a statement to an employee for business expenses that have been submitted for reimbursement but will not be reimbursed until proper substantiation is provided.

IRS [*Publication 463*](http://www.irs.gov/pub/irs-pdf/p463.pdf)*,*  provides detailed information on how employees can prove expenses. Proof of an expense includes the following three items:

* Adequate records
* Sufficient evidence
* Written record

Adequate records are defined by *Publication 463* on page 25: “You should keep the proof you need in an account book, diary, log, statement of expense, trip sheets, or similar record. You should also keep documentary evidence that, together with your record, will support each element of an expense.”

The best sufficient evidence is documentary evidence that supports the employee's expenses. This may include receipts, canceled checks, or bills. Documentary evidence, however, is deemed adequate only if it shows the amount, date, place, and essential character of the expense. **Bank Statements and/or Credit Card Statements are not acceptable documentary evidence.**

In most cases, the IRS requires documentary evidence for expenses only if the expense is greater than $75. However, there are exceptions, especially lodging expenses. Since lodging bills may contain other expenses in addition to room charges (such as meals, telephone calls, laundry, Internet access, and video rentals), a hotel or motel must provide an itemized bill. **Personal** **expenses (such as video rentals) should not be included or reimbursed.**

When (Church Name) reimburses an employee or individual pursuant to an accountable plan, the reimbursement will not be considered as wages or income to the employee or individual.

IRS [*Publication 535*](http://www.irs.gov/pub/irs-pdf/p535.pdf), Business Expenses, states the following: “To be deductible, a business expense must be **both** **ordinary and necessary**. An ordinary expense is one that is common and accepted in the industry. A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary.”

What are some examples of ordinary and necessary expenses that would require employer reimbursement? The most common are work-related supplies, travel, meals, and entertainment.

Supplies that an employee purchases for business purposes can be reimbursed at cost, provided that they are reimbursed pursuant to an accountable plan.

The cost of work-related travel, including transportation, lodging, meals, and entertainment that meet the criteria outlined in IRS [*Publication 463*](http://www.irs.gov/pub/irs-pdf/p463.pdf), Travel, Entertainment, Gift, and Car Expenses are generally reimbursable expenses.

Many employers will reimburse an employee or individual who uses their personal vehicle for business at a standard mileage rate. Generally, this will not include commuting expenses between an employee’s home and workplace. The [standard mileage rate](https://www.irs.gov/newsroom/2017-standard-mileage-rates-for-business-and-medical-and-moving-announced) is set by the IRS each year (January 1st and July 1st). (The standard federal mileage rate for business as of “January 1, 2021 is 56 cents per mile.”)

Meal and entertainment costs incurred by the employee are a reimbursable expense only if the meal or entertainment can be shown to have a **clear** business purpose.

In order to reimburse employees for expenses, it is vital for an employer to have an accountable plan.

If an employer does not have an accountable plan in place, then IRS *Publication 15* states: “Payments to your employee for travel and other necessary expenses of your business under a nonaccountable plan are wages and are treated as supplemental wages and subject to the withholding and payment of income, social security, Medicare, and FUTA taxes.”

Even if the expenses are ordinary and necessary, if the employer does not have an accountable plan, then any reimbursements are taxable income.

If the employer has an accountable plan, but the employee fails to properly substantiate the expenses within a reasonable time, or the employee fails to return excess advance payments, then any reimbursements could become taxable income.

If any expenses are paid in excess of IRS limitations, then the excess is taxable income. For example, if an employer reimburses an employee for mileage at more than the standard mileage rate, then the excess is taxable income.

If the employer establishes a written accountable plan, and the employee submits properly documented expenses under that plan, then the reimbursements should not be taxable income.

Engaging a business accountant and referring to employment counsel will help ensure that (Church Name) are deducting and reporting the correct amounts.

I have read and will conform to Expense Reimbursement Policy of (Church Name).

Print Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_