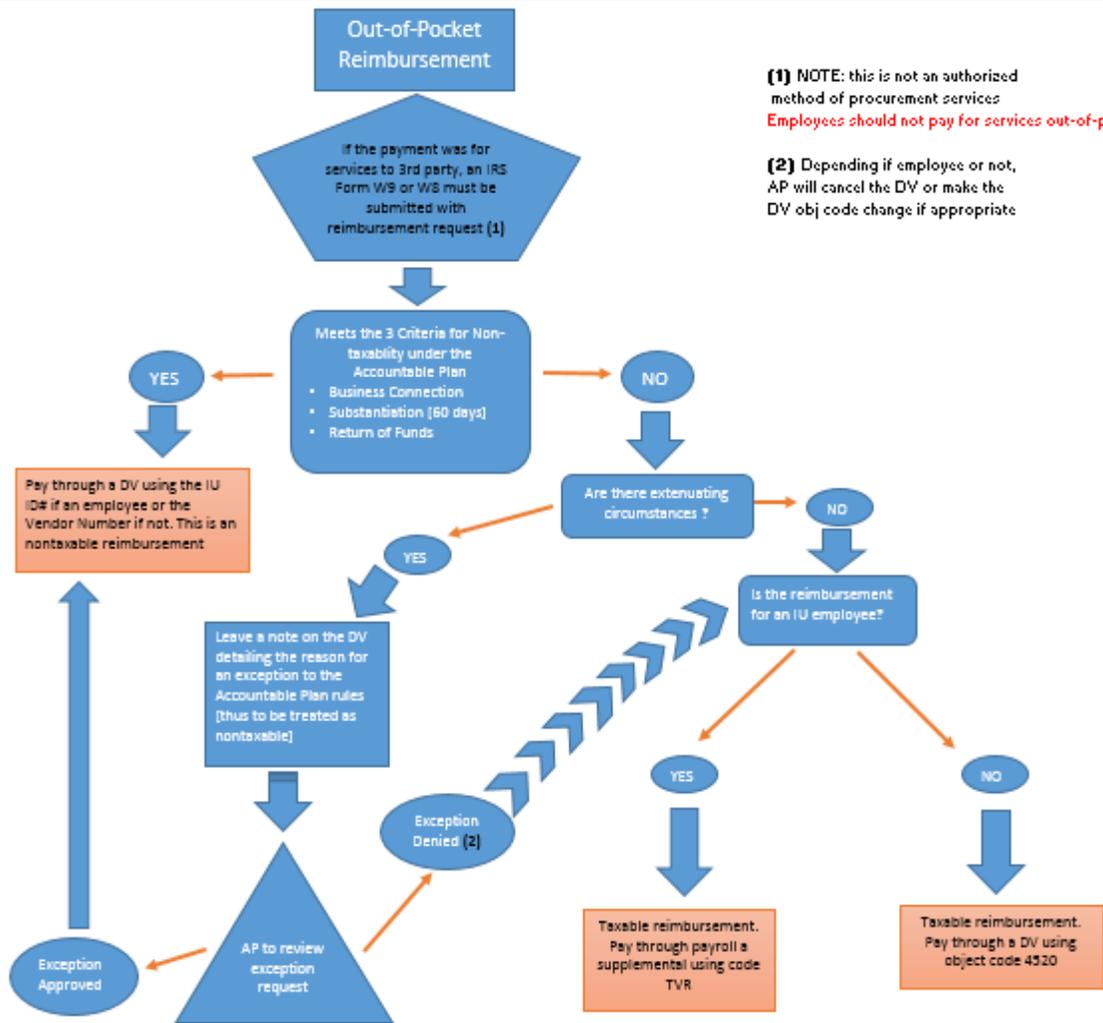


UNIVERSITY TAX SERVICES

STANDARD OPERATING PROCEDURE

TSOP NO:	9.02
SUBJECT:	Accountable Plan Reimbursements
SOURCE:	University Tax Services – Financial Management Services
ORIGINAL DATE OF ISSUE:	2/25/16
DATE OF LAST REVISION:	11/13/17
RATIONALE:	To provide guidance and reference to units/departments on the rules and requirements of the accountable plan in accordance with Internal Revenue Service (IRS) for reimbursement to employees, students and outside parties.
PROCEDURES:	<p>The IU policy FIN-ACC-I-620 Reimbursement Under the Accountable Plan regarding reimbursement for business expenses incurred in connection with providing services to the university is written with the goal of presenting IRS definition of an <i>accountable plan</i>. If a reimbursement is not made following the accountable plan rules, then it is deemed to be paid under a non-accountable plan and considered taxable income to the payee.</p> <p>Non-accountable plan reimbursements to employees for travel reimbursement and for out of pocket expense reimbursement is processed through payroll [taxable]. Follow the detail provided later in this TSOP.</p> <p>Here is a flow chart:</p>



The primary responsibility for compliance with this standard operating procedure rests with the individual requesting the reimbursement or who incurred the business expense and the departments and supervisors authorizing and approving the business and travel expenses.

In order to avoid having the reimbursement be taxable to the payee, expenses must follow the three requirements of:

1. Business Connection
2. Substantiation
3. Return of Funds

When the reimbursement does not satisfy one or more of the listed requirements, the amount will be included in the payee's gross income and reported as wages or other compensation.

1) Business connection requirement

- a) An expense incurred in achieving the university's mission or directly related to the conduct of official university business and must be:
 - Necessary

- Appropriate to the activity
- Reasonable in amount
- Serve a bona fide university purpose

An expense that serves primarily to furnish the individual with a social or personal benefit is not a business expense. Expenses that primarily benefit a student's personal education are considered a scholarships or fellowships and are not a business expense. These expenses do not meet the accountable plan criteria.

b) Examples:

Below are some examples of expenses covered under the accountable plan as relates to employment and business connection:

- Business use of automobile, up to the current IRS standard mileage rate
- Business travel away from home: transportation, lodging and meals on overnight trips
- Convention, conference and workshop expenses, as it relates to employment
- Continuing education expenses, as it relates to employment
- Subscriptions, books and software if IU is ultimate owner
- Entertainment/hospitality expenses, if business connection requirement is met and if in compliance with IU Policy [FIN-ACC-I-50 Allowable Hospitality Expenses](#)
- Sales tax on purchases made by employees within IU policy guidelines
- Reasonable roaming charges for cell phones being used for an IU business purpose

The university will not reimburse or pay for expenses that are inherently personal in nature or against policy.

The following list sites a few examples:

- Personal reading material, such as non-scholarly magazines, books and newspapers
- Personal recreation or entertainment such as greens fees, sightseeing fares, theater tickets, entry fees, lift tickets, etc.
- Credit card delinquency fees and finance charges
- Dues in private clubs
- Gym and recreational fees, including massages, manicures/pedicures and saunas
- Amenities such as movies, in-room bars, saunas, massages, etc.
- Personal insurance costs such as life insurance, business travel insurance
- Parking tickets or traffic violations
- Any type of fine or penalties

2) **Substantiation requirement**

a) Substantiate each business expense in a *reasonable period of time* (60 days).

The University has adopted the IRS Safe Harbor for a *reasonable period of time* to substantiate business expenses, which is 60 days or less from the date the expense was paid/charged.

- The accounting for all business and travel expenses, advances and allowances must include:
 - i) The amount of each business expenditure
 - ii) Dates of expenditure
 - iii) Business purpose

At a minimum, documentation for reimbursements must include equivalent original receipts that reflect detail on what items were purchased, the cost of each item, the name of the vendor, proof of payment and a date of transaction. Reimbursements for services are **not** encouraged as out-of-pocket expenses. Services should be processed through [IU Purchasing](#) rules and guidelines.

When documentation does not exist the fiscal officer must clarify this in a memo retained in the supporting documentation or in the notes section of the electronic document in the Kuali Financial System (KFS) or IU Travel system. Any purchases made with food stamps or reward/membership points will be considered unsubstantiated and not reimbursable. See below under Application for exceptions to policy.

The Business Purpose reason should be given in the supporting documentation of the electronic document in KFS or IU Travel system. The business purpose of an expense may be obvious to the requester, but not necessarily to a third-party reviewer. The explanation needs to answer five basic questions:

1. Who was involved in the activity?
2. What activity was performed?
3. Why was the activity done and how did it benefit IU?
4. When did the activity occur?
5. Where did the activity take place?

Examples:

Business Meal Reimbursement Example

ZACK MAYO SEARCH CANDIDATE -- WHO: Zack Mayo, PhD (search candidate), and Professor Emil Foley (committee head). WHAT: Dinner with search candidate for IU position. WHY: Dinner with potential candidate for position within IU. WHEN: March 22, 2016. WHERE: Scott's Seafood, Bloomington.

Travel Reimbursement for Guest Speaker Example

KLINE PRESENTATION, 7/4/2013 -- WHO: Kevin Kline. WHAT: Paid for travel related to participation in a panel discussion on Dramatic Movies in American Cinema. WHY: Part of the Drama Department's Summer Seminar Series. WHEN: July 4, 2013. WHERE: Indiana Memorial Union.

3. Return of funds requirement

If an exception was granted and an advance payment was disbursed to an individual the entire amount must be accounted for or returned. The individual must return to IU, within 60 days, any amount in excess of the substantiated expenses.

Travel advances are one of the few instances where an advance is acceptable. These advances are approved on a case-by-case basis and only when traveling to a foreign destination or if conducting student group travel. The advance must fulfill the following terms to meet the return of funds requirement.

- Substantiating receipts must be submitted within 60 days of the payment or the return date of the trip
- Any unused advanced funds must be repaid within 60 days of the payment or the return date of the trip

NOTE: The return of funds rule does not relate to per diem and mileage reimbursements Refer to [IU Travel Management Services](#) for information on per diem and mileage rates and IU guidelines for travel reimbursements.

Conclusion

If payments meet the requirements of 1, 2, and 3 of this section, then the amounts paid are treated under the accountable plan. These amounts are excluded from the payee's gross income [not taxable]. When the payment does not satisfy one or more of the requirements listed, it will be treated as being paid under the *nonaccountable*

plan. Therefore, the payment will be included in the payee's gross income and reported as wages or other compensation [is taxable]. Review Tax Reporting in the Application section for details on this treatment.

Application

Initiating Department Responsibilities

The primary responsibility for compliance with this TSOP 9.2 rests with the individual requesting the reimbursement or incurring the business expense and the departments and supervisors authorizing and approving the business and travel expenses.

In order to avoid having the reimbursement be taxable to the payee, expenses should follow the three requirements of:

1. Business Connection
2. Substantiation
3. Return of Funds

When the reimbursement does not satisfy one or more of the requirements the amount will be included in the payee's gross income and reported as wages or other compensation.

Non-Travel Expenses for employees that do not satisfy one or more of the requirements are processed via Payroll using the code Taxable Employee Reimbursement (TVR).

Reimbursement of Non-Travel Expenses that do not satisfy one or more of the requirements with extenuating circumstance can be processed on a DV by including a written justification explaining the circumstance as a note on the DV document.

- Travel Expenses: requests for exception to policy for travel related expenses should be documented in appropriate document field. Approval will be reviewed by Travel Management Services.
- Non-Travel Expenses: Exception to policy requests for non-travel related expenses (out-of-pocket reimbursements) are documented by leaving a note on the DV document of extenuating circumstance. Exception approval requests will be reviewed by AP and the document will either be approved as nontaxable or will be disapproved and the amount must be resubmitted as supplemental pay through payroll using code TVR. DV documents without a note explaining the exception request will be disapproved by AP and the amount must be resubmitted as supplemental pay through payroll using code TVR. The TVR code now has a description of Taxable Employee Reimbursement. TVR additional pay reasons are to have "Travel" and "non-travel".

Reimbursement policies and procedures apply to all individuals who provide services to the university and are reimbursed for university approved general business expenditures. It is the department's responsibility to inform non-employees and volunteers of the university's financial policies and procedures prior to the non-employee's engagement to ensure compliance.

Personal reimbursement is neither a sanctioned method for institutional purchases nor the proper procedure for institutional acquisition except for **dire emergencies**. The University provides procurement channels through the Office of Procurement Services for all acquisitions that are governed by institutional policies. This procedure is not intended to circumvent or avoid the appropriate policies and procedures for the purchase of goods, services or travel as identified by those policies. **[All payments for service require a form W9 or W8 from the entity providing the service (even if payment is not directly paid by Indiana University and is, instead, being reimbursed). No employee is authorized to pay directly for a service provided to Indiana University.]**

Administrative Review

Reimbursement claims not adhering to the requirements of the accountable plan will be considered for approval by Accounts Payable (AP) or Travel Management Services (TMS) only in the case of extenuating circumstances beyond the control of the employee. AP or TMS will decide, on a case-by-case basis, whether claims failing these requirements can be treated as a non-taxable reimbursement expense or as taxable compensation.

The written justification for exceptions to policy mentioned earlier will be used to make this determination. Below are some examples of justifications that will fall under either the *nonaccountable plan* (taxable) or accountable plan (non-taxable).

a. Examples

Nonaccountable Plan

- Request for reimbursement after 120 days or 60 days from the return date of trip
- Collecting receipts is an undue hardship
- Submitting expenses together over an extended period of time is more convenient
- The receipts were temporarily misplaced
- Unaware of the accountable plan requirements
- Meals involving only personnel where business is not conducted

Accountable Plan

- Out of the country on extended leave and unable to submit the receipts
- The department misplaced the receipts submitted within the 60 day limit

If the facts and circumstances do not justify the late reimbursement request then the payment will be considered income subject to withholding in the case of an employee and appear on their W-2 form. Any taxable reimbursements made to non-employees will be subject 1099-MISC reporting.

Tax Reporting

Employees: Employee expense claims ruled as taxable payments should be reimbursed as supplemental pay and paid through payroll to the employee **{using the code TVR}**. These amounts are treated as paid under a *nonaccountable plan*. The payment is included in the employee's gross income, must be reported as wages or other compensation on the employee's Form W-2, and is subject to withholding and payment of employment taxes (FICA and income tax). These amounts will appear no later than the first payroll period following the end of the 60 day reasonable period.

Non-Employees: Any reimbursements made to non-employees falling outside the *accountable plan* will be considered as reportable income. This is considered fixed, determinable income and reportable on a Form 1099-MISC as non-employee compensation. The reimbursement will be made on a disbursement voucher with the payment reason *reimbursement for out of pocket expense* and object code 4520. A disbursement voucher (DV) note will be added by the DV initiator stating "This is a taxable reimbursement and coded as 4520 per procedure".

DEFINITIONS:

Accountable Plan: A plan for reimbursing employees and non-employees for business expenses. Under this plan, the reimbursement that the employee receives for the expenses is not included in his/her income. Employees are required to substantiate expenses and return any excess reimbursement within a reasonable period of time. If any requirements are not met then the reimbursement falls under the *nonaccountable plan* rules.

Allowable Expense: A business expense that is permissible under all other IU policies such as hospitality, gifts and others as listed below in the related information section (not inclusive).

	<p>Business Expense: An expense incurred in achieving the university's mission or directly related to the conduct of official university business and must be:</p> <ul style="list-style-type: none"> • necessary • appropriate to the activity • reasonable in amount • serve a bona fide university purpose <p>An expense that serves primarily to furnish the individual with a social or personal benefit is not a business expense. Expenses that primarily benefit a student's personal education are considered a scholarships or fellowships and are not a business expense. These expenses do not meet the accountable plan criteria.</p> <p>Nonaccountable Plan: An arrangement that does not meet one or more of the three requirements listed earlier under the <i>accountable plan</i> (business connection, substantiation, return of funds). Amounts paid under this arrangement are included in the employee's gross income, must be reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of employment taxes. For non-employee's, amounts will be included as income on a Form 1099-MISC.</p> <p>Non-employees: Individuals covered under this definition include independent contractors, students and volunteers.</p> <p>Reasonable Period of Time: The IRS has established "safe harbors" which can be used to ensure reasonableness. These safe harbors state, based upon a fixed date, an advance made within 30 days of when an expense is paid or incurred, an expense substantiated to IU within 60 days after it is paid or incurred, or an amount returned to IU within 60 days after an expense is paid or incurred will be treated as having occurred within a reasonable period of time. Amounts not meeting these safe harbor guidelines are considered taxable income to the individual unless extraordinary circumstances are documented.</p> <p>Equivalent Original Receipt: It is IU's standard practice that receipt documentation is submitted electronically as a PDF file for supporting documentation. The submission attests the submitted document is the equivalent of original receipt documentation. The submission attests the paperwork will not be submitted for any other reimbursement or disbursement.</p>
<p>CROSS REFERENCES:</p>	<p>Reimbursement Under the Accountable Plan FIN-ACC-I-620</p> <p>Travel Reimbursement Deadline Policy FIN-TRV-3.0</p> <p>Reimbursement of Travel Expenditures FIN-TRV-2.0</p> <p>Purchases for Employees FIN-PUR-3.5</p> <p>Moving Expenses FIN-ACC-I-310</p> <p>Allowable Hospitality Expenses FIN-ACC-I-50</p> <p>Disbursement Voucher Supporting Documentation FIN-ACC-I-420</p> <p>Gifts to Employees or Non-Employees FIN-ACC-I-590</p> <p>Fiscal Misconduct FIN-ACC-I-30</p> <p>Inappropriate Use of University Funds FIN-ACC-I-330</p>

[Reimbursement for Meals in Emergency Situations FIN-ACC-I-430](#)

[Publication 463 Travel, Entertainment, Gift and Car Expenses](#)

[Publication 535 Business Expenses](#)