

140. Expense Reimbursements

Gross income includes all items of value received by the employee. When an employee receives a reimbursement from their employer for business expenses incurred, such as airfare or lodging, the reimbursement payment constitutes gross income to the employee unless the expense is made pursuant to an *accountable plan* under which the employer requires the employee to substantiate all expenses and repay any amounts received in excess of the documented expenses.

In order to qualify as an accountable plan, the following tests must be met:

- reimbursements can only be made for business expenses incurred by the employee in connection with the performance of the employee's duties;
- the plan must require employees to substantiate their expenses within a reasonable period of time (see below for a definition of reasonable); and
- the plan must require employees to repay any reimbursements which exceed substantiated expenses within a reasonable period of time (see below for a definition of reasonable).

If these tests are not met, the full amount of the reimbursement should be included in the employee's income (although the employee may be entitled to offset this income by deducting the expenses on his or her personal tax return).

The determination of a reasonable period of time will depend on the facts and circumstances. The IRS has set forth guidelines for determining a "reasonable period of time". In IRS Treasury Regulation 1.62-2(g)(2), the IRS has established "safe harbors" which can be used to ensure reasonableness. These safe harbors state that based upon a fixed date, an advance made within 30 days of when an expense is paid or incurred, an expense substantiated to the payer within 60 days after it is paid or incurred, or an amount returned to the payer within 120 days after an expense is paid or incurred will be treated as having occurred within a reasonable period of time.

The Business Services Office has primary responsibility for determination of taxability of expense reimbursements and should be consulted on any questionable or unclear payments.