



Infobites: S-Corporations & an Accountable Plan



Defined: Employer reimbursements for an employee's business expenses are deductible by the employer and **not** included in the employee's income. The expenses must have a business purpose and be substantiated by the employee, and the employee **must** return any excess reimbursements within a reasonable period of time.

Requirements: [IRC 62(c)]

1. Business connection. The reimbursement must be for job-related expenses the employee would reasonably be expected to incur. A Plan that reimburses personal expenses does not qualify as an accountable plan.
2. Substantiation. The employee must substantiate the expense by providing receipts or other documentation to the employer within a reasonable period of time.(see below)
3. Return of Excess Reimbursement. The employee must return any excess reimbursement to the employer within a reasonable period of time.

Reasonable period of time. The following situations will be considered within a reasonable period of time for purposes of accountable plans.

1. The employee receives an advance within 30 days of the time the expense is incurred.
2. The employee adequately accounts for the expense within 60 days of the time the expense was paid or incurred.
3. Any excess reimbursement is returned to the employer within 120 days after the expense was paid or incurred.
4. The employer provides a statement to the employee (at least quarterly) asking the employee to either return or adequately account for outstanding advances, and the employee complies within 120 days of the statement.

Note: if the above requirements are not met, the plan will be considered a nonaccountable plan i.e. will be included as taxable wages and reported Form W-2.



In a Nutshell:

- Establish and follow the "Accountable Plan" rules
- Determine the SF of living space and SF of area that is used exclusively for the business use, calculate the % of use for business (this will be used as a basis for qualified expenses to be reimbursed.
- Determine a reimbursement time i.e. monthly, quarterly, or yearly
- Gather the support documents for expenses that would qualify (see examples below), calculate based upon SF %, and attach at a min. a copy to expense report, reimburse employee for job-related costs.



Examples of expenses that can be reimbursed if they are job-related:

- Utilities expenses
- Repairs & maintenance (note: if for the area used for business, then 100% deductible)
- Real estate taxes
- Interest expense on home mortgage
- Other expenses that are job-related