Lesson 4, Travel and Other Business Expenses

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Welcome to this presentation.

I've a few announcements before we get started.

The information contained in this presentation's current as of the day it was presented and shouldn't be considered official guidance.

Any stories, names, characters, and incidents portrayed in this production are fictitious. No identification with actual persons (living or deceased), places, buildings, and products is intended or should be inferred.

This program will be maintained in accordance with federal recordkeeping laws.

Now let's get started.

This is the fourth of 12 lessons on payroll taxes.

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In this lesson, we'll concentrate on travel and other business expenses.

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Publication 15-B, Employer's Tax Guide to Fringe Benefits, explains your responsibilities as an employer.

Review "What's New" every year to see what's has changed from the previous year.

A new Publication 15-B's released every year, so make sure you're looking at the current issue.

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Often tribe officials and employees must travel for business purposes. When I talk about reimbursing travel expenses, I mean the ordinary and necessary expenses incurred while conducting this business.

In this lesson, I'll discuss what's ordinary and necessary expenses as well as what's needed to ensure expenses are properly substantiated.

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Here are the most common reasons tribal employees travel and create business related expenses:

- Travel and expenses to attend meetings – including mileage, lodging and meals
- Travel and expenses to attend trainings – including mileage, possible airfare, lodging and meals
- Travel and expenses related to running errands – most likely mileage to and from supply stores or the post office

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A tribe can choose several different methods to pay for these types of travel related expenses.

An allowance plan's when the tribe provides an employee a set amount of funds before the event occurs.

For example, the tribe may give an employee $3,000 to attend training before the event occurs so the employee can pay directly.

A reimbursement plan's when the individual must pay all expenses out of pocket. Afterward, the individual provides documentation for the expenses and is reimbursed.

The tribe may also choose to directly pay for the expenses rather than giving the employee money ahead of time or reimbursing the employee afterward.

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Expenses paid under an accountable plan aren't considered wages and aren't reported on the employee's W-2. However, if the expenses are paid under a non-accountable plan, they're reported on the employee's W-2 and subject to employment taxes.

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Tribal officials and employees must follow three rules to have an accountable plan.

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Rule number 1: They must have paid or incurred deductible expenses while performing services as your employees.

This means an employee must substantiate the time, place and business purpose of his travel.

This can include:

- Agendas from trainings and conferences
- Sign-in sheets
- A brochure from conference
- Training materials received from the conference

The employee must prove he attended the event. Providing only a hotel room receipt for a conference doesn't prove that the individual attended the conference and isn't enough.

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Let's go over a few examples to help explain this rule.

If you give a tribe official or employee money to take his family to Disneyland, this wouldn't fall under an accountable plan reimbursement. As a personal trip, the funds received would go on a W-2 as wages.

If an employee, the amount reimbursed would be subject to income tax withholding, social security, and Medicare taxes.

If a tribe official, the amount reimbursed would be wages.

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Here's another example.

You give a tribe official money to attend a leadership conference in Disneyland and he only incurs travel expenses.

Since this is a business trip (and the official provides proof he attended the conference) the funds he received aren't wages.

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Let's review one more example.

You give a tribe official or employee money to attend IRS training in Phoenix. But due to the beautiful weather, he decides to go to a baseball game instead.

This expense no longer falls under an accountable plan reimbursement. The individual decided to turn the business trip into a personal adventure, therefore the funds received go on his W-2 as wages.

If a tribal employee, the amount reimbursed is subject to income tax withholding, social security, and Medicare taxes.

If a tribal official, the total amount reimbursed is wages.

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Rule number 2. The tribe official or employee must "adequately account" for expenses within a reasonable period. This means he must provide documentary evidence, including receipts and a statement of expenses.

A reasonable period depends on the facts and circumstances.

It's considered reasonable if an employee receives an advance within 30 days of the travel, then adequately accounts for the expenses within 60 days after traveling – and return any money in excess of the expenses within 120 days.

It's also considered reasonable if you give an employee a periodic statement reminding him to either return or account for outstanding amounts within 120 days.

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Now let’s go over a few examples of this rule.

The tribal president attends a leadership conference in Santa Fe, NM. He’s gone three days and two nights. He pays his expenses and the tribe reimburses him the following week.

Before given a reimbursement check, he submits a log for the miles traveled in his vehicle to the conference and hotel and meal receipts. The tribal president adequately and timely accounted for his expenses so the funds he receives aren’t wages.

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Let’s do another example.

The tribal treasurer attends a grant writing conference in California for five days and four nights. Before he leaves, the tribe gives him $3,000 to cover his expenses.

When he returns, the tribe requests these documents:

- Conference agenda, brochure, or sign-in sheet
- Mileage log for the miles traveled in his vehicle to the conference
- Hotel receipts
- Receipts for any other expenses incurred

The treasurer forgets to submit the receipts, even though he receives several requests.

Since tribe treasurer didn’t adequately and timely account for his expenses, the funds he received are added as wages on his W-2.

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Rule number 3: The tribe official or employee must return any amounts more than expenses within a reasonable amount of time.

Excess reimbursement or allowance means any amount you pay to an individual that’s more than the business-related expense.

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Now let’s go over examples of this rule.

The tribe treasurer attends a grant writing conference in California for five days and four nights. Before he leaves, the tribe gives him $3,000 to cover his expenses.

Once he returns, the tribe requests the following documents:

- Conference agenda, brochure, or sign-in sheet
- Mileage log for the miles traveled in his vehicle to the conference
- Hotel receipts
- Receipts for any other expenses incurred

The treasurer submits the documents a week after he returns. The expenses were $2,570.50, so he also gives the tribe a check for $429.50.

Since tribal treasurer returned the excess funds he received, none of the funds received are considered wages.

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Let’s go over one last example.

The tribe treasurer attends a grant writing conference in California and is gone five days and four nights. The tribe gives him $3,000 to cover expenses.

Once he returns, the tribe requests the following documents:

- Conference agenda, brochure, or sign-in sheet
- Mileage log for the miles traveled in his vehicle to the conference
- Hotel receipts
- Receipts for any other expenses incurred

The treasurer submits the documents a week after he returns. Expenses were $2,570.50, but he spent the remaining money on family gifts.

Because the tribe treasurer didn’t return the excess funds, $429.50 is added as wages on his W-2.

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Under an accountable plan, you may reimburse your employees in one of two ways: Actual expenses or per diem or other fixed allowance rate.

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With an actual expenses method, an employee must account for every expense incurred. This means he must provide a receipt for every expense (transportation, lodging, meals, and incidentals) during his travel. Often this is difficult because receipts may be lost.

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The “per diem” method for reimbursement under an accountable plan means your employee’s given a daily allowance for expenses and isn’t required to substantiate expenses covered by this allowance.

He doesn’t have to break down individual meal costs or incidentals. If federal per diem rates are used, this reimbursement isn’t taxable.

Federal per diem rates can be found at https://www.gsa.gov/travel/plan-book/per-diem-rates and cover lodging, meals, and incidental expenses.

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Under an accountable plan, when you give federal per diem rates, your employee must account for only the amount of the federal per diem expenses.

He must substantiate the time, place, and business purpose of the travel. If he doesn’t, the per diem paid would be considered wages and reported on the W-2.

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A non-accountable plan’s any arrangement that doesn’t meet the requirements (employees following all three of the rules) of an accountable plan.

For example, if your employee isn’t required to substantiate business expenses, it isn’t an accountable plan.

If you give advances for travel, but never ask for the amounts back, it’s not an accountable plan. If you give stipends for travel expenses for the month, but never request documentation for the incurred expenses, it’s not an accountable plan.

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Payments for travel and other necessary expenses of the tribe under a non-accountable plan are reported as wages.

If an employee, the total amount reimbursed would be subject to income tax withholding, social security, and Medicare taxes.

If a tribe official, the total amount reimbursed would be wages.

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Reimbursements that don’t follow all three accountable plan rules are taxable and included as wages on the individual’s W-2.

If an employee, the total amount reimbursed would be subject to income tax withholding, social security, and Medicare taxes.

If a tribal official, the amount reimbursed would be wages.

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In this lesson, we’ve discussed:

- What are business travel expenses?
- What’s an accountable plan?
- What’s a non-accountable plan?
- How to determine if reimbursed expenses are taxable?
- How to report taxable amounts?

Thank you.