

EMPLOYER EXPENSE REIMBURSEMENT PLANS

Some employers provide for expense reimbursements to employees for work related costs. If this applies to you, you need to be aware of whether or not any of these reimbursements are being included in your income (on your W-2 as wages). If they are, you may need to turn around and deduct those expenses as itemized deductions. Generally speaking, if your employer provides you with a flat amount to cover expenses (such as a monthly car or tool allowance), then such amount is treated as wages subject to withholding. On the other hand, if you provide your employer with an expense report with adequate documentation on a periodic basis for reimbursement, then such amounts are excluded from income with exceptions, the most notable being for meals. A hybrid of the above two methods involves what is known as an accountable plan. With these, the employer will advance money to an employee, and the employee turns in adequate documentation after the fact. If any excess advance exists, then employee may be required to return such excess to the employer, in which case no income. If kept, then the excess is reportable. One thing to keep in mind regarding employee expenses in general, is that such expenses are itemized deductions and subject to the 2% of adjusted gross

SEPCPA 09/25/09