BusinessManagement DAILY

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11 questions about employee expense reimbursements answered

“The IRS knows full well how lax a lot of employees are about documenting their expenses—and how often employers let it slide.” - *Employee Expense Reimbursements: Compliance Workshop*

Whenever employment tax specialist Mindy Mayo offers her latest webinar on expense reimbursements, we can expect a lively Q&A session, as the gray areas in the IRS’ expectations never stop coming. From recent sessions we’ve collected a handful of the most pertinent questions and Mindy’s responses to them:

1. When it comes to meal and entertainment expenses, what is the IRS' dollar minimum that requires substantiation from an employee?

The IRS requires substantiation at $75—but most companies, Mindy says, lower their own bar to about $25.

2. If an employee uses a personal credit card for a business purchase, is there a time limit for reimbursement?

Most companies stick with a flat-out 60-day rule: Expenses such as these will be reimbursed up to 60 days from the time the charge was incurred or paid for by the employee, but not beyond that.

3. What is considered adequate substantiation for mileage reimbursement?

Technically, the employee has to maintain a log or record of some type; the format should be mutually agreed upon in advance. To reimburse individual trips, Mindy prefers a printout from something like Google Maps noting the miles traveled.

4. If a dinner or event is held in which the expense report simply states ‘alumni event for $3000,’ and there is a receipt for it on the company books, is this enough documentation for the IRS, or should we try to get a list of attendees?

To make the IRS happy, Mindy would at least get a hard number of how many people attended the event—and perhaps a copy of a contract from the caterer or event provider showing how many people they were expected to provide meals or other services for.

5. An employee has a credit card bill showing a transaction; does he still have to turn in a formal expense report?

Absolutely—there needs to be a business reason noted for the expense, which a credit card bill will rarely make clear.

6. We bought a $10 gift card for an employee as a way of expressing appreciation for pitching in with an office move. Does that low dollar amount mean we can forget about it?

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A gift card to an employee is considered a cash or cash-equivalent reward and is subject to tax regardless of the dollar amount. There's no *de minimis* qualification in this area as far as the IRS is concerned.

7. We're paying for an employee's temporary housing while he finds permanent accommodations near his new job. How do we handle this tax-wise?

Temporary housing is always taxable. If, however, an employee is still assigned to a previous location, that person *might* be considered on travel status—but the IRS might see this as splitting hairs, and it's a little dangerous to try to make that distinction.

8. If a company pays a recruiter directly to acquire a new employee, is that taxable to the employee?

It would not be if *you* are paying the recruiter to go out and find someone. It *would* be considered compensation to the employee in the case of the employee paying a recruiter to secure a job with your organization, and then you reimbursing him or her for that service. The question to ask yourself in all cases is: Whose obligation was it to pay the recruiter for their services?

9. If an employee’s spouse travels with her but no extra expenses are incurred because of it, are there issues of extra compensation? In our example, the hotel rate that the employee booked was the same for one person as for two.

No, it’s not considered compensation as long as no additional expenses were incurred at all. For example, an employee who rents a car may carry someone along, or a single-bed hotel room might be shared. If an additional plane seat is purchased though, or a double room needs to be reserved, then the added expense becomes compensation.

10. We have a modest flat rate that we use when we reimburse staff for travel from one office to another if done for business purposes. Is there a problem with it being a flat rate and not calculated by specific mileage case by case?

Your flat rate better have some basis in reality compared to the standard IRS mileage rate. If you're paying more than the standard rate, the IRS will want to know why.

11. At our end-of-the-year fundraiser, those employees who pledge a certain amount have their names put into a raffle to receive a gift card. Do these gift cards still need to be treated as compensation?

Unfortunately, if this is a raffle that is confined to your employees, yes. The key is that it's an incentive. If you remove the incentive, or it's truly a random event with people outside the company able to participate, you might be able to convince the IRS that it is not compensation.

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