

# In the Payroll Mailbag: June '18

## Taxable or not: Flat-dollar reimbursements?

**Question:** Employees use their own phones for business. The company requires that they submit T&E reports and they're reimbursed through accounts payable. Management wants to ditch the paperwork and just pay flat-dollar allowances to employees every month. Would that be taxable?

**Answer:** Yes, the allowances would be taxable because employees aren't substantiating their costs to you. According to what the IRS said in 2011, your reimbursement can't exceed employees' expenses. Flat-dollar allowances don't meet this standard, because you don't know what employees' plans cost. A better idea is to have them submit their monthly bills to you.

## What's a reasonable reimbursement?

**Question:** Currently, employees use employer-provided phones, but after some research, we found that it would be cheaper to cancel the corporate contract and just reimburse employees for the use of their own phones. We understand that reimbursements can be tax-free if they're reasonable. We just don't know how to define reasonable. Can you help?

**Answer:** What's reasonable depends on the circumstances, provided employees aren't reimbursed more than their expenses. At a minimum, you can determine reasonableness from employees' bills. An employee who uses little data every month (e.g., they get two gigabytes), need not be reimbursed at the same rate as an employee who uses a lot of data. But this needs to be documented.