

# Employee stipends — When and how to apply them



Providing stipends is a great way to streamline your travel and expense reimbursement processes. A stipend is a fixed amount of money paid to an employee to cover [fringe benefits](#) or offset expenses incurred for business-related activities like travel.

Stipends can provide a simple solution to administering travel expenses and reimbursements, or they can be used to provide fringe benefits to help your company attract strong talent.

Stipends have been used by businesses for a long time, but this is a good time to reevaluate your stipend policy as many employers are offering new stipends targeted towards the growing remote workforce. If you need help drafting your stipend policy or deciding what stipends to offer, you are in the right place.

## What should stipends cover?

Stipends can cover a wide range of things. Some popular stipends include:

- **Relocation stipends.** Stipends can be provided to offset relocation costs such as moving expenses and temporary housing if needed. These are often one-time or short-term stipends.

- **Cell Phone stipends.** If an employee is required to use their personal cell phone for business purposes, offering a stipend is appropriate (and is required by law in some states). This often applies to salespeople, traveling or field-based staff members, and higher-level managers that may need to be reachable outside of work hours. However, if you provide company cell phones, a cell phone stipend will be unnecessary.
- **Work-from-home stipends.** Many employers are now offering stipends for remote workers. These can be one-time stipends for those moving to remote work or joining a remote company designed to help them set up their home office. It can also be a monthly stipend to offset the costs of an employee's home internet and other personal devices, space, and services now being used for work.
- **Wellness stipends.** Many employers are now providing wellness stipends to cover gym memberships or other wellness activities like massage therapy and workout classes. Healthier employees will feel better, ideally causing them to perform better and miss fewer work days.
- **Health insurance stipends.** It's most common to provide health insurance directly as an employer, but there are a couple of instances where stipends are used. If a company is new or very small and only has a couple of full-time benefits-eligible employees, it can make more sense to provide a stipend and allow employees to purchase their own healthcare on the marketplace. This arrangement also provides employees with the ability to choose their own health insurance, which is particularly helpful if your staff is spread out and may want to be part of local HMO networks.
- **Professional development stipends.** Stipends can be provided for professional development or educational assistance to employees. These are often given out annually or quarterly for the employee to select the professional development or continuing education activities that will be most beneficial to them.
- **Per diems for travel expenses.** A per diem is a daily stipend paid to cover costs while traveling. Often a per diem is provided to hotels, food, and incidentals while on business travel.
- **Living expenses.** In some cases, a stipend may be provided to offset living expenses when a salary is not being paid. Living expense stipends are sometimes used for graduate students or student researchers in academia as well as interns or volunteers at nonprofit organizations.
- **Housing stipend.** A stipend may be provided to cover housing costs. This is most frequently done in positions requiring travel in which the stay will be longer than a typical hotel stay but not a permanent relocation. A common example would be travel nurses who may be sent to an area with high demand for a few months.

## When should stipends be adjusted?

Stipends are meant to be a fixed sum and should largely be consistent across the board to ensure fairness for all staff. However, there may be instances when exceptions or adjustments are required.

One form of stipend that you probably will need to be flexible on is travel stipends. You can still set a flat rate in your policy, but it's a good idea to add language stating that employees may submit additional stipend requests if traveling to areas with unusually high costs or during peak travel times. For example, your standard stipends

may not be adequate for hotel and food costs in New York City. Some flexibility may also be required if the employee needs to book travel close to a holiday or a large local event in your destination. The IRS per diem rates do include allowances for select high-cost areas and seasonal allowances for select high tourism areas.

There also may be some forms of stipends where you will not want to disclose the flat rate in your policy. For example, the stipend amount for a relocation package will likely vary depending on circumstances such as how far of a move it is and the difference in cost of living. You may want to leave the stipend amount up for negotiation between the employee and company for relocation or housing stipends due to differences in costs.

## **Tax implications of stipends**

Are stipends taxable? It depends.

Cash or cash equivalent stipends provided for fringe perks rather than to reimburse expenses are often taxable. The employee will need to track their fringe benefits. Social Security and Medicare taxes are not withheld from stipend payouts as they are not classified as wages, but federal taxes may be applicable when the employee files their taxes at the end of the year. There are some exemptions. For example, educational assistance and dependent care assistance stipends may be nontaxable up to a certain amount. For more information on how fringe benefits are taxed and any relevant exemptions, refer to the [IRS guidelines](#). These guidelines are generally updated annually, so be sure to reference the most recent report.

Travel stipends provided as per diems are not considered taxable by the IRS as long as some conditions are met. The per diem payment amount must be less than or equal to the federal per diem rate. The employee must also submit an expense report. If the employee doesn't submit an expense report to the employer for the per diem, the per diem stipend is considered taxable income.

## **What to include in your employee stipend policy**

It's important to cover when stipends apply and what stipends cover. For example, is a day trip to another city by car considered travel? If it's contained within business hours and no overnight stay is required, many companies would not consider this travel and would provide mileage reimbursement but not travel meal stipends.

If there are eligibility requirements to receive certain stipends, list those out. For example, the stipends may not apply to part-time or temporary staff. Be sure to list any waiting periods or other eligibility guidelines such as whether annual stipends like professional development will be prorated for staff that join later in the year.

You should also provide guidelines on whether expense reports or documentation are required to receive stipend payments. They are required in order for certain types of stipends to be considered nontaxable as discussed above. Let employees know the expense report expectations including how often reports need to be submitted.

Also, be sure to clarify when and how employees can expect to receive stipend payments. If it is a set monthly stipend such as a wellness or cell phone stipend, many companies will include this on an employee's paycheck with their regular salary. Some employers use a separate reimbursement or stipend payment system to disperse stipends to employees. If you will be doing this, let them know the submission expectations and the payment schedule or processing time.

## **Should you offer stipends?**

While companies are generally not required to provide stipends, they do come with some benefits. Following a stipend model for expenses such as travel expenses can make the expense process easier for employers,

spending guidelines clearer for both sides, and can make funds available prior to travel to help reduce the financial burden on employees.

In a competitive recruiting landscape, it also never hurts to boost your organization's benefits offerings through some fringe benefit stipends. These stipends can also promote your organization's culture and aid in retention.

**Additional resource:** Updating your handbooks and company policies? Check our guide to [employee handbooks](#).