

Employee expense reimbursement policies and best practices

Sometimes it is necessary for employees to pay for business-related expenses with their own money, particularly if your business does not offer company credit cards. Many small businesses are also unable to offer company vehicles or company cell phones for employees to use. They instead provide a stipend or reimbursement for the use of employees' personal property.

It is important to have an organized and clear process for approving and processing these expense reimbursements. Employees should know what counts as a reimbursable expense. Additionally, employers should actively plan and budget for these expenses. Find out what business expenses your business may need to provide reimbursement for and how to handle this process.

What are reimbursable expenses?

Reimbursable expenses are work-related expenses incurred by an employee that the company has agreed to reimburse. They are often related to business travel, but can also include work supplies, personal devices used for work, and mileage or transportation expenses.

Reimbursable expenses are typically not taxed. However, reimbursements related to fringe benefits typically are subject to payroll taxes such as income tax, medicare tax, and social security taxes. Fringe benefits are special perks like wellness stipends that companies give their employees. Fringe benefits are common in industries like tech where employers face stiff competition when trying to recruit highly qualified employees. They are often counted as part of an employee's gross income for tax benefits. If a fringe benefit is paid out on an employee's paycheck, such as in the form of a bonus or reimbursement, income tax may need to be withheld by the company or paid by the employee.

Do employees need to provide documentation for expense reimbursement?

Technically the answer is no. However, documentation absolutely should be required under your company's expense reimbursement policy. A reimbursement policy that requires documentation or other substantiation is called an accountable plan.

The IRS does not require all businesses to adopt accountable plans. However, having one in place allows your business to better conform to IRS regulations covering deductible reimbursements and reimbursements that are considered non-taxable income.

An accountable plan requires employees to substantiate their business-related expenses within a reasonable timeframe. A reasonable period of time is generally within 60 days of incurring the expense. Unsubstantiated expenses that are reimbursed are often considered taxable income by the IRS.

Common reimbursable business expenses

Take a look at some of the most common reimbursable expenses to craft an expense reimbursement plan for your business.

Personal cell phones used for work activities

Many companies are utilizing a bring your own device (BYOD) model now. Under this policy, employees are reimbursed, usually through a monthly stipend, for the use of their own device for work-related activities. Reimbursement of mobile phone costs is not always required, but it's a nice perk for staff. In some states, such as California, reimbursement is required if an employee must use their personal cell phone and plan for their work duties.

Mileage expenses

If your business does not have company vehicles and employees need to drive as part of their work activities, they may use their personal vehicle and submit for mileage reimbursement from the company. Use the annual IRS mileage rate to determine the appropriate reimbursement amount per mile driven. The IRS standard mileage rate is a flat rate per mile driven that is meant to reimburse for the cost of gas as well as the additional wear and tear on the employee's vehicle.

Health insurance premiums



If you offer a standard health insurance plan with the employee's share of their healthcare premium being deducted from the employee's wages on their paychecks there will be nothing to reimburse. However, sometimes it is not practical for small businesses to go the traditional route when offering health insurance. If you only have a couple of full-time employees, a healthcare reimbursement system may be more manageable.

Under such a policy, employees can buy their own health insurance through the marketplace and submit for reimbursement from their employer. This can also be ideal for remote small businesses. You want employees to be able to choose a plan that covers their local providers and there can be a fair amount of geographic variation in what plans are commonly accepted.

These expenses should be documented and submitted for reimbursement through the company's formal

expense reimbursement process. This will ensure that neither the employer nor the employee has to pay payroll taxes on these payments. Healthcare stipends, which often do not require substantiation, are considered a fringe benefit and are taxable.

Training or certification costs

Your business does not need to reimburse costs for training required to enter the career field. Though tuition reimbursement is a popular fringe benefit. However, it is common to reimburse for some training and certification costs. For example, in restaurants and other food service businesses, it is common to reimburse new hires if they need to get a ServSafe certificate or complete another food safety or alcohol sales training class. Some businesses also set a budget for each employee for continuing education, training, or conference attendance. They'll then reimburse up to the agreed-upon amount for such expenses.

Employee travel expense reimbursement

Employees that travel will accumulate even more reimbursement expenses. Here are the most common employee business expenses that you should factor in when approving business travel.

Meal expenses

If you do not provide company credit cards for employees who travel, the cost of meals purchased during business trips will be a reimbursable expense. Employers often set spending limits and many companies do not provide reimbursement for alcohol purchased with meals unless the employee is entertaining clients.

An alternate option is to provide a per-diem rate that covers meals. A per diem is a fixed daily amount that employees are reimbursed for meals or incidental expenses during their business trip. Per diems are sometimes paid out prior to the trip so that employees don't have to pay out of pocket and wait for reimbursement. This method can make the expense process simpler as individual receipts don't need to be saved and submitted. It also helps the company accurately estimate the cost of a proposed business trip. Businesses should still have employees fill out a general expense report with the dates, business purpose of the expense, and amount for tax purposes. Per diems are not taxed as long as they are properly accounted for and used for business purposes.

Flights



If an employee needs to book their own flights for business travel, they should be reimbursed. Employers may want to set limits on this such as only reimbursing economy seats and requiring the employee to foot the bill for any special upgrades like business or first class.

Hotel expenses

Many businesses book employees' hotel accommodations on a corporate card prior to the employees' departure. However, there may be some circumstances where it is preferable to allow the employee to book their own room and submit for reimbursement.

You may also specify in your expense reimbursement policy whether extra charges will be reimbursed or considered personal expenses. Are employees allowed to raid the mini-bar or order a pay-per-view movie on the hotel television? Wi-Fi and hotel parking are generally considered reimbursable expenses and often cannot be prepaid at the time of booking. Extras like these will need to be submitted on an expense report.

Entertainment expenses

If employees will be entertaining clients on these trips, specify the budget and what is allowed to be expensed. This may be a scenario where expensing alcohol is allowed, even if it is not generally expensable under your meal policy. Personal entertainment expenses such as site-seeing or going to bars/events alone after work are generally not reimbursable. Only entertainment activities with a clear business purpose should be considered reimbursable expenses.

Transportation expenses

Most business travelers will require a rental car. In some circumstances, other transportation methods may be used and expenses should be tracked by the employee. For example, it may be more cost-effective for an employee visiting New York City to use taxis, rideshare, or the subway to get around. Parking in the city may be excessively expensive and impractical. Many businesses also reimburse public transportation or ride share costs to and from the airport.

Expense reimbursement procedures

While you might have individual policies for some of the different types of expenses —such as mileage policies,

cell phone policies, and travel policies— you will want to have a consistent expense reimbursement policy in place. Having a clear policy will help you ensure that proper expense documentation is collected and facilitate timely payment.

Give employees a deadline. If expenses are not submitted within a reasonable amount of time, the likelihood of a receipt being lost or an expense being forgotten increases. Some businesses process expenses monthly and only request monthly reports while others process them weekly or biweekly. If employees will be submitting reimbursement requests frequently, consider using expense management software such as Expensify. These programs allow them to upload receipts and expenses in real-time from their mobile devices. Mileage tracking apps like Stride can also help keep track of mileage reimbursement amounts.

Let employees know the procedures for submitting and receiving reimbursement with a written expense policy. Do expense reports go to their department head, human resources, or the finance team? What is the submission and payout schedule? Some employers provide reimbursement on employees' regular paychecks while others use a separate system. Employees want to know when they can expect to receive these funds, so be detailed in order to avoid any questions or confusion.