CHRISTIAN MANAGEMENT ASSOCIATION

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MINISTER & EMPLOYEE EXPENSE REIMBURSEMENTS…

What you need to know to comply with current federal income tax rules and regulations.

A ministry, like any business, is allowed to reimburse staff for ministry expenses paid for with personal funds under either an "*accountable*" or "*non-accountable*" reimbursement plan. By law, however, expenses reimbursed under a non-accountable plan must be treated as taxable wages to the employee and reported on their annual W-2. Failure to do so would be viewed by the IRS as a payroll tax fraud and result in severe penalties and even sanctions being imposed on the organization.

According to current IRS regulations, a reimbursement plan will be deemed "accountable" only if it meets both of the following criteria:

a. Reimburses only those business expenses that an employee periodically substantiates as to the date, amount, and business nature of each expense, and

b. Requires any "excess reimbursement" (i.e., reimbursements in excess of substantiated business expenses) to be returned to the employer.

Adequate substantiation or "accounting" under an accountable reimbursement plan generally means that the employee is required to substantiate (with receipts or other reliable written evidence) the amount, date, and "business nature" of each expense before the ministry reimburses the expense. The information provided by the employee must be sufficient to enable the ministry to identify the specific nature of each reimbursed expense and to conclude that the expense is attributable to the employee's business (e.g., ministry-related) activities. Thus, it is not sufficient if an employee merely aggregates expenses into broad categories (such as "travel") or reports individual expenses through vague, non-descriptive terms (such as "miscellaneous business expense"). Keep in mind that the IRS views an employee's charging of business expenses to a ministry provided credit card as a "reimbursement", but it does not in itself constitute an adequate "accounting" unless the employee periodically substantiates the amount, date, and business purpose of each expenditure with receipts or other written evidence.

IRS guidelines for "accountable" plans specify that an employee's "accounting" or substantiation of his or her business expenses, and the return of any excess reimbursements, must occur within a "reasonable time." Business expenses will be deemed substantiated within a reasonable amount of time if done so within 60 days after the expenses are paid or incurred, and excess reimbursements will be deemed to have been returned to the employer within a reasonable amount of time if done so within 120 days after the expenses are paid or incurred.

A reimbursement policy is required to be in writing, and should clearly specify what expenses the ministry will reimburse. It also should describe the documentation and reporting that will be required. The ministry is not required to retain the records and receipts presented in documenting the business nature and amount of business expenses once they have been used to verify the legitimacy of the expense. However, it is a good business practice for the ministry to retain copies of the documents to maintain the integrity of its reimbursement system and prove policy guidelines are, in fact, being followed.
