

Reimbursements to employees for business-related overnight lodging and meals can be handled in one of 3 ways: 1. under an accountable plan; 2. under a nonaccountable plan; or 3. through payment of per diems,

1. Accountable plans. To be nontaxable to the employee under an accountable plan and not reported on the W-2, the advance or reimbursement must meet 3 IRS conditions:

- ❖ there must be a business purpose (that is, the expense would be deductible if claimed on the employee's personal tax return);
- ❖ the amount, time, use, and business purpose of the advance or reimbursement must be substantiated within a "reasonable" time; and
- ❖ the employee must return the unsubstantiated amount within a reasonable period of time.

If these 3 conditions are not met, apply FITW, FICA and FUTA only to portions unsubstantiated or unreturned.

2. Nonaccountable plans do not have the 3 requirements for an accountable plan, so 100% of advances and reimbursements are subject to FITW, FICA and FUTA and appear on the employee's W-2. In other words, the employee will have to take any possible business expense deductions on his or her tax return.

3. Per diem reimbursement. There are federal per diem rates for lodging only, meals and incidental expenses (M&IE) only and for lodging and M&IE. There is one set of per diems for high-cost areas, another for all other areas and separate M&IE per diems for:

- ❖ localities in the continental United States (CONUS);
- ❖ nonforeign localities outside the U.S. (OCONUS) including Alaska, Hawaii, Puerto Rico, Northern Mariana Islands and U.S. possessions;
- ❖ foreign locations.

Per diem reimbursements are nontaxable even if they exceed actual expenses, and employees need account only for time, place and business purpose of travel. But reimbursements that exceed the federal per diem rate, unsubstantiated per diems and unreturned per diems that exceed days traveled are taxable wages.

Employers may pay an M&IE per diem only if the employer pays for lodging directly, provides lodging-in-kind or reimburses actual lodging expenses, or if there will be no lodging expenses.

Prorate M&IE quarterly. Pay one-quarter per diem for midnight to 6 a.m.; 6 a.m. to noon; noon to 6 p.m. and 6 p.m. to midnight when traveling or away from home.

Employers who use per diems must use them for the entire calendar year, but may reimburse actual expenses or use M&IE for specific locales. High-low substantiation may not be used for travel outside the continental U.S.