

# Accountable Plans

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It is very common that employees sometimes pay for business expenses out of their own funds, instead of the company's funds. When this happens the employee wants to be reimbursed for this money and the company usually complies. **How these reimbursements are treated for tax purposes depends on whether or not your company has an accountable plan.**

An **accountable plan** is a written reimbursement arrangement with these three requirements:

1. The reimbursements that the company makes must be made to the company's employee for expenses that the employee paid that are **expenses your company is allowed to deduct for business purposes**.
2. Your employee must be required to substantiate the amount, time, use, and business purpose of the reimbursed expenses to the company. The easiest way to accomplish this is to require your employees to submit **expenses reports and attach their receipts** to that report.
3. Your employee must be required to **return to the company any excess of reimbursements** over substantiated expenses within a reasonable period of time. I advise my clients to have their employees reimburse their employer within 90 days, but the IRS has allowed as long as 120 days after the expense was paid or incurred.

If you have an accountable plan then your company can write a check for the reimbursement amount to your employee and deduct the expenses as if your company paid for them directly.

If you do not have an accountable plan (also know as have an "unaccountable plan") and you reimburse your employees for these expenses then **you must add the reimbursement to your employee's wages and withholding income taxes and employment taxes on these amounts**.

Therefore, if you have an accountable plan you will be saving your company the employer portion of Social Security and Medicare taxes. In addition your employee will not have to pay taxes on these amounts or deduct them on their own return.

Having an accountable plan may seem like a hassle or a lot of paperwork, but it could save you a lot of tax dollars.

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**Gina L. Gwozdz** is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.