Dynamic Chiropractic

What Is Accountable?

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If the circumstances under which the employer reimburses the employee meets a three pronged test, the plan should qualify as accountable.

First, the allowance must relate to expenses associated with the position and which would qualify for a non-reimbursed business expense if the employee had not received reimbursement and were to deduct the expense on his tax return.

Second, the employee is required to furnish the employer with detailed expense records, the same type of substantiation required to justify a deduction on a personal 1040.

Third, the employer must require an employee to return any payments made for expenses not utilized for appropriate purposes.

Last, the substantiation must be provided within a "reasonable" time, with the word reasonable not yet being clearly defined.

It is clear under the rules, however, that the timeliness requirement is automatically satisfied if the payment made in advance of the expense does not exceed 30 days prior to when the expense is incurred, and if the employee documents the expenses to the employer not later than 60 days after the expenses are incurred. Additionally, the employee must return the undocumented portion not later than 120 days after the expenses are incurred.

Increase in Mileage Allowance

Suppose the DC utilized an employee to perform various errands and the employee drives his own car. In the past, the employer has been allowed to pay a mileage allowance to the employee in the form of reimbursing a business expense to the employee. That procedure is still permitted. The IRS has increased the approved rate from 25-1/2 cents per mile in 1989, to 26 cents per mile in 1990.

Under the new "accountable plan" the employee must do a good job of record keeping and provide the employer with documentation of places of travel, distance, purpose of travel, and return any portion of an automatic mileage allowance to the employer with respect to unused travel miles for which the employee has already been paid.

The radical change from 1989 to 1990 is that when an employer provides his staff with a mileage allowance, if that allowance exceeds the deduction allowed to unreimbursed employees, there may be an income tax ramification.

This wouldn't be a problem in 1989 because the 25-1/2 cents mileage deduction is applicable only to the first 15,000 business miles driven by the employee during the year, or 60,000 business miles during the usable life of the vehicle. The code would specify that any excess could be deducted at 11 cents per mile. The result is that a flat mileage allowance of 25-1/2 cents per mile might very well result in income to the employee who exceeded either of the above-referenced limitations.

This will not be a problem in 1990 because if the reimbursement is not in excess of 26 cents per mile, there can be no excess and the reimbursement must always be the same as the allowable deduction.

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