
Indiana State University Guidelines for Reimbursement under the Accountable Plan

Accountable Plans:

Indiana State University (ISU) encourages all expenses to be paid via a University ProCard or through Accounts Payable. Personal payments generally should not be made for non-travel business expenses that can be paid directly by the University. However, when necessary, an employee may purchase items and receive reimbursement. When employee reimbursements are paid to employees, the taxability and reporting requirements are dependent upon whether or not a reimbursement is made under an “Accountable Plan,” which is a term developed by the IRS to set forth rules, define legitimate expense reimbursements, and require submission of documentation. In accordance with IRS regulations, ISU has an accountable plan that allows it to reimburse employees and non-employees for authorized business expenses with no impact on taxable compensation. These include approved payments for travel for employees and non-employees, moving, faculty research accounts and allowable out-of-pocket expenses related to official university business. The accountable plan does not address which expenses are eligible for reimbursement. This document is meant to provide guidance for the majority of situations related to employee travel and business expenses, but it is not exhaustive. Any disputed expenses, whether or not specifically addressed, must meet applicable requirement of the Internal Revenue Code and Treasury Regulations¹ in order to qualify for reimbursement under an accountable plan.

Guidelines:

Compliance with Accountable Plan Requirements

The information listed below summarizes what is stated in Internal Revenue Code regarding the requirements for an “accountable plan”. In order to qualify under the accountable plan, payments for expenses must meet ALL three requirements of IRS Regulation §1.62-2. These requirements are:

1. **Business connection requirement** - Advances, allowances or reimbursements are only for allowable business expenses that are paid or incurred by the individual in the course of conducting university business. The IRS may view a disbursement as providing a personal benefit if there is any doubt concerning its business purpose. Even though in some cases the business purpose may be implied, it must be specifically documented so that a third party would have no question as to its benefit to the institution.
2. **Substantiate within a Reasonable Timeframe** - The individual must substantiate each out-of-pocket business expense with a detailed record within a reasonable period of time (60 days). To be considered adequately accounted for, the reimbursement request should be substantiated by providing the following information:
 - The equivalent of the original receipt(s) with an itemized listing of each business expenditure, amount and date. Exceptions to receipt requirement would be business use of personal car at standard mileage rate, and per diem based on daily rate (see [Travel Reimbursements](#) for more information).

¹ Treasury Regulations §§ 1.62-1, 1.62-1T, and 1.62-2

In conformity with IRS accountable plan purposes, the adequate accounting **within 60 days** requirements will be considered to have been met if:

- Reimbursement paperwork (check request) with ALL appropriate backup is initially received in the Controller's office **within 60 calendar days** after the end of travel, or from the date in which expenses(s) were paid or incurred, AND;
- The Check Request has been approved by all departmental approvers within the same 60 day time frame.

3. **Return of funds requirement** - If an advance² was received, the individual must substantiate any amount within 60 days and return any amount in excess of the expenses to ISU.

Accountable Plan Reimbursements: When ALL THREE of the above requirements have been met, expense reimbursements will be considered paid under an Accountable Plan. Thus, the University will not include any of the reimbursement as income on the employee's W-2.

Non-Accountable Plan Reimbursements: Even though the University has a documented accountable plan, per IRS regulations, any and all reimbursements that do not meet ALL THREE rules noted above are considered as being reimbursed under a "non-accountable plan". The University must include in box 1 of an employee's W-2, as additional "wages salary or other compensation" all expenses reimbursed under a non-accountable plan. In addition, the employee must have appropriate taxes withheld on this additional compensation, and the University will also incur and must pay the applicable employer payroll taxes. Due to this additional burden on both the employee and the University, it is important that reimbursement requests be submitted in accordance with both ISU policy, and the IRS accountable plan rules.

Expense Reimbursements to Independent Contractors: IRS Publication 463 also indicates that reimbursements to independent contractors require an adequate accounting to the "client." Although a specific time frame is not referenced, as with employees, ISU also follows this requirement. For any expenses incurred by independent contractors and reimbursed by the University, in which an adequate accounting is not received within 60 calendar days, the independent contractor will be issued a 1099-MISC, provided the total amount of such reimbursements, combines with any other 1099-reportable payments made by the University to the independent contractor, meets the published 1099 reporting threshold for the year in which the payment is made.

Non-Reimbursable Employee Expenses:

- Reimbursements for services: ISU employees should not pay other individuals or vendors for services performed on behalf of the University. Payments for services *must* be made directly by the ISU Accounts Payable Department in the Office of the Controller to make sure the individual or vendor is properly classified as either an employee or an independent contractor and all the information necessary to report the income is obtained *before* the payment is made.
- Reimbursements for payments made to or on behalf of a student (i.e., books, rent, gas, etc). Payments of this nature should be credited to the student's account. Financial Aid Office should be notified of the award *prior to* the disbursement to determine if the funds must be considered a financial resource in accordance with federal regulations.

² Applicable to field trips, team travel, and foreign travel only