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HANDLING EMPLOYEE EXPENSES

— by Neil E. Harl

Although farm and ranch employees may incur a range of different kinds of expenses for which reimbursement may be sought, the most common problem situation involves reimbursement for automobile expense. This article discusses the reporting of amounts paid as automobile reimbursement and amounts paid under an "accountable plan."

Automobile expenses. Since 1990, payments to employees at rates equal to or less than the standard mileage rate (28 cents per mile for 1992) need not be reported into income. Payments in excess of the standard mileage allowance are to be reported as income and are subject to withholding and to payment of employment taxes.

If employees substantiate a greater amount than the standard mileage allowance, an itemized deduction may be claimed subject to the 2-percent floor for the excess of the deemed substantiated portion of the payment reported on Form 2106 and the amount (if any) in excess of the deemed substantiated rate included in gross income.

Although not mentioned in Rev. Proc. 89-66, the temporary regulations and Rev. Proc. 90-60 specify that employees related to the employer (within the meaning of I.R.C. § 267(B)) are not relieved from the substantiation requirements merely because of an accounting to the employer. The term "related" includes those owning more than 10 percent of the stock of a corporation as well as brothers, sisters, spouse, ancestors and lineal descendants. Presumably, that means reimbursements must be reported into income and expenses deducted.

Accountable plans. Amounts paid to an employee under a reimbursement or other expense allowance arrangement that meets all of the requirements in the regulations (business connection, substantiation to the employer and return of excess payments) are treated as paid under an "accountable plan." Amounts paid under an accountable plan are excluded from an employee's gross income, are not reported as wages or other compensation on Form W-2 and are exempt from income tax withholding and payment of employment taxes. Amounts paid in excess of substantiated expenses must be returned within a reasonable time or the amount is treated as paid under a nonaccountable plan.

FOOTNOTES

3 I.R.C. § 67(a).
4 1989-2 C.B. 792.
8 Id.
10 Id.
12 Id.
14 Temp. Treas. Reg. § 1.62-2T(e), (f).