



CALIFORNIA STATE UNIVERSITY
FULLERTON

*University Tax Compliance Manager
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IRS Accountable Plan Reporting for Travel and Other Business Expenses

As an institution of higher education, California State University, Fullerton, follows the “Accountable Plan” rules for travel and business expenditure reimbursement under the accountable plan rules found in Treasury Regulation § 1.62-2 and as discussed under Code §§ 62(c) and 274. The accountable plan rules apply to all reimbursements or advances to employees for authorized business expenses, both travel and non-travel related.

The requirements of the “accountable plan” rules, found in Regulation § 1.62-2, require that the payee (aka employee or non-employee):

- (1) Establish the business purpose and connection of the expenses while performing services for the University;
- (2) Substantiate the expenses claimed to the payer within a reasonable period of time after the expense are paid or incurred; and
- (3) Return any amounts to the payer which are over and above the substantiated business expense within a reasonable period of time after the expense is paid or incurred.

The first criteria is met when there is bona-fide business connection or purpose for the expense(s), along with the business expense(s) qualifying as being deductible under IRS substantial authority (aka Federal tax laws).

Any reimbursement or per diem amounts which are over and above the substantiated business expenses, or not accounted for within a reasonable period of time, are reportable to IRS by California State University, Fullerton, on Form W-2 and subject to withholding of employment taxes (or are reportable on Form 1042-S and subject to section 1441 withholding, as applicable). Furthermore, if an individual does not substantiate their travel or business expenses within a reasonable time period (defined by the IRS to be less than 120 days), an advanced amount would be treated as if it were paid under a non-accountable plan. The advanced payment amount would be treated as compensation, subject to withholding requirements, and reported on the employee’s W-2 Form as taxable income. The IRS measures the “120 day reasonable period of time” from the time the expense is incurred until the time an expense is substantiated to the payer (CSUF). The expense is considered “substantiated by CSUF” at the time the reimbursement request (expense report, check request, etc.) is date stamped as received by the Accounts Payable office. It is recommended that reimbursement requests should be submitted well before the 120 day deadline to allow for review and processing.

When an employee receives reimbursement from California State University, Fullerton, for expenses that they, as an employee, have incurred while conducting University business (e.g., airfare, meals, and lodging costs incurred on business travel), the reimbursement technically constitutes gross income to the employee. “Gross income” generally includes all items of value received by an employee and is subject to taxation.

For IRS substantiation purposes, the University requires original itemized receipts showing proof of payment for expenses paid by the traveler, airfare charged to the University Procurement Card and payment of registration fees paid by a University check must be submitted with the Travel Expense Claim. A credit card statement or bank statement is not an acceptable receipt. A copy of the itemized receipts showing proof of payment for expenses charged to the Procurement Card must be submitted with the Travel Expense Claim. A copy of the Procurement Card statement is not a receipt. Moreover, a document that shows the purpose, location, and dates (i.e. agenda, program, flyer, or email) must be submitted with the Travel Expense Claim Form.

Thus, if the above criteria of the University's accountable plan are not met, the full amount of the reimbursement will be taxable and reportable and included in the employee's income on their Form W-2. Under IRS substantial authority, the employee then may claim the reimbursed expenses as a miscellaneous itemized deduction when they file their income tax return, but such deductions are only allowed to the extent to which they exceed 2 % of Adjusted Gross Income (AGI).

Regulation § 1.62-2(d)(i) provides, under Paragraph (d), that an arrangement meets the business connection requirement if it provides advances, allowances (including per diem allowances), or reimbursement only for business expenses that are allowable as deductions under Code §§ 161 through 196, and that are paid or incurred by the employee in connection with the performance of services as an employee of the employer.

Non-employees

The substantiation requirements of this policy also apply to non-employees (e.g., independent contractors, on-campus candidates) reimbursements on University business. Honorariums do not fall under the category of being a business expense that is reimbursable under Code §§ 62(c) and 274. If the non-employee does not properly account to the University for their reimbursed expenses or provide original receipts, then any advance or request for reimbursement will be reported as income to the IRS and to the non-employee on the applicable Federal and state forms. Additional tax withholding requirements may also apply. Contact the University Tax Compliance Manager for further clarification on non-employee business expense reimbursements.

Students

For business expense reimbursements to students, the University Tax Compliance Manager should be consulted, prior to the expenditure is made. Additional Federal tax laws may apply to reimbursements made to students.

Refund payments

Refund payments are not business expense reimbursements under Code §§ 62(c) and 274. Thus, this policy does not pertain to refund payments processed by either Accounts Payable or Student Financial Services.

CSU Systemwide Cash Processing Orders (CPO)

The CSU systemwide Cash Processing Orders (CPOs) is an internal transactional process utilized for the reimbursement of expenses between the CSU Chancellor's Office, campuses, and related auxiliaries, in lieu of checks (remitting funds) and invoices (receiving funds). CPOs are expense reimbursements under Code §§ 62(c) and 274, along with Reg. § 1.62-2 and require appropriate substantiation.

As noted by CSU AD NOAT 10-06 dated October 26, 2010, when generating a CPO request to collect funds from another campus, the Chancellor's Office will require some written acceptance from the remitting campus, including the CO, that the charge has been agreed upon by both parties. This can be in the form of an agreement, contract, MOU, or an email exchange among other forms of back-up (i.e. proper substantiation under IRS substantial authority). For registration fees to conferences or seminars, the conference host should complete the CPO request form for all campuses and all attendees. Included in the request can be a list of attendees by campus, along with conference information.

Additional Questions

Further questions regarding the content of this document can be directed to the University Tax Compliance Manager at (657) 278-5671.