

Employee Expenses

If an employer has an **Accountable Plan**, expense reimbursements and allowances to employees who properly comply with the terms of the Plan are deductible by the employer and **nontaxable** to the employees. If an employer maintains a nonaccountable or informal plan or an employee fails to comply with the terms of the Accountable Plan, expense reimbursements and allowances are still deductible by the employer. However, they are **taxable** to the employee as compensation. Thus, such amounts are included on the employee's Form W-2 and usually subject to Federal, State, and Local Income Taxes. In addition, the employer and employee are subject to Social Security Tax, Medicare Tax, Federal Unemployment Tax, and State Unemployment Tax on such payments. Although the employee is allowed an offsetting deduction for the expenses reported on his / her Form W-2, the deduction is claimed as a miscellaneous itemized deduction on his / her Federal Income Tax Return, in Form 2106 and Schedule A, Itemized Deductions. However, they are deductible along with other itemized deductions only by the amount their total exceeds 2% of adjusted gross income. Thus, the offset deduction is not equal to the taxable income. On Federal Income Tax Returns, if the employee claims the standard deduction, the above expenses are not tax deductible or beneficial. Most meals and entertainment expense deductions are subject to a 50% reduction. Many states and local governments allow complete deduction for the expenses. Ask us for details.

Because the tax consequences of a nonaccountable plan are so unfavorable for employees and are potentially unfavorable for the employer, employers generally should use an Accountable Plan for employee expense reimbursements. If you would like our help in establishing such a plan or ensuring that your current reimbursement policy complies with the requirements for such a plan, please contact us.

The auto mileage rates (cents/mile), which the Internal Revenue Service accepts for use by employees and self-employed (up to four vehicles simultaneously), have changed many times over the last few years, including again on January 1, 2009! Keep a diary of your travel and auto mileage to support your deductions. Many other laws and regulations apply that can affect and increase your deductions for autos. Ask us for guidance.

Standard auto mileage rates allowable by the Internal Revenue Service:

	<u>2009</u>	7/1 -12/31 <u>2008</u>	1/1 – 6/30 <u>2008</u>	<u>2007</u>
Business	\$0.550	\$0.585	\$0.505	\$0.485
Charity work	\$0.140	\$0.140	\$0.140	\$0.140
Medical & moving	\$0.240	\$0.270	\$0.190	\$0.200

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