SCHWARTZ & ASSOCIATES

CPAS & BUSINESS COACHES

FREE GUIDE

The Accountable Plan, *Ready to Adopt*

The template our clients use, with the rules in plain terms.

Why we *wrote this*

Owners reimburse themselves for business expenses all the time, and most do it in a way that quietly creates taxable income.

Here's the pattern we see. You pay for something the business needed on your own card. Mileage, a laptop, the phone bill, a client lunch. Then you move money from the business account to cover it, or you just let it ride as an owner draw and sort it out at tax time.

> *The IRS has a name for money that moves like that with no paperwork behind it: wages.*

Under Treasury Regulation 1.62-2, reimbursements paid outside an accountable plan "are included in the employee's gross income, must be reported as wages," and are subject to withholding and employment taxes.

An accountable plan is the fix. It's a short written document that says how the business pays people back for business expenses. Follow its rules and the reimbursement isn't taxable wages. The business still deducts the expense. Nothing changes about what you spend, only about how it's documented.

We covered the basics in what an accountable plan is and what the benefits are. This guide goes further: the three rules the IRS actually tests, the deadlines behind them, and the template we use with our own clients. Start with the rules, because they're what the template is built around.

THE RULES

What makes an accountable plan *"accountable"*?

The IRS lays these out in Publication 463 and Regulation 1.62-2. A plan has to meet all three.

1. **Business connection.** The expense has to be a real business expense, paid while doing work for the business. Personal spending doesn't qualify, no matter how it's labelled.

2. **Substantiation.** The person being reimbursed has to account for the expense: the amount, the date, the business purpose, and who else was there if it was a meal or a meeting. Receipts back that up. The IRS floor for receipts is $75 under Publication 463, so under that a log entry can be enough, but your plan can ask for receipts on everything (ours does).

3. **Return of excess.** If the business advances money and the receipts come in lower, the difference goes back. Keeping it turns it into wages.

THE DEADLINES

The deadlines that *keep you safe*

The regulation calls for a "reasonable period of time" and then defines one:

WHAT	DEADLINE THE IRS TREATS AS REASONABLE
Advance paid to the person	**Within 30 days of the expense**
Expense report and receipts submitted	**Within 60 days of paying the expense**
Excess returned to the business	**Within 120 days of paying the expense**

Miss those and the reimbursement is treated as paid under a nonaccountable plan, which means it's wages. Our template builds the 60-day and 120-day deadlines in. The other thing the template needs from you is a list of what the business will pay back, which is the next page.

COVERAGE

What an accountable plan *can reimburse*

Your plan lists the categories the business will pay back. Only reimburse what's in the plan. These are the ones we include for most of our clients.

Vehicle and mileage

Business use of a personal vehicle, at the IRS standard mileage rate in effect on the date of the trip. The IRS changes this rate, sometimes mid-year, so the plan points to the rate rather than printing a number. Keep a mileage log: date, where you went, why, and the miles. Driving from home to your regular workplace is commuting, and commuting never qualifies.

Home office

The part of your home you use regularly and only for business. Two ways to figure it: the IRS simplified method ($5 per square foot, up to 300 square feet), or the actual-cost method using the business-use share of your real bills.

Business travel

Airfare, hotels, rideshares, parking, and tolls when you're away from your main place of business for work. Actual cost, with receipts.

Business meals

Meals while traveling for work, or while meeting clients and prospects. The person is reimbursed the full cost. The business's deduction for meals is limited under IRS rules, and we handle that on the return, not in the plan.

More categories the plan *can cover*

Cell phone and internet

The business-use share of the monthly bill. Most of our clients set a fixed percentage and attach the statement.

Tools, supplies, and equipment

Anything bought for the business, at cost, with the receipt.

Professional dues and education

Memberships, licenses, subscriptions, and continuing education tied to the work.

Anything else

Goes in as its own line with its own terms, so there's never a question later about whether it was covered.

Just as important is what the plan says it won't cover.

THE OTHER SIDE

What an accountable plan *never covers*

Writing these into the plan is what protects you if anyone ever asks.

- Personal expenses, even ones that feel business-adjacent
- Commuting between home and your regular place of business
- Anything without a documented business purpose
- Anything submitted after the substantiation deadline

With the rules and the categories settled, adopting the plan is five short steps.

ADOPTION

How do you adopt an *accountable plan?*

Five steps, about twenty minutes.

1. **Fill in the business.** Legal name, entity type, address. EIN is optional on the document.

2. **Set the terms.** Effective date, who administers the plan (usually the owner), the month you'll review it each year, and the two deadlines. We recommend leaving them at 60 and 120 days, which is what the IRS treats as reasonable.

3. **Pick your categories.** Only the ones the business will actually reimburse. You can add more later by amending the plan.

4. **Sign it.** The owner signs. If someone else administers reimbursements, they countersign.

5. **Keep it with your records and use it.** The plan only works if reimbursements actually follow it. Every payment gets an expense report behind it, submitted on time, receipts attached.

Then send us a copy. We'll check it against how your books are set up so reimbursements land in the right place from the first month.

The template starts on the next page. **Highlighted brackets** are yours to fill in; everything else stays as written.

[LEGAL BUSINESS NAME]

Accountable Plan for Employee Business Expense Reimbursement

Entity type: [Sole Proprietorship / Partnership / Limited Liability Company / S Corporation / C Corporation]

EIN: [optional] · [Business address]

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1. Purpose

[Business Name] (the "Business") adopts this Accountable Plan, effective [Effective Date], to reimburse owners and employees for ordinary and necessary business expenses incurred on behalf of the Business, in accordance with Internal Revenue Code §62(c) and Treasury Regulation §1.62-2. Reimbursements paid under this Plan are excluded from the recipient's taxable wages and are not subject to income or employment tax withholding, provided the requirements below are satisfied.

2. Business Connection

Each expense reimbursed under this Plan must be paid or incurred in connection with the performance of services for the Business. Expenses of a personal nature are not reimbursable under this Plan.

3. Substantiation Requirement

Within [60] days of paying or incurring an expense, the individual must submit an expense report to the Plan Administrator that includes: the amount, date, business purpose, and business relationship of any person entertained (if applicable), together with documentary evidence (receipts, invoices, or mileage logs) sufficient to substantiate each element.

4. Return of Excess Reimbursements

Any reimbursement or advance that exceeds the substantiated amount of an expense must be returned to the Business within [120] days of the date the excess reimbursement was paid. Amounts not timely substantiated or returned will be treated as wages subject to applicable withholding.

5. Reimbursable Expense Categories

(Fill-in note: include only the categories the Business will reimburse.)

- **Vehicle & mileage.** Business use of a personal vehicle is reimbursed at **[the standard mileage rate published annually by the IRS, in effect on the date each trip occurs / a fixed rate of $[ ] per mile]** . A contemporaneous mileage log recording date, business purpose, destination, and miles driven is required for each trip. Ordinary commuting between home and a regular place of business is not reimbursable.
- **Home office.** The portion of the home used regularly and exclusively for business is reimbursed using the **[IRS simplified method ($5 per sq. ft., up to 300 sq. ft.) / actual expense / business-use percentage method]** . Supporting documentation (square footage, or actual utility/insurance/maintenance records and the business-use percentage) must be submitted with each claim.
- **Business travel.** Airfare, lodging, ground transportation, parking, and tolls incurred while traveling away from the primary place of business for a bona fide business purpose are reimbursed at actual, substantiated cost. Original receipts are required for each expense over $75.
- **Business meals.** Meal expenses incurred while traveling on business, or while meeting with clients, prospects, or business associates, are reimbursed at actual, substantiated cost, subject to the business's applicable IRS deduction limitations. Receipts must identify the attendees and business purpose.
- **Cell phone & internet.** **[ ]** % of the monthly cell phone and/or home internet bill is reimbursed as the estimated business-use portion, supported by the monthly billing statement.

- **Tools, supplies & equipment.** Tools, office supplies, and equipment purchased for business use are reimbursed at actual, substantiated cost upon submission of a receipt or invoice.
- **Professional dues & continuing education.** Professional association dues, subscriptions, licensing fees, and continuing education directly related to the business are reimbursed at actual, substantiated cost.
- **Other reimbursable expenses.** **[Describe the category and reimbursement terms.]**

6. Non-Qualifying Expenses

The following are not reimbursable under this Plan: expenses of a personal nature; ordinary commuting between home and a regular place of business; expenses lacking a documented business purpose; and expenses submitted without adequate substantiation within the period described in Section 3.

7. Plan Administration

[Plan Administrator], **[Administrator title]**, serves as Plan Administrator and is responsible for reviewing and approving expense reports, maintaining supporting records, and enforcing the deadlines in Sections 3 and 4. This Plan will be reviewed at least annually, in **[Month]**, and updated as needed to reflect current IRS guidance and reimbursement rates.

8. Amendment and Termination

The Business may amend or terminate this Plan at any time by written action of its owner(s). Termination does not affect the reimbursement of expenses properly incurred and substantiated prior to the termination date.

9. Adoption

This Accountable Plan is adopted effective [Effective Date] by the undersigned on behalf of [Business Name] .

____

[Owner Name] , [Owner title]

____

[Countersigning administrator name] , [Administrator title]

____

Date

PRINT THIS ONE

Accountable plan expense report *checklist*

Print this one and keep it where the receipts land.

- [ ] Date of the expense
- [ ] Amount
- [ ] What it was for
  The business purpose, in a sentence
- [ ] Who else was there, if it was a meal or a meeting
- [ ] Receipt attached
  Our plan asks for one on everything
- [ ] Mileage log entry, if it was a drive
  Date, destination, purpose, miles
- [ ] Submitted within **60 days** of paying it
- [ ] Any excess advance returned within **120 days**

Want us to *set it up* with you?

We're a South Jersey CPA firm, and this is the plan we adopt with our clients as part of year-round accounting and tax work. If you'd rather have us check yours, or set the whole thing up, call us. We pick up.

www.rschwartzcpa.com/contact