

Accountable Plans Explained

A Practical Guide for Business Owners

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An accountable plan is an IRS-compliant method for reimbursing employees for business-related expenses without including those reimbursements in their taxable income. By using an accountable plan, employers can deduct these expenses as business costs, while employees avoid paying taxes on the reimbursements—a win-win for both parties.

Who Can Benefit from an Accountable Plan?

Accountable plans are valuable for a wide range of individuals and entities, including:

- **Small Business Owners:** Simplify reimbursements for employees and ensure tax compliance.
- **C Corporation Owners:** Reimburse themselves for eligible expenses like home office use without creating taxable income.
- **Entrepreneurs:** Align expense reimbursement policies with business goals while maximizing deductions.
- **Remote-First Companies:** Manage reimbursements for remote employees' expenses, such as internet and home office equipment.

Why Consider Implementing an Accountable Plan?

- **Tax Efficiency:** Properly structured reimbursements aren't subject to income or payroll taxes for employees.
- **Expense Deductibility:** Your business can fully deduct reimbursed expenses without incurring additional taxable income for employees.
- **IRS Compliance:** An accountable plan ensures your business is meeting IRS requirements and minimizes audit risk.
- **Employee Satisfaction:** Employees appreciate clear policies and tax-free reimbursements for out-of-pocket expenses.

How Does an Accountable Plan Work?

For a plan to qualify as “accountable” under IRS guidelines, it must meet these three criteria:

1. **Business Connection:** Reimbursements must cover expenses directly related to the business.
2. **Substantiation:** Employees must submit documentation, such as receipts or expense reports, to substantiate the expense.
3. **Return of Excess:** Employees must return any excess reimbursement within a reasonable time frame.

Common Expenses Covered

- **Mileage and Travel:** Reimbursements for business-related vehicle use, airfare, lodging, and meals.
- **Supplies and Equipment:** Items purchased for business use, such as laptops, software, or tools.
- **Home Office:** Expenses like internet or office furniture for remote employees, if appropriately documented.

Setting Up an Accountable Plan

1. **Draft a Written Policy:** Clearly define eligible expenses, substantiation requirements, and deadlines for reimbursement.
2. **Communicate with Employees:** Ensure employees understand how to track and submit expenses.
3. **Implement Tracking and Documentation Tools:** Use software or standardized forms to simplify substantiation and record-keeping.
4. **Periodic Review:** Regularly review the policy to ensure compliance with IRS rules and evolving business needs.

In Focus: Accountable Plans for C Corporation Owners

Accountable plans can be particularly advantageous for C corporation owners who wish to reimburse themselves for home office expenses. This is a specific application of accountable plans, requiring compliance with IRS rules to ensure deductions for the corporation and tax-free reimbursements for the owner-employee. Here's how to use an accountable plan for this purpose:

Step 1: Qualify for Reimbursement

- » Ensure your home office is used exclusively and regularly for business purposes.

Step 2: Set Up the Plan

- » Draft a written accountable plan policy that outlines expense submission guidelines and the business connection requirement.

Step 3: Calculate Home Office Expenses

- » Measure the square footage of your home office and calculate the business-use percentage.
- » Identify deductible expenses, such as utilities, mortgage interest, property taxes, and insurance, and apply the business-use percentage.

Step 4: Submit Expense Reports

- » Document the expense date, type, amount, and business purpose.
- » Attach receipts or relevant bills as proof.

Step 5: Reimburse Yourself

- » Write a check or transfer funds from the corporation to yourself for the approved amount and record it as a business expense.

Step 6: Maintain Documentation

- » Keep detailed records of the accountable plan policy, expense reports, supporting documents, and proof of reimbursement.

This approach allows C corporation owners to deduct home office expenses while avoiding the inclusion of reimbursements as taxable income, provided the plan meets IRS guidelines.

Key Considerations

1. **Audit-Ready Documentation:** Ensure expense records are thorough and meet IRS substantiation standards.
2. **Consistency:** Apply the same standards across all employees to avoid compliance risks.
3. **Expert Guidance:** Working with our team can help you navigate the complexities of implementation and compliance.

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