“The hardest thing in the world to understand is the income tax.” – Albert Einstein
Accountable Plan

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Participant Outcomes

1. Define an Accountable Plan and why it matters
2. Recognize when payment situations have tax consequences under the Accountable Plan rules
3. Locate and use the available resources created to assist departments with payments under the Accountable Plan
What is an Accountable Plan?

- IRS term for expense reimbursements

- Must follow 3 major rules:
  1. Expenses MUST have a business connection
  2. Expenses MUST be substantiated within a reasonable time period (60 days)
  3. Advances in excess of expenses incurred must be returned within 60 days

- Alternative is “Non-accountable Plan” and taxable to recipient on W-2 or 1099
When are payments taxable?

• When the expense is **NOT** an IU business-related expense

• Non-taxable expenses should be:
  • Necessary
  • Appropriate to the activity
  • Reasonable in amount
  • Serve a bona fide university purpose
When are payments taxable?

- **Taxable Examples – Business Connection Rule:**
  - Personal reading material
  - Personal recreation or entertainment
  - Expenses that primarily benefit a student’s personal education
  - Credit card fees
  - Personal insurance costs such as life insurance, business travel insurance
  - Any types of fines or penalties
  - Personal equipment/devices
When are payments taxable?

• When expense is **NOT** properly substantiated within 60 days
• Properly substantiated receipts (or equivalent receipts) must include:
  • Amount of expenditure
  • Dates of expenditure
  • Business purpose
• Reimbursements for services are not allowed as out-of-pocket expenses – see IU Purchasing guidelines for services
When are payments taxable?

- **Taxable Examples – Substantiation/60 Day Rule:**
  - Receipts submitted after 60 days
  - No substantiation submitted
  - Purchases made with food stamps
  - Purchases made with reward/membership points
When are payments taxable?

• If exception was granted for an advance payment and amount was NOT substantiated or excess was NOT returned within 60 days:
  • Travel advances only (approved on a case-by-case basis)
  • Based on return date of the trip
  • Amounts do not apply to per diem and mileage
Accountable Plan - Resources

1. See IU Policy FIN-ACC-I-620
2. See Tax Standard Operating Procedure TSOP 9.02 on the FMS Tax Website
3. Email University Tax Services with questions: taxpayer@iu.edu