

How to set up an accountable reimbursement plan

An accountable reimbursement plan must meet the following requirements:

- The expense must have a business purpose related to the minister's or employee's duties. Commuting expenses are not business expenses.
- Ministers and employees must identify the expense with a receipt and documentation that verifies the amount, date, place and business purpose. Ministers and employees should provide documentation within 60 days of incurring the expense. The church can avoid requiring documentation of exact amounts for travel expenses by using the standard mileage rate for transportation and the IRS-approved per-diem rate for meals and lodging.
- Ministers and employees must return advances that exceed documented expenses within 120 days.
- Unused money left in an accountable reimbursement plan **should not** be given to an employee as additional income or a "bonus" at the end of a budget year.

Accountable reimbursement arrangements can be set up in three easy steps.

1. Review last year's figures in each ministry-related expense category. Decide what types of expenses will be covered and adopt a written reimbursement policy that identifies these. Determine the amount of money to be placed in the church budget to cover these expected expenses. The written policy and money to fund it should be approved through the church budget adoption process.
2. When ministers and employees incur an expense, they need to submit a written statement (expense account form) within 60 days to the church treasurer or other appropriate financial officer detailing each expense, including the purpose and amount. The minister or employee should attach a bill or receipt for items other than automobile expenses. The minister or employee should report the actual ministry-related mileage.
3. At least once a month, your church treasurer or chosen financial officer reimburses the minister or employee for all approved expenses. Reimbursed amounts are not reported as taxable income and are not included on a Form W-2. Advances can be given to provide for anticipated expenses, but any unused funds from the advance must be returned to the church within 120 days.

Monthly Expense Report

Employee Name: _____
For the month of _____ Year _____

Date	Description of expense	Business purpose	Amount
January 17-18	Mileage to state convention	mileage (457 x .325)	\$148.52
January 17	Meals at convention	meals	\$53.25
January 17-18	Hotel	lodging	\$120.00
January 17	Sunday School teachers guide	ministry expense/books	\$53.00
		Subtotal	\$374.77
		Minus advance	\$200.00
		Total reimbursement due	\$174.77

Caution

If a church "reimburses" the ministry-related expenses by simply reducing the minister's or employee's salary by the amount of the expense, these salary-reduction reimbursement arrangements are non-accountable. According to the IRS, the church must include the full amount of the non-accountable reimbursements on the minister's or employee's Form W-2. The minister or employee must report the amount as income on Form 1040 and pay the appropriate income tax on the amount.

Ministers and employees will pay more taxes if the church uses a non-accountable arrangement because non-accountable reimbursements are subject to both Social Security and income taxes. The minister or employee can deduct business expenses only if they itemize their deductions. Further, the deduction is limited only to expenses that exceed two percent of adjusted gross income.

Accountable reimbursement plan

In accordance with IRS regulations 1.162-17 and 1.274-5T(f),

the _____

Baptist Church hereby establishes an accountable reimbursement plan for all ministers and employees with the following terms and conditions:

1. The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, such expenses will include:
 - Business use of automobile, up to the current IRS standard mileage rate;
 - Business travel away from home: transportation, lodging and meals on overnight trips;
 - Convention conference and workshop expenses;
 - Continuing education expenses;
 - Subscriptions, books and tapes, if related to ministry or employment;
 - Entertainment/hospitality expenses, if business connection requirement is met.
2. The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, date, place, business purpose and business relationship of person entertained for each expense. A receipt will accompany the documentation.
3. The minister or employee will return advances that exceed actual business expenses within 120 days.
4. Under this accountable arrangement the church will not report reimbursed amounts as taxable income on the minister's or employee's Form W-2. The minister or employee should not report reimbursed amounts as income on Form 1040.