



# Is Your Reimbursement Plan Hurting You?

By Rebecca M. Shull, MSA, CPA

Clifford & Associates

<http://www.sharetheharvest.com> 1-800-456-1803 [rebeccas@sharetheharvest.com](mailto:rebeccas@sharetheharvest.com)

The IRS categorizes reimbursement plans into the following two types:

## I. Accountable Plans

Employees under an accountable plan must turn in logs and receipts to substantiate their expenses at least every 60 days. The employer only reimburses substantiated expenses. The employee does not receive any monies remaining in the reimbursement fund at year-end. Reimbursements under an accountable plan are tax-free to employees and do not appear on Form W-2.

## 2. Nonaccountable Plans

Reimbursements under a nonaccountable plan are taxable income to employees and should be included in box 1 of Form W-2. The employee must itemize to claim business expenses on his or her tax return. Expenses are claimed as a miscellaneous deduction on Schedule A subject to a threshold of 2% of adjusted gross income. Clergy are subject to an additional limitation, called the "Deason Rule." The Deason Rule states that the percentage of unreimbursed expenses that

are attributable to housing (housing ÷ total ministry income) are not deductible.

For example, consider the cases of Pastor A and Pastor Z in the illustration below. Pastor A's church has an accountable plan, so Pastor A receives reimbursement of \$4,000, tax-free. Pastor Z receives a \$4,000 travel allowance from his church under a nonaccountable plan. The allowance is taxable income included in box 1 of Pastor Z's Form W-2 from the church. Note that Pastor Z ends up paying **substantially more taxes**.

INCOME:	Pastor A	Pastor Z	
Salary	\$20,000	\$20,000	
Housing	10,000	10,000	
Nonaccountable Travel Allowance		4,000	
Total Income	\$30,000	\$34,000	
Adjusted Gross Income (AGI)	\$17,880	\$21,880	
<b>EXPENSE:</b>			
Mileage	8,000	8,000	
IRS 2010 Reimbursement Rate Per Mile	0.50	0.50	
Clergy Mileage Expense	\$4,000	\$4,000	
Accountable Reimbursement (Tax Free!)	\$4,000		
29% Disallowed by Deason Rule (10000/34000)		1,160	
		2,840	
2% of AGI Threshold		438	
Itemized Deduction		\$2,402	
<b>TAXES:</b>			
Self-Employment Tax	\$4,239	\$4,239	
Federal Income Tax	861	1,461	
State Tax	237	363	
City Tax	400	480	<b>Difference</b>
Total Tax if Unable to Itemize	\$5,737	\$6,543	<b>\$806</b>
Total Tax if \$13,000 of Other Itemized Deductions	\$5,000	\$5,366	<b>\$366</b>