

**Accountable Reimbursement Plan  
for  
Professional Expenses**

**Guidelines for Ministers, Sessions, and Church Treasurers**

**Accountable Reimbursement Plan  
for  
Professional Expenses**

**Definition** An **Accountable Reimbursement Plan** does the following:

- reimburses only those business expenses that an employee substantiates as to the date, amount, and the business nature of each expense
  
- requires any excess reimbursements to be returned to the employer

**Note:** An employer's reimbursement plan is "*non-accountable*" if it does not meet the above stated requirements.

## **Advantages of an Accountable Reimbursement Plan**

- Individuals can report their business expenses to the church rather than to the IRS
- Persons who report their taxes as employees avoid the limitations on the deductibility of employee business expenses
- The *Deason* allocation rule is avoided (a rule that requires clergy to reduce their total business expenses by the percentage of their total compensation that relates to tax exempt housing)
- The “50% limitation” that applies to the deductibility of business meals and entertainment expenses is avoided.
- Avoid the limitations on the deductibility of business expenses in instances where the minister is not able to itemize deductions
- Avoid the limitation of being able to deduct business expenses on itemized tax returns only to the extent that these expenses exceed 2% of the ministers adjusted gross income

## **How to Implement an Accountable Reimbursement Plan**

Draft a written policy that includes the following:

- The maximum dollar amount that will be reimbursed on an annual basis
- A list of professional expenses which will be reimbursed by the church (note- all expenditure that are to be charged through this plan need to be mutually agreed upon by the pastor and the search committee/Session at the time that the call/changes in terms of call is negotiated)
- Guidelines to be used by the employee for presenting an accounting of professional expenses to the church treasurer for reimbursement
- Guidelines to be used by the church treasurer in implementing the Accountable Reimbursement Plan

*(A sample plan is provided at the back of this packet.)*

## Expenses That Can be Classified as Professional Expenses

The expenses listed below constitute the more commonly incurred expenses. All type of expenses must be approved by the Session prior to including them in the Accountable Reimbursement Plan agreement. The more commonly used expenses include:

- Automobile expenses for business mileage

**Note:** *The IRS Standard Mileage rate effective 01/01/10 is 50 cents per mile.*

Reimbursements exceeding the approved IRS mileage rate must be reported as taxable income.

- Parking fees and tolls incurred in the course of ministerial duties
- Continuing Education (tuition, room, board, and travel)
- Professional books, journals, magazines, and newspapers
- Dues to professional organizations
- Meals and entertainment of out-of-town speakers who address groups at church
- Meals and entertainment of prospective church members when church business is discussed
- Purchase and maintenance of clerical garments

**Expenses That Can be Classified as Professional Expenses cont'd.**

- Computers & Cell Phones

A “section 179” deduction (on Form 2106- Employee Business Expense) for employee owned computers and cell phones is permissible providing it will be used at least 50% of the time for business purposes and that the following conditions are met:

- The use of the computer or cell phone must be for the *convenience of the employer*. This means that the computer/cell phone are necessary for the minister to perform his/her duties and that the computers/phones at the church are not adequate to enable the minister to perform his/her duties.
- The use of the computer/cell phone must be a *condition of employment* for the minister. This means that the minister is not able to adequately perform his/her duties without the computer/cell phone. It *does not* mean that the employer is requiring the minister to purchase the computer/cell phone.

If these two conditions are met, the deduction for the computer/cell phone can be made up to the percentage of time that the computer/cell phone is used for business purposes.

**Guidelines for the Reimbursement of Expenses  
for  
Church Employee**

- The employee should furnish requests for reimbursements to the church treasurer **within sixty days** of having incurred the expense
  
- Requests for reimbursement should be made as follows:
  - a. Automobile, tolls, and parking
    - 1) Date
    - 2) General time of day
    - 3) Place
    - 4) Business purpose/relationship
    - 5) Number of Miles and the dollar amount requested for reimbursement
  
  - b. Other professional expenses:
    - 1) Date
    - 2) Type of expense
    - 3) Place
    - 4) Business purpose/relationship
    - 5) Cost
    - 6) Receipts
  
- Excess reimbursements received by the employee must be returned to the employer **within 120 days**

**Guidelines for the Reimbursement of Expenses  
for  
Church Treasurers**

- Church treasurers should implement the reimbursement system based upon the **approved** reimbursement plan
  
- The treasurer should ensure that requests for reimbursement of covered are accompanied by sufficient documentation and are received within 60 days of the date that the expenses are incurred. Minimum requirements as specified by the IRS include the following:
  - a. Date
  - b. Time of day (in the case of business travel)
  - c. Place
  - d. Business purpose/relationship
  - e. Receipts
  
- The treasurer must charge the expenses against the Accountable Reimbursement Account which has been set up by the church

**Note-** Reimbursement of professional expenses through the periodic reduction of the employee's salary is not permitted and will result in the plan being reclassified by the IRS as a non-accountable reimbursement plan.

- All overpayments of professional expenses must be returned to the church within 120 days. Overpayments which are not returned to the church should be included as taxable pay on the employee's W-2.

**Sample Agreement for an  
Accountable Reimbursement Plan for Professional Expenses**

The \_\_\_\_\_ Church establishes an **Accountable Reimbursement for Professional Expenses Plan** between \_\_\_\_\_ and \_\_\_\_\_  
(employee)  
\_\_\_\_\_ effective \_\_\_\_\_  
(church) (date)

and is limited to the maximum of \$ \_\_\_\_\_ annually.

Professional expenses to reimbursed under this plan shall include the following:

- |          |          |
|----------|----------|
| 1. _____ | 5. _____ |
| 2. _____ | 6. _____ |
| 3. _____ | 7. _____ |
| 4. _____ | 8. _____ |

The employee shall substantiate to the church treasurer all of the above listed expenses within sixty days of incurring the expense. Expenses shall be documented as follows:

a. Automobile, tolls, and parking

- 1) Date
- 2) General time of day
- 3) Place
- 4) Business purpose/relationship
- 5) Number of Miles and the dollar amount requested for reimbursement

b. Other professional expenses:

- 1) Date
- 2) Type of expense
- 3) Place
- 4) Business purpose/relationship
- 5) Cost
- 6) Receipts

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The church treasurer will, upon receipt of professional expenses with the appropriate documentation, reimburse the employee on a timely basis out of the church reimbursement account. *It is not permissible for the employer to reimburse the employee for professional expenses by means of periodic salary deductions.*

All overpayments made to the employee shall be returned to the church within 120 days.

Any amount remaining in the reimbursement account at the end of the year shall remain the property of the church.

It is understood that all amounts reimbursed to the employee under this plan are not considered to be income and will not be included on the employee's W-2 form.

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(employee's signature)

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(employer's signature)

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(date)