

An Accountable Plan

Some churches are still giving the rector or vicar an “auto allowance.” This practice does not meet the requirements for an “**accountable plan**” under the definition set forth in Internal Revenue Code Sec. 162-17 and 1.274-5(e).

If you have not established an **accountable plan**, you are operating under a **non-accountable plan**. Amounts paid under a **non-accountable plan** must be included in the employee’s gross income, must be reported as wages or other compensation on the employee’s Form W-2, and are subject to withholding and payment of employment taxes. The portion of payment that can be substantiated as expense by the employee may be deducted on the employee’s tax return as a miscellaneous itemized deduction subject to the 2% of adjusted gross income limitation.

Amounts paid under an **accountable plan** are excluded from the employee’s gross income, are not reported as wages or other compensation on the employee’s Form W-2, and are exempt from withholding and payment of employment taxes.

It is strongly recommended that all churches establish an **accountable plan**. The Resolution below or one like it should be implemented by a resolution of the Vestry or Bishop’s Committee.

The following is a sample resolution adapted from pages 242 and 243 of Church Law & Tax Report, Church & Clergy Tax Guide, 2003 Edition...

Resolution of Vestry

WHEREAS, income tax regulations 1.162-17 and 1.274-5T(f) provide that an employees need not report on their tax return expenses paid or incurred by him solely for the benefit of his employer for which he is required to account and does account to his employer and which are charged directly to the employer; and

WHEREAS, income tax regulation 1.274-5T(f) further provides that an adequate accounting means the submission to the employer of an account book, diary, statement of expense, or similar record maintained by the employee in which the information as to each element of expenditure (amount, time and place, business purpose, and business relationship) is recorded at or near the time of the expenditure, together with supporting documentary evidence, in a manner which conforms to all the ‘adequate records’ requirements set forth in the regulation; and

WHEREAS, church’s name desires to establish a reimbursement policy pursuant to regulations mentioned above; be it therefore

RESOLVED, that church’s name hereby adopts a reimbursement policy pursuant to income tax regulations 1.162-17 and 1.274-5T(f), upon the following terms and conditions:

1. **Adequate accounting for reimbursed expenses:** Any employee now or hereafter employed by church’s name shall be reimbursed for any ordinary and necessary business and professional expense incurred on behalf of church’s name, if the following conditions are satisfied: 1) the expenses are reasonable in amount; 2) the employee documents the amount, time and place, business purpose, and business relationship of each such expense with the same kinds of documentary evidence as would be required to support a deduction of the expense on the employee’s federal income tax return; and 3) the employee documents such expenses by providing the treasurer with an accounting of such expenses, no less frequently than monthly. In no event will an expense be reimbursed if substantiated more than 60 days after the expense is paid or incurred by an employee.
2. **Tax Reporting:** church’s name shall not include in an employee’s W-2 form the amount of any business or professional expense properly substantiated and reimbursed according to the preceding paragraph, and the employee should not report the amount of any such reimbursement as income on his or her Form 1040.
3. **Excess Reimbursement:** Any reimbursement made by church’s name that exceeds the amount of business or professional expenses properly accounted for by an employee pursuant to this reimbursement policy must be returned to church’s name within 120 days after the associated expenses are paid or incurred by the employee, and shall not be retained by the employee.
4. **Cellular phones and personal computers:** church’s name will not reimburse cellular phone or personal computer expenses of an employee who is treated as an employee for federal income tax reporting purposes unless the employee’s use of a cellular phone or personal computer meets the following two tests:
 - (a) Convenience of the employer: Use of the equipment must be “for the convenience of the employer.” This means that the employee cannot perform their job without the equipment. The fact that the equipment enables an employee to perform his or her work more efficiently is not enough. Further, it must be demonstrated that computers and telephones available at the Church are insufficient to enable the employee to properly perform their job.
 - (b) Condition of employment: Use of the equipment must be required as a “condition of employment.”
5. **Retention of records:** Churches name will retain all receipts and other documentary evidence used by an employee to substantiate business and professional expenses reimbursed under this policy.
6. **Employees:** For purposes of this policy, the term “employee” shall include the following persons:

Attest:

Secretary of the Vestry