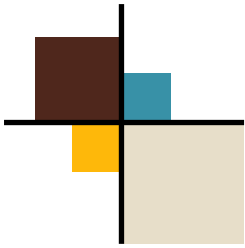


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Accountable Reimbursement Plans for Nonprofits

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From time to time your nonprofit reimburses volunteers or staff for expenditures they make on behalf of your organization. You should have a written policy on reimbursements that clearly communicates your expectations and procedures up front. Promote effective internal controls to protect your assets and manage your expenses and cash flow. Consider federal rules when designing your policy to avoid any unintended personal tax consequences for your volunteers and staff.

Two Types of Reimbursement Plans

The Internal Revenue Service (IRS) classifies reimbursements you make into one of two types of plans: accountable or non-accountable. [IRS Publication 463 Travel, Entertainment, Gift and Car Expenses \(2010 edition\)](#) provides specific details and rules beginning on page 29. The two plans differ in the form of reimbursement, the requirements to provide adequate accounting for the expense and potential tax liability for the recipient. For example, if you base the amount of any reimbursement on the actual expense incurred and you receive an adequate accounting from the person you reimburse then your plan probably qualifies as an “accountable” plan with no tax liability for the volunteer or employee you pay. On the other hand, if you use a fixed amount (such as an allowance or stipend) and do not require any type of accounting for the actual expense or return of any excess payment, then your reimbursement could be determined to be “non-accountable” and could result in reportable, taxable income to your volunteers and employees.

For various reasons you might use either type of reimbursement plan or, in some cases, you may use a combination of both plans. Even if you design an “accountable” plan you need to be diligent about implementing all of the requirements or those payments could later be declared to be “non-accountable” with all of the tax implications for the recipient and possible penalties for your nonprofit.

Benefits of An Accountable Plan

As you develop your expense reimbursement policies and procedures, consider the benefits of adopting an accountable reimbursement plan. Follow IRS guidelines on acceptable accounting for reimbursed expenses to avoid creating a potential tax liability for your volunteers and employees. When you let others know up front what they will need to report **before** they incur the expense you increase the likelihood of receiving reliable and verifiable information to support the expenditure. Adopt stronger internal controls such as requiring original receipts to reduce the potential for duplications or errors. When you require timely reporting you manage your cash flow more effectively and minimize costly adjustments for unexpected expenses outside of your normal operations. You also protect your

“By following the IRS guidelines on providing acceptable accounting for expenses to be reimbursed you avoid a potential tax liability for your volunteers and employees.”

volunteers and staff by reducing the length of time they carry any expense on your behalf. Increase confidence and predictability by requiring approvals for expenditures over a predetermined amount. You need to know when an expenditure is made and others need to be reassured that they will be reimbursed when the time comes. Set reasonable conditions and parameters for advances that meet your programming needs while protecting your nonprofit from potential losses. Require timely reporting including returns of any excess payments.

Three Requirements for An Accountable Plan

The IRS sets three (3) basic requirements for your reimbursements to qualify as an accountable plan. First, the expenditure must be related to your business and must be reasonable. Second, you must receive adequate documentation or accounting for the expense within a reasonable amount of time after the expense has been incurred. Finally, if you give someone an advance, you must receive any excess over the actual documented expense within a reasonable time after the expense has been incurred.

Business-Related Expense

Show how the expense you reimbursed related to your business. Think about how you would explain the expenditure to your largest donor or the local news. You can make the case that the expenditure is an "ordinary" expense if you can show that it was similar to expenses of other nonprofits with a similar purpose or mission. For example, if you reimburse an employee for purchasing large amounts of food and you provide meals for the homeless, you could demonstrate that the food purchase was an ordinary and necessary expense and similar to other nonprofits that provide similar programs. Even if the expense was not "ordinary" you may have particular circumstances that make the expenditure "necessary" for your organization. Suppose you reimburse a volunteer for using their personal credit card to purchase a desktop computer. If the nonprofit lost a computer critical to operations and did not have time to go through normal procedures to make that purchase, the circumstances make the purchase necessary to the business.

Adequate Documentation

For your reimbursements to qualify as part of an accountable plan, you must obtain adequate documentation of expenses from volunteers and employees. You should be able to show the five (5) W's for each expense: who, what, when, where and why.

Who

Identify "who" incurred the expense on behalf of your organization. Use a standard form for expense reimbursement with the signature of the volunteer or employee and issue payment to the same person who signed the form. Identify the vendor who provided goods or services. Require an original receipt or invoice with the name and address of the vendor. If you reimburse volunteers or employees for meals for business or entertainment, make sure you obtain the names of everyone who shared the meal.

What

Make sure you have a record of what was purchased. Check original receipts or invoices to ensure that you have an adequate description of each item purchased. If you reimburse for travel expenses, develop standardized forms to clearly describe each element of the travel. For instance, your form might include mileage to and from a beginning point (work or home) and destination point, the number of days that per diem incidentals apply and so forth.

When

Find ways to capture and confirm the date of the expense. The date could either be on the receipt or invoice or through the dates of travel. Each expense you reimburse should have a discrete date (or dates) to indicate when the expense was incurred. Without information on the date, you cannot demonstrate that the expense was submitted or paid on a timely basis. Use the date of the ex-

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pense to determine whether it should be accrued to a different period for more accurate reporting and analysis.

Where

Confirm the location where the expense was incurred. If you require original receipts or invoices, you can normally rely on them for documentation of where the expense was incurred. Use your travel report forms to record where the volunteer or employee went. While the IRS prefers odometer readings you can rely on other methods as long as you have the beginning location and the destination point.

Why

Document the business purpose of the expenditure. Use these descriptions to determine where you should report the expense. If you reimburse a volunteer or employee for a business meal expense, have them describe the business purpose of the meal right on the receipt along with the names of everyone who participated. Remember you have to allocate your expenses between the three functional areas (program, management and fund raising) as well as between programs. Ask questions if the business purpose is mixed or you do not have adequate information to record the expense appropriately.

Alternative Documentation

Inevitably you will have to decide what to do when someone fails to provide adequate accounting for an expense. Try to anticipate reasonable alternatives in advance. For example, if someone pays by credit card but cannot find the original receipt, you might consider accepting a copy of the monthly statement instead. Some vendors or credit card companies may be willing to help by providing alternate documentation as well. If someone forgets to record mileage, most online mapping software provides mileage totals with the beginning and ending locations.

Timeliness

To maintain your reimbursements as part of an accountable plan, the IRS requires that you should receive accounting reports on a timely basis. You can certainly reimburse anyone after the IRS time limits at your discretion, but the reimbursement may be taxable as income to the person you pay under the IRS rules for an accountable plan.

60-Day Rule

For most direct reimbursements, you should receive an accounting from the volunteer or employee within sixty (60) days of the date the expense was incurred. You need to know about the expense and get it recorded in your financial records as quickly as possible to stay on top of your budget and cash flow. Maintain the good will of your volunteers and employees by actively taking steps to ensure they do not carry your expenses on your behalf for too long.

Special Rules for Advances

Sometimes you have an activity or event where you need to pay at the time services are delivered but you may not know the exact amount until then. For example, you might have to pay for assistance with unloading meeting materials at an offsite location but you have no way of knowing what the exact amount might be or who will be helping you. Under these circumstances, you might reasonably pay an advance of funds to a trusted volunteer or employee rather than make someone responsible for carrying a blank check to the event. You need to follow two (2) important rules to ensure those advances fall under your accountable plan.

30-Day Rule

If you opt to issue an expense advance to a trusted volunteer or employee, you should not make that payment more than thirty (30) days before the anticipated expense. You put your organiza-



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tion and the other person at greater risk as you increase the time between the advance and the expenditure.

120-Day Rule

You should receive an accounting for the expenses covered by the advance and any excess over the actual expenses within 120 days of the expense. If you generate regular statements reflecting advances, you must issue these statements at least on a quarterly basis. You must receive any excess over the actual expenses within 120 days of the statement date instead of within 120 days of the actual expense.

Reimbursement Rates

Generally you should reimburse volunteers and employees for the exact amount of the actual expense incurred based on adequate proof of the expense. However you can make reimbursements using other rates established by the Internal Revenue Service.

Mileage Reimbursements

Establish a mileage reimbursement rate that conforms to the federal rate set annually by the United States General Accounting Office (GAO). Remember that the federal rate includes fuel and maintenance costs. You can pay less per mile but if you pay more than the federal rate any excess amount may be taxable income to your volunteers or employees.

Per Diem

To keep your travel-related costs predictable and under control, consider setting a per diem rate for meals and incidentals that conforms to the annual federal per diem rates. Unlike the federal mileage rate, the federal per diem rate varies by geographic area dependent upon the travel destination point.

Clarify what your per diem rate will cover in your reimbursement policy. For example, the GAO has two (2) per diem rates: one just covers meals and incidentals (such as taxis or toll fees) while the other covers meals, incidentals and lodging. Decide which one best meets your needs. Incorporate that information into your policy and on your reporting forms. As long as you reimburse at your stated per diem rate and can substantiate the travel dates and business purpose you do not have to require any other supporting documentation to meet the requirements for an accountable plan. You can pay more per diem than the federal rate but any excess amount you pay above the federal per diem rates may be taxable to your volunteers or employees.

Conclusion

Consult with your legal counsel or tax advisor to evaluate your reimbursement policies and procedures. Develop a written policy and communicate expectations clearly. Promote a culture of transparency and accountability for all concerned. Comply with federal rules regarding reimbursements to avoid creating unintended tax liabilities for your volunteers and staff.

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