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The following article is located at: <https://www.churchlawandtax.com/web/2020/february/accountable-reimbursement-arrangements.html>

## Accountable Reimbursement Arrangements

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Review the four specific requirements for business expense reimbursements.

**Richard R. Hammar** [ posted 3/03/2020 ]



Most ministers and lay church employees incur expenses when performing their duties. The tax treatment of these expenses depends on whether a person is an employee or self-employed, whether the expenses are reimbursed by the church, and whether any reimbursed expenses are paid under an accountable or a nonaccountable reimbursement plan.

Here are a few important details to understand about business expense reimbursements.

### Unreimbursed business expenses

These expenses were no longer deductible by employees as itemized expenses on Schedule A (Form 1040) after 2017.

### Employee business expenses reimbursed under a nonaccountable arrangement

These expenses were no longer deductible by employees as itemized expenses on Schedule A (Form 1040) after 2017.

### Avoid limitations with an accountable arrangement

The limitations on the deductibility of employee business expenses (summarized above) can be avoided if the church adopts an *accountable* reimbursement plan. An accountable plan is one that meets all of the following requirements:

1. Only business expenses are reimbursed.

2. No reimbursement is allowed without an adequate accounting of expenses within a reasonable period of time—not more than 60 days after an expense is incurred.
3. Any excess reimbursement must be returned to the employer within a reasonable period of time—not more than 120 days after an excess reimbursement is paid.
4. An employer's reimbursements must come out of the employer's funds and not by reducing the employee's salary.

Under an accountable plan, an employee reports to the church rather than to the IRS. The reimbursements are not reported as income to the employee, and the employee does not claim any deductions. This is the best way for churches to handle reimbursements of business expenses.

If the requirements of an accountable reimbursement arrangement are not met, then the church's reimbursement of an employee's business expenses must be reported by the church as taxable income to the recipient.

## Additional Reading

For further readings on accountable reimbursement arrangements, see the following:

- [\*Church & Clergy Tax Guide\*](#) (chapter 7)
- [\*Church Compensation: From Strategic Plan to Compliance\*](#) (chapter 9)
- [\*“Responding to the Elimination of the Business Expense Deduction”\*](#)

Go to the next article, “[Ministerial Exception](#),” or return to “[15 Things Richard Hammar Wants Pastors to Know](#),” to choose an article of interest or that fits a particular need.

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