

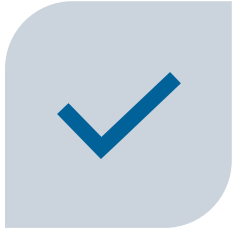


FINANCIAL TRAINING & COMMUNICATION

# **Out of Pocket Reimbursement and the Accountable Plan**

INDIANA UNIVERSITY

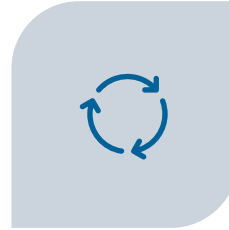
# Agenda



POLICY UPDATES



AVOIDING OUT OF  
POCKET  
PURCHASES



IMPLEMENTATION



RESOURCE  
RUNDOWN





# Policy updates

# What is an accountable plan?

The rules IU employees and guests must follow to avoid being taxed on reimbursements and prepaid items that are business expenses.



# Who makes these rules?

01

The Internal Revenue Service (IRS) defines the criteria an expense must meet to be considered a business expense

02

The IRS also defines the requirements an expense must meet to be non-taxable

03

They also define when and how individuals are impacted by taxable expenses



# Where can I find the rules?



IRS Code [26 CFR Section 1.62-2](#)

IU policy [FIN-ACC-620](#)

IU Accounting Standard

Replaces TSOP 9.02  
Publication date: July 1



# What's changing?

The amount of time you have to request reimbursement



# Purchase date – Expense submit date = Timeframe

How is expense treated?	Current timeframe	July 1 timeframe
Reimbursable, tax-free	0-120 days	0-60 days
Reimbursable, taxable	121-365 days	61-120 days
<b>Cannot be reimbursed</b>	365+ days	121+ days

Emburse displays warning messages





# Impact of taxable expenses



Out of pocket purchases are reimbursable if valid and submitted within 120 days of the purchase date



Aged reimbursements are considered taxable income



Increases gross wages which increases payroll taxes withheld, reducing net pay



# Why is IU changing its policy?

IU has had an Accountable Plan policy since 2016

- Aligning IU policy with IRS requirements
  - Compliance with IU policy = compliance with the IRS
  - Reducing audit risk and the likelihood of fraud



# What happens if IU doesn't change its policy?

- If IU is audited by the IRS and they find a pattern of abuse the IRS can revoke IU's ability to have an accountable plan
- This would mean all reimbursements **and** IU-prepaid expenses would **always** be taxable to IU employees and guests





**Avoiding  
out of pocket purchases**

# Why avoid out of pocket purchases?

#1

Not all purchases are reimbursable

#2

Even if the purchase is allowable, it may be denied

#3

IU's sales tax exemption cannot be used with personal funds



# Allowability of reimbursements

- The purchase must meet the criteria for a valid business expense as defined in policy FIN-ACC-620 and the IRS
- A valid business expense must:
  1. Have a business connection
  2. Be substantiated with an original receipt



# What is a business connection?

- A purchase has a valid business connection if it was:
  - Necessary
  - Appropriate to the activity
  - Reasonable in amount
  - Serving a bona fide university purpose

## **Valid business connection**

You purchase a book that supports your research from a local bookstore because it's not available from Amazon Business

## **Invalid business connection**

You purchase a rug for your office. It really ties the room together!



# What details need to be on a receipt?

1. Where the purchase was made
2. The date of the purchase
3. An itemized list of good(s) purchased and their associated cost(s)
4. Proof of payment





# What can't be reimbursed?

## Restricted items

Restricted items carry additional compliance considerations

- [SOP-CARD-04: Restricted Items](#) contains a list of restricted items
- Reimbursement of restricted items must be approved by Purchasing

## Services

Services are an example of a restricted item

- IU must have tax information on file for the supplier who provided the services

Example: you use your personal credit card to pay to reserve a local bowling alley



# Is sales tax reimbursable?

- IU has sales tax exemptions on file with most states in the US
  - Tax exemptions can only be used when paying with IU funds, i.e., BUY.IU or with the P-Card
- If you pay out of pocket, you will pay applicable sales tax
  - Your Fiscal Officer (FO) determines if sales tax will be reimbursed
  - IU does not have a university standard



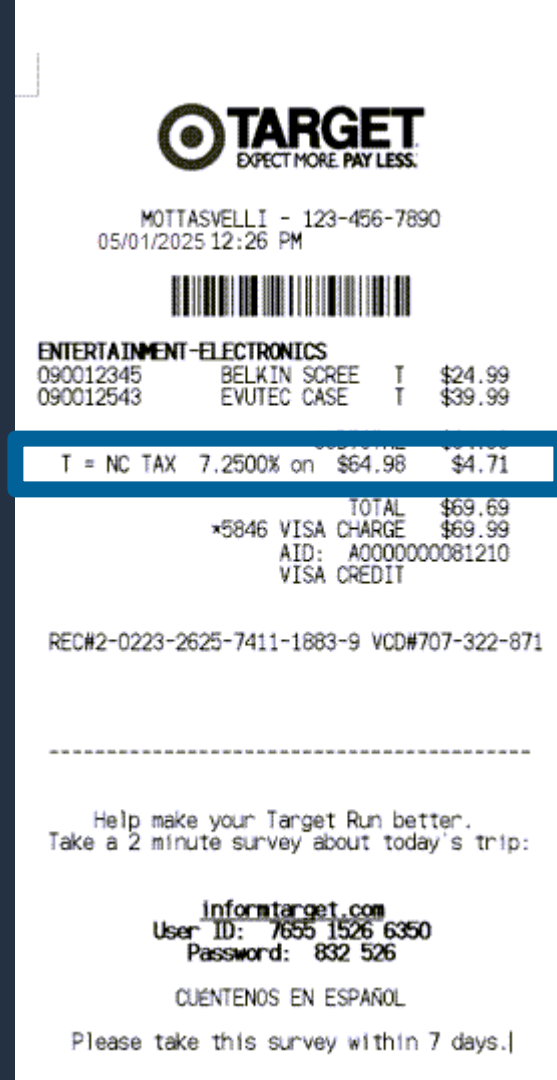
# Sales tax cont'd

- Scenario: your FO determines that sales tax will not be reimbursed
- Solution: reduce the amount due to the expense owner

Amount paid: \$69.99

Sales tax paid: \$4.71

Amount due  
to expense owner: \$64.98



# Okay. So, how should I buy things?

First choice: BUY.IU

- Commonly purchased items such as office or lab supplies
- Purchases involving a contract

Second choice: P-Card

- Not available in BUY.IU
- Merchant doesn't accept POs

Last resort: Personal funds





# Implementation

# This is a big change!

- It will take time to communicate and get everyone up to speed on these new requirements
- Changes will be implemented gradually to monitor compliance and identify groups that need additional training



# Key dates

July 1

Emburse Enterprise system rules updated

Warning messages displayed but transactions that are taxable based on new rules **will not** impact payroll

October 1

121+ days aged reimbursements blocked

Campuses and Fiscal Officers notified of potential tax impact to employees

January 1

**60+ days aged reimbursements tax reporting begins**

Employee payroll impacted 1-2 months after Emburse report containing taxable items is approved





# Resource rundown



# Additional webinars

- The Accountable Plan policy changes we discussed today also impact P-Card and travel expenses
- [Visit our events calendar](#) to register for additional webinars



# Stay in The Loop

## Join an Office Hours session

- Held via Zoom bi-weekly
- Bring your questions and get them answered in real time by the experts
- No questions? Join to hear updates and listen in

## Subscribe to The Loop

- Training team's quarterly newsletter
- Training updates, new resources, course launch announcements
- [Click here to subscribe!](#)



# Referenced resources

- [IU policy FIN-ACC-620: Reimbursement Under the Accountable Plan](#)
- [IRS Code 26 CFR Section 1.62-2](#)
- [SOP-CARD-04: Restricted Items](#)
- [SOP-PURCH-11: Out of Pocket Reimbursements for Employees and Students](#)
- [Training Documentation Library](#)



# Who to contact with questions

## Your Fiscal Officer

- Can I be reimbursed?
- Will sales tax be reimbursed?

## Training Team

- How do I process a reimbursement?
- I'm not sure where to start.

## Tax Services

- Clarification of IU policy requirements

## Procurement

- **Purchasing:**  
Exception approval for restricted item reimbursement
- **Card Services:**  
How to use Emburse



# Contact information



Training team: [estc@iu.edu](mailto:estc@iu.edu)



Tax Services: [Contact Form](#)



IU Purchasing and Card Services: [Support Form](#)





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