

# REIMBURSEMENTS

## BUSINESS ADVISORY ACTIONABLE PRINCIPLES

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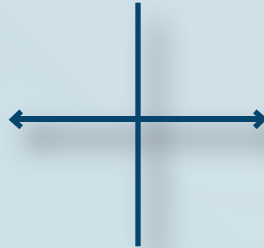
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## REIMBURSEMENTS

**CORPORATION  
OR LLC**

Business checking account  
Business credit card  
Personal card used only for business



**PERSONAL**

Personal checking account  
Personal credit cards

**If you spend PERSONAL money on a BUSINESS expense,  
the BUSINESS will need to reimburse you PERSONALLY**

- » You should turn the expenses into the Corporation and have the Corporation/LLC write you a check for that amount
- » Reimbursements can be grouped as one for the entire year or another time period, they do not need to be paid individually

**If you spend BUSINESS money on a PERSONAL expense,  
you will need to reimburse the BUSINESS**

- » This can be taken as a distribution from the Corporation/LLC
- » This would be treated as a non-deductible expense from the Corporation/LLC which would increase the profit of the Corporation/LLC
- » You should try to avoid this if possible

### **S-Corporation**

- » All reimbursements need to be booked by 12/31
- » Use our Expense Reimbursement Worksheet for ease of use
- » HINT: Try to avoid reimbursements, it will save you time with your paperwork

### **Partnership**

- » Must be noted in your member control agreement
- » If the expense is not "shared" with a partner, use as a deduction outside of the partnership



## TYPICAL REIMBURSED EXPENSES

- |   |   |
|---|---|
|  Automobile (Mileage or actual)                |  Cell phone                                    |
|  Business Travel expenses (actual or per diem) |  Tools and supplies                            |
|  Insurance                                     |  Dues, subscriptions and professional licenses |
|  Business Use of Home                          |  Cash expenses                                 |
| » Utilities      » HOA fees   | » Food  |
| » Internet      » All expenses "Four walls and in"  | » Tips  |

## PROCESS

### How to reimburse

- » Submit business expenses to the Corporation via an expense worksheet
- » Write a check or transfer funds in that amount from business to personal
  - » All reimbursements should be completed by 12/31 of each year

### Documentation needed

- » Accountable Plan
  - » Defined policy for reimbursement (what and how)
    - Business connection
    - Substantiation
    - Documentation
    - No excess payments
  - » Plan needs to be adopted in writing by your Corporation/LLC via a signed agreement
  - » Should also include proper company written action plan approved by the Board
  - » Plan must be followed or IRS may invalidate it





## FAQS

### » Are reimbursements taxable income?

- » No, they are tax free payments that are not included in income if an accountable plan is in place.

### » Does reimbursing an expense make it deductible?

- » No, IRS rules for tax deductibility of expenses must still be followed to determine if an expense is eligible for deduction.

### » Who should pay mixed-use expenses?

- » Expenses like mileage and home office should be paid by you and reimbursed by the business.

### » Do I need receipts to reimburse an employee?

- » Yes! Never reimburse expenses without a receipt. Not only is it important as a business owner to confirm that every expense is valid.

### » What are the three rules that must be met for expense reimbursement to employees to be considered an accountable plan?

- » All three requirements of the accountable plan rules must be met (business connection, substantiation, and return of excess), otherwise it's a nonaccountable plan and any reimbursements are taxable to your employees and included in their wages.

### » Can per-diems be used to calculate reimbursements?

- » Per-diems can be used for employees, but owners and related parties must provide receipts and use actual cost.

