POLICY PACKET | JURISDICTION: FEDERAL | VERSION 2026.1

Reimbursement + Accountable Plan Policy Packet

Keep reimbursements tax-free and clean: business purpose, substantiation deadlines, category rules, and repayment of excess advances.

WHAT THIS HELPS YOU DO

Use this packet to establish an IRS-compliant accountable plan — so mileage, phone, tools, and travel reimbursements stay off W-2s, and the substantiation habit that makes it work actually exists.

WHEN TO USE THIS DOCUMENT

- When reimbursing employees for anything, however informally
- When setting flat allowances for phone, vehicle, or tools
- Before paying travel advances
- When reimbursements are drifting through payroll as taxable pay
- At year-end, before W-2s lock in the consequences

WHAT THIS DOCUMENT HELPS PREVENT

- Reimbursements reclassified as taxable wages — with payroll taxes, penalties, and amended W-2s
- Allowances that were quietly compensation all along
- Advance payments no one ever substantiated or returned
- Expense disputes with no policy to point to
- Texas note: unreimbursed business expenses dragging effective pay below minimum wage

Faulkner HR Solutions focuses on the system behind the people problem. This tool is designed to help employers slow down the decision, identify the risk, and create proof before the issue becomes a claim, complaint, turnover event, or credibility problem.

BEFORE YOU START: READINESS CHECKLIST

Gather the following before working through this document. Incomplete inputs are one of the most common reasons employer decisions fail under later scrutiny.

Have it	Input	Notes / location
☐	Employee name and role	
☐	Date of incident, request, or separation	

Have it	Input	Notes / location
☐	Supervisor involved	
☐	Policy or handbook section that applies	
☐	Prior documentation on file	
☐	Pay records, if applicable	
☐	Relevant emails, texts, notes, or complaints	
☐	Decision-maker name	
☐	Deadline, if applicable	

ACCOUNTABLE PLAN PACKET

The IRS test has three prongs: business connection, substantiation, and return of excess. Meet all three and reimbursements are tax-free; miss any and they're wages. This packet is the policy plus the forms.

Part 1 — The Three-Prong Test

Prong	Requirement	Your plan meets it?
Business connection	Expense incurred performing services as an employee, with a documented business purpose	
Substantiation	Amount, time, place, and purpose documented within a reasonable period (60 days is the safe-harbor rhythm)	
Return of excess	Amounts over substantiated expenses returned within a reasonable period (120-day safe harbor)	

Part 2 — Category Rules

Category	Reimbursement basis	Substantiation required
Mileage	IRS standard rate (verify current) × business miles; commuting never counts	Mileage log: date, destination, purpose, miles
Phone / internet	Business-use portion or documented stipend tied to business need	Bill + business-use basis
Tools / equipment	Actual cost for required items	Receipt + requirement basis
Travel	Actual costs or per diem within federal rates	Receipts + trip purpose; per diem still needs time/place/purpose
Meals	Actual or per diem, within policy limits	Receipt + attendees + business purpose

Part 3 — Policy Elements (adopt in writing)

In policy	Element	Notes
☐	Who may incur expenses and what needs pre-approval	
☐	Substantiation deadline (e.g., 60 days from expense)	
☐	Excess advance return deadline (e.g., 120 days)	
☐	Consequence of missed deadlines: amount becomes taxable wages through payroll	
☐	Approval chain and payment timeline	
☐	Non-reimbursable list (commuting, personal portions, unapproved upgrades)	

Part 4 — Expense Report Form (master)

Employee / department / period	
Date, category, amount, business purpose (per line)	
Receipts attached (Y/N per line)	
Advance received / net due or owed back	
Employee certification and date	
Approver and date	

Part 5 — Advance Tracking

Advance date	Amount	Purpose	Substantiated by (date)	Excess returned (date)

Part 6 — Annual Audit

Done	Audit step	Findings
☐	Sample of reimbursements checked for all three prongs	
☐	Flat allowances reviewed — any without substantiation moved to W-2 wages	
☐	Outstanding advances aged; overdue ones converted to wages or collected	
☐	Mileage rate updated to current IRS figure	
☐	Policy re-communicated to all who incur expenses	

Role	Name / signature	Date
Policy owner		
Approved by		

STOP AND REVIEW BEFORE ACTING

If any statement below is true, pause. Get the decision reviewed by HR, counsel, or Faulkner HR Solutions before you act.

- ☐ Monthly 'car allowances' paid with no mileage logs behind them.
- ☐ Travel advances outstanding for six months with no substantiation.
- ☐ Reimbursements paid from petty cash with no records at all.
- ☐ Employees covering required tools or uniforms out of pocket with no reimbursement — check the minimum wage effect.
- ☐ Nobody can produce the written plan the reimbursements supposedly follow.

MINIMUM DOCUMENTATION STANDARD

Before this file is closed, the employer should be able to answer every question below and point to where the proof lives.

Question	Your answer / where the proof is stored
What happened?	
When did it happen?	
Who observed or reported it?	
What policy, standard, deadline, or expectation applies?	
What decision was made?	
Who had authority to make the decision?	
What alternatives were considered?	
What risk was reviewed?	
What follow-up is required?	
Where is the proof stored?	

COMMON MISTAKES

1. Paying flat allowances and calling them reimbursements — without substantiation they're wages.
2. Setting no deadline for receipts, then arguing about them at year-end.
3. Reimbursing commuting miles as business travel.
4. Never collecting excess advances — the 120-day safe harbor exists for a reason.
5. Treating per diem as paperwork-free — time, place, and purpose still required.
6. Running reimbursements through payroll as taxed wages 'to keep it simple,' quietly shorting employees.

WHAT TO DO NEXT

Adopt the policy in writing, put the expense form into use, and convert or clean up any allowance that can't meet the three prongs. Age all outstanding advances now, and calendar the annual audit alongside year-end payroll — before W-2s make the answers permanent.

Before you terminate, deduct, discipline, classify, or respond, get the decision reviewed.

Call 210.446.8730 or email thomas@faulknerhrsolutions.info.

> ***Before you process payroll, terminate, classify, deduct, or respond to a claim, get the decision reviewed.***

Need help applying this to a real workplace decision?

Faulkner HR Solutions helps Texas employers, nonprofits, municipalities, and growing businesses fix the people systems behind recurring workplace problems.

If this document raised a risk flag, do not guess your way through the next step.

Call: **210.446.8730**
Email: thomas@faulknerhrsolutions.info
Website: faulknerhrsolutions.info

DISCLAIMER