Employee Reimbursements for A&M Members
Effective September 1, 2014

I. Background:

The Internal Revenue Service (IRS) audits are focusing more on employee reimbursements. In response to this changing audit environment, the Texas A&M University System's outside tax attorney has recommended Texas A&M members change current practices to *decrease our audit risk on employee reimbursements*. Many universities across the nation have implemented or are beginning to implement changes to their employee reimbursement processes.

When IRS audits payroll, they also review employee reimbursements. IRS begins to analyze if the employer should have included some of the reimbursements as taxable events and determine if the costs are substantiated. If the reimbursements are deemed taxable events during the IRS audit period, the employer becomes liable for the taxes. The goal is to more clearly define our processes, so we will not become liable for this additional expense.

II. System Decision:

***Safe Harbor Rules*-**per IRS rules, reimbursements to employees should be completed timely to be considered a valid expense. Under the Safe Harbor Rule, IRS states *a reasonable time* should be established to substantiate expenses. The A&M System outside tax attorney has stated 90 days is considered a reasonable time. If the expense is substantiate/reimbursed outside of the defined safe harbor period, then the reimbursement is deemed taxable to the employee.

III. Implementation:

These changes apply to all employee reimbursements. Starting with trips taken or expenses made on or after September 1, 2014, individuals will have 90 days to turn in receipts so that reimbursements are not taxable income.

After 90 days from the last date of travel or purchase date, individuals will still be reimbursed but both FICA and Federal Withholding will be taken out of the employee's next paycheck because the expense is then considered wages. Expenses made on a University Travel Card are NOT an exception. The expenses will become tax reportable income to the employee if an expense report has not been submitted within 90 days of the transaction postdate.

Travel expense reports must be submitted within 90 days of travel end date. If not submitted by the 90 day mark, the travel card will be suspended until the expense report has been submitted and approved, and at this point expenses will be considered tax reportable income to the traveler. While the card is suspended, travel advances will not be issued.

The individual traveler or purchaser is responsible for submitting their receipts and documentation within the 90 days. Best practice for expenses is to submit all travel expense reports and all requests for reimbursements within 30 days of the last date of travel or receipt date. After 60 days, we lose the ability to dispute charges with the bank.

For additional information, please contact Heath Shaffer in Accounts Payable at Heath.Shaffer@tamuc.edu or 903-886-5061 or Sarah Baker at Sarah.Baker@tamuc.edu or 903-886-5045.