Accountable Plan for Business Expense Reimbursement

PART I: ACCOUNTABLE PLAN

In accordance with IRS regulations 1.162-17 and 1.274-5 (e) the following accountable plan is adopted by **Owners** effective on the date set forth below, for reimbursement of certain expenses incurred by the authorized employees of XXXX (the "Company"). As incident to their employment, employees are expected to establish and maintain professional relationships with business persons, present and future customers, and others with whom the Company transacts business. Since this activity is considered necessary to the continued prosperity of the Company, management has authorized the following accountable plan to reimburse employees for their expenses of authorized home office expense, transportation, travel, and entertainment that are ordinary and necessary, as well as any supplies or equipment purchased during outings for the convenience of the employer.

Rules to be followed

When an authorized employee maintains a dedicated office space in their personal residence, travels, entertains, or uses their personal vehicle(s) for corporation business, they are entitled to a tax-free reimbursement **if** the current rules established by the Internal Revenue Service (IRS) are followed. These rules are outlined in the IRS Publication 535, which is entitled "Business Expenses," IRS Publication 463, which is entitled "Travel, Entertainment, Gift, and Car Expenses," IRS Publication 587, which is entitled "Business Use of your Home," and in IRS Publication 17, which is entitled "Your Federal Income Tax for Individuals." A copy of these publications can be attained from the IRS free of charge for your personal reference by going online at www.irs.gov and viewing, ordering, or downloading the publications. You may also telephone 1-800-829-3676 and order a copy delivered by U.S. Mail or drop by the IRS office and pick up a copy.

Expenses

Automobile Expenses: Business auto expenses with personal vehicle will be reimbursed at the current deductible mileage rate as established by the Internal Revenue Service. With each request for mileage reimbursement, the employee must submit his/her current mileage log which must include a log of dates, addresses or locations, business purpose including clients name if applicable, total miles driven.

Business use of the employee's home for the convenience of XXXXXX: XXXXX requires its employee(s) to maintain a dedicated office space in their residence for all business activities needed to be performed by them to include but not limited to the following: Management and Administration. Note: All reimbursements subject to approval, once approved, the amount reimbursed cannot be used as an itemized expense on the employee's personal tax return (i.e. Reimbursed mortgage interest and property taxes).

Other Expenses: Other qualified business expense as approved by the Company shall be reimbursed under the plan. The Company will reimburse only reasonable business-related expenses incurred. Subject to budget limitations, such expenses will include, but will not be limited, to the following:

- Office, Administrative Supplies
- Materials & Supplies
- Subscriptions & Periodicals
- Cell Phones, Pager
- Internet/online expenses for business purposes
- Business related books, tapes and media
- Local meals for Business
- Entertainment costs for business
- Meals while out of town on Business or Education
- Gifts to prospects and clients
- Educational Expenses to maintain, improve and enhance skills
- Seminars, Conferences, Registration Fees & Related Expenses
- Equipment: Computers, Office Furnishings, etc.
- Hotel Costs or Per Diem Rates for business travel
- Travel: Airfare, taxi, rental car, etc.
- Parking fees, tolls for business related purposes

Accountable Plans

To qualify under the company's reimbursement plan, all three of the following rules must be followed:

1. The employee's expenses must have a business connection - that is, the employee must have paid or incurred deductible expenses while performing services as an employee of the company.

2. The employee must adequately account to us for these expenses within a reasonable period of time.
3. The employee must return any excess reimbursement or allowance within a reasonable period of time.

An excess reimbursement or allowance is any amount the employee is paid that is more than the business-related expenses that the employee has adequately accounted for.

The definition of *reasonable period of time* depends on the facts and circumstances of the employee's situation. However, regardless of the facts and circumstances of the employee's situation, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.

1. Adequate accounting for reimbursed expenses. The above reimbursable expenses must be documented under the periodic statement method (no less frequently than quarterly).
2. Excess reimbursements. Any company reimbursements that exceed the amount of business expenses properly accounted for by an employee pursuant to this policy must be returned to the Company within 120 days after the associated expenses are paid or incurred by employee, and shall not be retained by the employee.
3. Expenses not fully reimbursed. If, for any reason, the company's reimbursements are less than the amount of business expenses properly substantiated by an employee, the Company will report no part of the reimbursements on the employee's W-2, and the employee may deduct the unreimbursed expenses as allowed by law.
4. Tax Reporting. The Company shall not include in an employee's W-2 form the amount of any business expense properly substantiated and reimbursed according to this policy, and the employee should not report the amount of any such reimbursement as income on Form 1040.

Employee

For purposes of working condition fringes, section 1.132- 1(b)(2) of the regulations provides that the term "employee" means (i) any individual who is currently employed by the employer, (ii) any partner who performs services for the partnership, (iii) any director of the employer, and (iv)

Adequate Accounting

One of the three rules that the IRS requires for a reimbursement plan to be accountable is that the employee must adequately account to the employer for their expenses. The employee adequately accounts by providing a statement of expenses, an account book, a diary, or a similar record in which they entered each expense at or near the time they had it, along with documentary evidence (such as receipts) of their travel, mileage, and other employee business expenses.

The employee must account for *all* amounts they received during the year as advances, reimbursements, or allowances. This includes amounts the employee charged by credit card or any other method. The employee must provide the same type of records and supporting information that they would have to give to the IRS; if the IRS questioned a deduction on their return. The employee must pay back the amount of any reimbursement or other expense allowance for which they do not adequately account or that is more than the amount for which they accounted for.

What Are Adequate Records?

The employee should keep adequate records to prove the employee’s expenses or have sufficient evidence that will support the employee’s own statement. The employee must generally prepare a written record for it to be considered adequate. This is because written evidence is more reliable than oral evidence alone. However, if the employee prepares a record in a computer memory device with the aid of a logging program, it is considered an adequate record.

The employee should keep the proof in an accounting book, diary, statement of expense or similar record. The employee should also keep documentary evidence that, together with the employee’s record, will support each element of an expense.

Documentary Evidence: The employee generally must have documentary evidence, such as receipts, canceled checks, or bills/invoices, to support the employee’s expenses.

Exception: Documentary evidence is not needed if any of the following conditions apply.

1. The employee has meals or lodging expenses while traveling away from home for which the employee account to the employer under an accountable plan, and the employee uses a per diem allowance method that includes meals and/or lodging.

2. The employee's expense, other than lodging, is less than $51.
3. The employee has a transportation expense for which a receipt is not readily available.

Adequate evidence: Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense.

For example, a hotel receipt is enough to support expenses for business travel if it has all of the following information.

1. The name and location of the hotel.
2. The dates the employee stayed there.
3. Separate amounts for charges such as lodging, meals, and telephone calls.

A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information.

1. The name and location of the restaurant.
2. The number of people served.
3. The date and amount of the expense.

If a charge is made for items other than food and beverages, the receipt must show that this is the case.

Canceled check: A canceled check, together with a bill from the payee, ordinarily establishes the cost. However, a canceled check by itself does not prove a business expense without other evidence to show that it was for a business purpose.

Duplicate information: The employee does not have to record information in the employee's account book or other record that duplicates information shown on a receipt as long as the employee's records and receipts complement each other in an orderly manner. The employee does not have to record amounts the employee's employer pays directly for any ticket or other travel item. However, if the employee charges these items to the employer, through a credit card or otherwise, the employee must keep a record of the amounts the employee spends.

Timely-kept records. The employee should record the elements of an expense or of a business use at or near the time of the expense or use and support it with sufficient documentary evidence. A timely-kept record has more value than a statement prepared later when generally there is a lack of accurate recall.

The employee does not need to write down the elements of every expense on the day of the expense. If the employee maintains a log on a weekly basis that accounts for use during the week, the log is considered a timely-kept record.

If the employee gives the employer, client, or customer an expense account statement, it can also be considered a timely-kept record. This is true if the employee copies it from the employee's account book, diary, statement of expense, or similar record.

Proving business purpose: The employee must generally provide a written statement of the business purpose of an expense. However, the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then the employee does not need to give a written explanation.

Example: If the employee is a sales representative who calls on customers on an established sales route, the employee does not have to give a written explanation of the business purpose for traveling that route. The employee can satisfy the requirements by recording the length of the delivery route once, the date of each trip at or near the time of the trips, and the total miles the employee drove the car during the tax year. The employee could also establish the date of each trip with a receipt, record of delivery, or other documentary evidence.

Confidential information: The employee does not need to put confidential information relating to an element of a deductible expense (such as the place, business purpose, or business relationship) in the employee's account book, diary, or other record. However, the employee does have to record the information elsewhere at or near the time of the expense and have it available to fully prove that element of the expense.

What If I Have Incomplete Records?

If the employee does not have complete records to prove an element of an expense, then the employee must prove the element with:

1. The employee's own written or oral statement containing specific information about the element, and
2. Other supporting evidence that is sufficient to establish the element.

If the element is the description of a gift, or the cost, time, place, or date of an expense, the supporting evidence must be either direct evidence or documentary evidence. Direct evidence can be written statements, or the oral testimony of the employee's guests or other witnesses setting forth detailed information about the element. Documentary evidence can be receipts, paid bills, or similar evidence.

If the element is either the business relationship of the employee's guests or the business purpose of the amount spent, the supporting evidence can be circumstantial, rather than direct. For example, the nature of the employee's work, such as making deliveries, provides circumstantial evidence of the use of the employee's car for business purposes. Invoices of deliveries establish when the employee used the car for business.

Sampling: The employee can keep an adequate record for parts of a tax year and use that record to prove the amount of business or investment use for the entire year. The employee must demonstrate by other evidence that the periods for which an adequate record is kept are representative of the use throughout the tax year.

Example: The employee uses their car to visit the offices of clients, meet with suppliers and other subcontractors, and pick up and deliver items to clients. There is no other business use of the car, but the employee and the employee's family use the car for personal purposes. The employee keeps adequate records during the first week of each month that show that 75% of the use of the car is for business. Invoices and bills show that the employee's business use continues at the same rate during the later weeks of each month. The employee's weekly records are representative of the use of the car each month and are sufficient evidence to support the percentage of business use for the year.

Exceptional circumstances: The employee can satisfy the substantiation requirements with other evidence if, because of the nature of the situation in which an expense is made, the employee cannot get a receipt. This applies if all the following are true.

The employee is unable to obtain evidence for an element of the expense or use that completely satisfies the requirements explained earlier under "What Are Adequate Records."

The employee is unable to obtain evidence for an element that completely satisfies the two rules listed earlier under "What if I Have Incomplete Records."

The employee has presented other evidence for the element that is the best proof possible under the circumstances.

Destroyed records: If the employee cannot produce a receipt because of reasons beyond the employee's control, the employee can prove a deduction by reconstructing their records or expenses. Reasons beyond the employee's control include fire, flood, and other casualties.

Separating expenses: Each separate payment is generally considered a separate expense. For example, if the employee entertains a customer or client at dinner and then go to the theater, the dinner expense and the cost of the theater tickets are two separate expenses. The employee must record them separately in the employee's records.

How Long To Keep Records and Receipts

The records as long must be kept as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means the records that support the employee's deduction (or an item of income) must be kept for 3 years from the date the company files the income tax return on which the deduction is claimed. A return filed early is considered filed on the due date. For a more complete explanation of how long to keep records, get IRS Publication 583, "Starting a Business and Keeping Records". If the above requirements **are not** met, the reimbursement will be considered compensation subject to all payroll withholding rules and will be included in the employees W-2.

EXCEPTIONS TO ACCOUNTABLE PLAN

Notwithstanding any term or condition in Part I of this document, the following persons, expenses, or arrangements are not considered to be covered under this accountable plan and are subject to terms and conditions of a separate expense reimbursement policy:

1. None at this time – Amendments to this plan will be updated as needed.

Owners Consent: The undersigned Owner, being all the Owners of XXXXXX, hereby consent to the ratification of this written "Plan for Reimbursement of Employees Expenses," which has been in practice by oral consent for several years.

Dated: ______________________

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XXXXX, Owner