Ball State University  
Expense Reimbursements  
Accountable Plan

EFFECTIVE DATE: July 1, 2015

LAST REVISION: July 27, 2015

PROCEDURE ISSUED FROM: Office of University Controller

I. PURPOSE: Ball State University ("University") employees and contractors incur various types of expenses as they perform tasks and duties that support the operations of the institution and further its missions. This procedure is to ensure that employees and contractors who incur valid business expenses are reimbursed in a fair and equitable manner; that business expenses are reported, recorded, and reimbursed in a consistent manner throughout the University; and that the University complies with all applicable federal, state, and local rules and regulations.

II. BACKGROUND: This procedure is hereby adopted for the purpose of detailing how reimbursements paid by Ball State University or the Ball State University Foundation must be processed. This procedure does not address which expenses are eligible for reimbursement. Those decisions are made in accordance with the University's Budget Policy.

III. APPLICABILITY: This Procedure applies to all expenses reimbursed directly by, or on the behalf of, the University. Any employee who initiates, processes, or approves expense reimbursements is expected to know and abide by this procedure.

IV. PROCEDURE DETAILS: The University maintains an accountable plan through which expense reimbursements are made on a tax-free basis. Treasury regulations require expenses to have a business connection, be substantiated and for any excess advances to be returned in order for a plan to be considered an accountable plan.

Business Connection
An expense that would be allowable as a deduction by the University (if it were liable for income tax filings that allowed such deductions) and is paid or incurred by an employee or contractor in connection with the performance of services for the University.

Substantiation
An employee or contractor must provide information sufficient to substantiate the amount, time, place, and business purpose of the expense to the University. The information must be sufficient to enable the University to identify the specific nature of each expense and to conclude that the expense is attributable to the University's business activities. Therefore, each of the elements of an expenditure or use must be substantiated to the University. It is not sufficient if an employee or contractor merely aggregates expenses into broad categories (such as "travel") or reports individual expenses through the use of vague, non-descriptive terms (such as "miscellaneous business expenses").

Returning amounts in excess of expenses
The University requires employees and contractors to return to the University, within a reasonable period of time, any amount paid under the arrangement in excess of the expenses substantiated.

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1 §§1.62-1, 1.62-1T, and 1.62-2  
2 Applicable only to advances; the University only issues advances to employees in travel status
Reasonable Period
The determination of a reasonable period of time will depend on the facts and circumstances of a particular situation. However, Ball State University will use the fixed date method offered by Treasury regulations as a safe harbor (described below). It will be the University’s stance that any request made outside of the prescribed time limits will NOT be reimbursed unless extraordinary circumstances exist.

Fixed date method
An advance made within 30\(^3\) days of when an expense is paid or incurred, an expense substantiated to the University within 60 days after it is paid or incurred, or an excess advance amount returned to the University within 120\(^4\) days after an expense is paid or incurred will be treated as having occurred within a reasonable period of time.

Formal exception review
An amount not repaid within the safe harbor is subject to a formal review. Such a review will be performed by the Accounting Office. If the Accounting Office feels that the request requires additional review the Director of Tax Compliance will assist.

Treatment of payments under accountable plans
Amounts treated as paid under an accountable plan are excluded from the employee's gross income, are not reported as wages or other compensation on the employee's Form W-2, and are exempt from the withholding and payment of employment taxes. Similarly, amounts paid to a contractor would not be reported on Form 1099-MISC and are not subject to taxation.

V. EXAMPLES:
Return of Travel Advances
Facts
1. In anticipation of travel expenses that the University expects to be around $800, an employee is advanced $1,000.
2. As expected, the employee incurs $800 of travel expenses. The employee substantiates those expenses to the University within a week of incurring them. The excess $200 is also returned to the University at that time.

Result
The employee cleared the advance well within the safe harbor period. This type of advance was allowed by the University’s accountable plan.

Had the employee not returned the $200, that part of the advance would have been considered paid under a nonaccountable plan and subject to taxes and wage reporting. The employee would have also lost the privilege of using cash advances.

If the employee did not substantiate expenses or return excess advances within the prescribed time limits the entire amount would be considered paid under a nonaccountable plan and subject to tax and wage reporting. Again, the employee would lose the privilege of using cash advances and may face other disciplinary actions.

Timely substantiation
Facts
1. An employee travels to a conference in Phoenix, Arizona. The employee pays for, with personal funds, their airfare, hotel, parking and meals while traveling.

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\(^3\) Travel advances will not be disbursed more than 30 days in advance of the trip beginning date.

\(^4\) The 120 day rule applies only to excess travel advances.
2. This employee does not give their receipts to their Administrative Coordinator until 8 months after the travel occurred.

Result
The employee will not be reimbursed by the University as their situation was straightforward and lent itself to the 60-day safe harbor.

Facts
1. An employee travels to a conference in Phoenix, Arizona. The employee pays for, with personal funds, their airfare, hotel, parking and meals while traveling.
2. This employee gives their receipts to their Administrative Coordinator immediately upon returning to campus.
3. The Administrative Coordinator forgets to enter the reimbursement request until 8 months later.

Result
The employee will not be reimbursed by the University as their situation was straightforward and lent itself to the 60-day safe harbor. It is the responsibility of the employee who incurs the expense to ensure their reimbursement request is entered in a timely manner.

Facts
1. An employee takes a group of students to Argentina for a two month excursion.
2. This employee incurs acceptable expenses almost every day during their travels and maintains all of the appropriate receipts.
3. The employee returns to campus with some receipts that are for expenditures occurring more than 60 days ago.

Result
The employee’s facts and circumstances are such that the safe harbor rules are not attainable. The University will ask that they get their reimbursement requests in as soon as administratively feasible upon their return to campus.

Facts
1. A contractor working on behalf of the University needs to purchase an item which will become the property of the University.
2. The contractor does not have access to University funds so they buy this item with the intent of seeking reimbursement from the University at a later date.
3. The contractor loses track of the receipt for the item for 7 months, but finds it and includes it on their next invoice.

Result
The University will not reimburse the contractor for this item since the 7 month period is clearly outside of the accountable plan’s safe harbor. Absent extreme circumstances, the item intended to be the University’s becomes property of the contractor.

Contact in Case of Questions: University Tax Compliance, Office of University Controller, 765.285.8444 or bsutax@bsu.edu

Ball State University policies are subject to change at any time. If you are reading this procedure in paper or .PDF format, you are strongly encouraged to visit BSU.edu to ensure that you are relying on the most current version. This information is not intended as tax advice but rather to alert employees of potential tax ramifications and IRS rules. The University is not providing you with tax advice nor attempting to evaluate your particular situation. You are urged to consult your own tax advisor(s) or the IRS concerning the federal, state, and employment tax ramifications of your particular situation.
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Commonly Asked Questions

Q: In the case of conference registration that occurs before 60 days prior to conference travel, would I need to request reimbursement before conference travel (within the following 60 days) or would I have 60 days after conference travel to request the registration reimbursement?

A: Effective July 1, you would want to submit the conference fee expense within 60 days of paying it, even if you have yet to travel. The University would reimburse you prior to the event and then any expenses incurred while in travel status would need to be submitted within 60 days of their incurrence.

Q: Does the procedure apply to all funding sources (e.g. sponsored projects)?

A: Yes, it will apply to all funds administered by the University without regard to source.

Q: We have employees who are currently reimbursed for their travel on a semester-by-semester basis. These employees submit their travel logs at the end of the semester and we pay them at that time for all travel that has occurred during the entire semester. Is this no longer allowed?

A: Unfortunately, a change will need to occur. The employees’ travel logs will need to be submitted more often than once per semester in order to keep our plan in compliance. The requirement could be monthly, every six weeks or however is going to work best for your area, but the requests need to be in the system before the 60-day threshold.

Q: If we find ourselves with “spend-down” money at the end of a fiscal year, is it still possible to provide an additional reimbursement for travel expenses previously submitted?

A: Yes, if, within 60 days, ALL travel expenses related to the trip are submitted. You may request than an amount less than the total be reimbursed immediately thereby holding some expenses in “suspense” while waiting to see how other budget items fall out. As long as the expenses were submitted within the 60-day window after they were paid or incurred, they were substantiated timely. For budget purposes, the reimbursement would need to be requested in the same fiscal year.