

Chapter 6: Business Expenses

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QUICK REFERENCE

	<u>2025</u>	<u>2024</u>
Standard business mileage rate	70¢	67¢
Medical mileage rate	21¢	21¢
Charitable mileage rate	14¢	14¢

6.100: Introduction

The manner in which “business” expenses are treated on a federal income tax return depends on whether the expenses are reimbursed by the employer and whether the reimbursement is a fixed cash allowance (“*cash allowance*”) or a dollar-for-dollar reimbursement (“*direct reimbursement*”) under which the employee accounts adequately to the employer for the expenditures.

Cash allowances paid to and spent by the employee for business-related expenses without a required accounting to the employer are includable as income on Form W-2 and, following the passage of the Tax Cuts and Jobs Act (TCJA) passed in December 2017, are no longer eligible as itemized deductions on Schedule A of Form 1040.

Business expenses for which the employee receives a direct reimbursement following an adequate accounting of expenses are not includable as income.

6.110: Accountable Plan/Direct Reimbursement of Expenses

The direct reimbursement method is an understanding between the employee and the congregation or other employer that expenses for local transportation, out-of-town travel and other expenses related to employment, such as the expense of maintaining a library, will be directly reimbursed upon presenting proof of personal payment for those items. The direct reimbursement method is the most favorable because tax regulations permit the congregation or other employer not to report the reimbursement as compensation paid to the employee on Form W-2, and also permit the employee not to report the reimbursement as income on Form 1040.

When the congregation or other employer begins to use direct reimbursement, they must adopt a resolution outlining the terms of the Accountable Reimbursement Policy.

The following resolution is suggested:

The following resolution was adopted by the (church organization), in its Voters’ Assembly/Board meeting held on (date).

It is hereby resolved, that the (church organization) adopt an Accountable Plan Reimbursement Policy which is in accordance with income tax regulations 1.162-17 and 1.274-5T(f), as described in the following terms and conditions:

1. Any minister or other employee who is employed now or hereafter shall be reimbursed for any ordinary and necessary business and professional expense incurred on behalf of the Church only if the following conditions are satisfied: (1) The expenses are reasonable in amount; (2) The employee documents the amount, time and place, business purpose and business relationship of each expense with the same kinds of documentary evidence as would be required to support

a deduction of the expense on the person’s federal income tax return; and (3) the employee documents such expenses by providing the Church treasurer with an accounting of such expenses no less frequently than monthly. In no event will an expense be reimbursed if substantiated more than 60 days after the expense is paid or incurred by the employee or bona fide volunteer (including a director or officer).

It is understood that the above conditions are in large part taken from income tax regulation 1.274- 5T(f), which provides that:

“an adequate accounting means the submission to the employer of an account book, diary, business expense or mileage tracking app, statement of expense, or similar record maintained by the employee in which the information as to each element of expenditure (amount, time and place, business purpose and business relationship) is recorded at or near the time of the expenditure, together with supporting documentary evidence, in a manner that conforms to all the ‘adequate records’ requirements.”

TREASURERS: INSIST ON DOCUMENTATION FOR ALL BUSINESS EXPENSES.

2. Reimbursements shall not be paid by increasing paychecks by the amount of business expense reimbursements. Rather all such reimbursements shall be separately paid out of church funds.
3. Reimbursable business and professional expenses include local transportation, overnight travel (including lodging and meals), entertainment, books and subscriptions, education, vestments and professional dues.
4. The church shall not include on the employee’s Form W-2 the amount of any business or professional expense properly substantiated and reimbursed according to the preceding paragraphs. The employee should not report the amount of any such reimbursement as income on his/her Form 1040.
5. Any church reimbursement that exceeds the amount of business or professional expenses properly accounted for by an employee according to the terms of this reimbursement policy must be returned to the church within 120 days after the associated expenses are paid or incurred and shall not be retained by the employee. If the Church’s reimbursements are less than the amount of business and professional expenses properly substantiated by an employee, the church will report no part of reimbursements on the employee’s Form W-2. The employee may not claim a tax deduction for his or her unreimbursed expenses as in previous years.

6. Under no circumstances will the church reimburse an employee for business or professional expenses incurred on behalf of the church that are not properly substantiated according to this policy. The church and staff understand that this requirement is necessary to prevent this reimbursement plan from being classified as a “nonaccountable” plan, which would then require the reporting of all such reimbursements as taxable income on Form W-2.
7. All original receipts and other documentary evidence used by an employee to substantiate the business nature and amount of his/her business and professional expenses incurred on behalf of the church shall be retained by the employee. The church may, at its election, make copies of such evidence.

A standard “expense” voucher should be developed for use by the congregation. The following example can be used or modified to meet the needs of the congregation or organization.

First Lutheran Church
2743 Concordia Drive, St. Louis, MO 63122

EXPENSE REIMBURSEMENT VOUCHER

Date _____

Name _____

Address _____

City _____ State _____ ZIP _____

Business Purpose _____

Travel Expense:

Auto Expense _____ @ \$.??/mile _____

(Mileage log should be attached)

Other Expenses: _____

Other Expenses: _____

(Receipts attached)

TOTAL EXPENSES _____

Signature _____

Approved by _____ Acct # _____ Amt \$ _____

Approved by _____ Acct # _____ Amt \$ _____

6.111:

Direct Reimbursements to Volunteers

Organizations that reimburse volunteer employees for business expenses incurred while performing service, including their transportation expense at the standard business mileage rate, can do so without including any

portion of it in their income if the volunteers follow the same rules as employees’ reimbursements under an accountable plan. In order to receive mileage reimbursement, they must account for the time, purpose, and number of miles driven for each trip. Refer to 6.110 for the rules that must be followed.

6.115:

Cash Allowances

If, instead of a dollar-for-dollar reimbursement of expenses, the congregation grants a cash expense allowance to an employee with no substantiation requirement, the amount paid by the congregation to the employee must be reported on the employee’s Forms W-2 and 1040. The employee may no longer claim a tax deduction for these unreimbursed expenses as in previous years.

6.120:

Record Keeping

Whether the direct reimbursement method or the cash allowance method is adopted by the congregation to reimburse the employee for employee business expenses, it is important to maintain adequate records in order to support either the exclusion of the reimbursement from income or the deductibility of such amounts from expense allowances included on Form W-2 as income.

6.125:

Unreimbursed Business Expenses

It is recommended that congregations employ an Accountable Plan as detailed in section 6.110 because employees can no longer claim a tax deduction for their unreimbursed business expenses incurred and related to their employment. This means mileage expenses when using a personal vehicle for work is no longer tax deductible on the employee’s IRS Form 1040. Therefore, churches may consider paying the full IRS standard business mileage rate to employees using personal vehicles to travel for work.

6.135:

Automobile Expenses

Expenses incurred to operate a car owned or leased by the employee may be calculated based on the actual expenses incurred (such as gas, oil, repairs, depreciation, etc.) or based on an amount per mile as prescribed by the IRS. If an owner or lessee uses actual expenses, the total expense must be prorated between business and personal use (commuting). Lessees fully deducting the business use (percent) of their annual lease costs should be aware that if the value of their passenger auto (including trucks and vans) at the beginning of the lease exceeds \$50,000 (for 2018), a set amount must be included or “added back” each year to partially offset the entire lease deduction. Inclusion amounts are listed in the appendix of IRS Publication 463.

6.136:

Transportation Expenses

A taxpayer's costs of going between one business location and another business location generally are deductible, whereas, commuting between his or her residence and regular place of employment generally are nondeductible personal expenses. Special situations in which commuting expenses are deductible are as follows: (1) daily transportation expenses incurred in going between the taxpayer's residence and a temporary work location outside the metropolitan area where the individual lives and normally works; (2) costs of daily travel between the residence and a temporary work location in the same trade or business, regardless of the distance, by a taxpayer who has one or more regular work locations away from the residence; and (3) costs of daily travel between the residence and another work location in the same trade or business, regardless of whether the other work location is regular or temporary and regardless of the distance, if the residence is the taxpayer's principal place of business.

Example: Pastor Ostermeyer's office is in the church and he regularly make visits at a nearby nursing home. The regularity in which he ministers at each of these locations causes them to be his regular places of business. Occasionally, he goes to the hospital to make sick calls. Pastor Ostermeyer's cost to go between home and church or home and the nursing facility are nondeductible personal commuting expenses to his regular place of business. However, his costs are deductible to travel between home and the hospital; between church and the hospital; between the nursing home and the hospital; or between the church and the nursing home.

For an employee, the tax-free benefit is only realized if the transportation expense is reimbursed by the employer under an accountable plan.

For more information related to deductible transportation costs, refer to IRS Publication 463, under Transportation.

If a minister's income of this type constituting a trade or business is below \$364,200 (if married filing jointly)/\$182,100 (if single), he or she may claim this deduction equal to 20% of this income. A minister's wages earned and reported on Form W-2 by his congregation is not eligible for this deduction.

6.140:

Moving Expenses

If an employer reimburses an employee for any moving expenses or pays a third party directly (e.g. moving company), these costs must be added to the employee's wages and are subject to income, social security and Medicare taxes paid by means of withholding or estimated payments.

6.150:

Qualified Business Income Deduction

The "qualified business income deduction", a/k/a the "20% deduction", a/k/a "199A deduction", is intended for businesses having pass-through income. The rules to qualify for this deduction can seem quite complex for most taxpayers, but not when applying them to the type and amount of income a minister might typically report on Schedule C (honorariums, book royalties, baptisms, weddings, etc.).