



# ACCOUNTING BULLETIN

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TO: Fiscal Officers of All State Agencies  
FROM: Steven L. Valasek, Director of State Accounting  
DATE: October 2, 2006  
SUBJECT: Prompt Submission of Travel Expenses  
NUMBER: 134

The purpose of this bulletin is to inform agencies of the potential taxable nature of travel expense reimbursements and the implications this has on travel voucher processing. Internal Revenue Service (IRS) Publication 535, Chapter 13 addresses the reimbursement of travel expenses by an employer. The key point is that although reimbursements under an accountable plan are not taxable to the employee, reimbursements under a nonaccountable plan are taxable to the employee. IRS Publication 535 states:

**“An accountable plan, requires your employees to meet all of the following requirements. They must: 1) have paid or incurred deductible expenses while performing services as your employees, 2) adequately account to you for these expenses within a reasonable period of time, and 3) return any excess reimbursement or allowance within a reasonable period of time.”**

**“A nonaccountable plan is an arrangement that does not meet the requirements for an accountable plan. All amounts paid, or treated as paid under a nonaccountable plan are reported as wages on Form W-2. The payments are subject to income tax withholding, social security, Medicare, and federal unemployment taxes.”**

To the best of our knowledge, all travel expense reimbursements to State employees satisfy requirements #1 and #3 for an accountable plan. Further, the majority of the reimbursements also satisfy requirement #2 for an accountable plan. However, an employee’s failure to submit his/her travel expense reimbursement to their agency within a “reasonable period of time” may cause the travel expense reimbursement to be taxable to the employee as a nonaccountable plan.

IRS Publication 535 states that “A reasonable period of time depends on the facts and circumstances.” It also states that if “your employees adequately account for their expenses within 60 days after the expenses were paid or incurred” it will be generally treated as taking place within a reasonable period of time.

The IOC will begin to electronically monitor for this 60 day requirement starting with all travel that commences after December 31, 2006. The IOC will use the ending service date on the travel voucher to start the 60 day clock, and the proper bill date on the travel voucher to stop the 60 day clock.

The following rules will apply to all travel vouchers:

- The “proper bill date” should be the date the agency receives a “proper bill” from the traveler. Proper bill is defined in the Prompt Payment Act (30 ILCS 540).
- For electronically submitted travel vouchers, the ending service date and the proper bill date must be transmitted electronically to the IOC for each travel voucher.
- For manually submitted travel vouchers, the IOC will use the ending date of the last trip as the ending service date and the date of the supervisor’s signature as the proper bill date, unless noted differently on the travel voucher in the comments section.
- The proper bill date must be within 60 days of the ending service date on the travel voucher.
- If a travel voucher does not meet this 60 day requirement, the voucher will be deleted and returned to the agency. The agency must then process the payment through the agency’s payroll office. The payment will have taxes withheld at supplemental wage withholding tax rates (25% Federal, 3% State of Illinois and, if applicable, 1.45% Medicare and 6.2% Social Security) and these amounts will be included on the employee’s Form W-2.
- If a reasonable justification for the noncompliance is noted, the head of the vouchering agency must sign an affidavit approving the exception. The original affidavit must be submitted with the travel voucher.

The following rule will apply to travel vouchers with only a single trip:

- The ending date of service is the date that the trip ends.

The following rules will apply to travel vouchers with multiple trips:

- The ending date of service is the date that the last trip ends on the travel voucher.
- For efficiency purposes, agencies can continue to combine multiple trips on one travel voucher, as long as all the trips on the travel voucher have ending dates within the same calendar month. If an individual trip crosses over a month end, that trip must be reported on the travel voucher for the subsequent month. The IOC does not support the practice of splitting a trip at an arbitrary cut off point, such as the 15<sup>th</sup> of the month or at the end of the month.

**Travel vouchers that do not meet these rules will be deleted and returned to the submitting agency.**

The IOC will hold a “Question and Answer” session at 10:00 AM on October 12, 2006 at 325 West Adams. If you are interested in attending, please make a reservation by calling Ellen Curtin at (217) 782-7078. Please e-mail all questions to [CurtiEC@mail.ioc.state.il.us](mailto:CurtiEC@mail.ioc.state.il.us) prior to the session.

After the session, the IOC will follow up with another Accounting Bulletin on this subject. The bulletin will address processing payments through the payroll system, content of the “head of agency” exception affidavit, and similar topics.

Agencies have the primary responsibility to pre-audit for compliance with this IRS regulation. Agencies should have internal policies and procedures developed on this subject matter prior to implementation on January 1, 2007.

If you have any questions pertaining to this bulletin, please contact Linda Seelbach at (217) 782-3608. Agencies may access this and other Accounting, SAMS and Payroll Bulletins on the Comptroller’s website at [www.ioc.state.il.us](http://www.ioc.state.il.us) under Resource Library.