MANAGEMENT AND BUDGET

Office Memorandum

Date: February 19, 2019
To: Agency Payroll, HR, and Accounting Staff
From: Mary Muellner, Director, Statewide Payroll Services
Subject: Business Expense Tax Implications: Agency Responsibilities

The information in this memo is not new; its purpose is to serve as a reminder to staff.

The Internal Revenue Service (IRS) requires that if employee business expenses are not submitted for reimbursement within 'a reasonable period of time'—which is further defined as within 60 days after the expenses were paid or incurred—the reimbursement is categorized as supplemental wages. As supplemental wages, the reimbursement becomes taxable and withholding tax must be taken. (See IRS publication 15, Wages and Other Compensation.)

Since the agency must match the FICA and Medicare tax paid by employees, the result of non-compliance is a cost not only to the employee but also to the agency.

Report FIHR6745, *Employee Business Expense Detail Biweekly* (DocumentDirect/InfoPac ID HP6745), and Report FIHR6740, *Employee Business Expense Detail 18 months* (DocumentDirect/InfoPac ID s), can assist agencies in determining whether their agency is incurring this unnecessary expense. The report field name is "Non-Paid Taxable" and the amounts are listed by Expense Group ID, Employee, Department and Business Unit/Agency. This figure is the dollar amount of business expense reimbursements that were taxed because they were submitted more than 60 days after the expenses were incurred.

How do I ensure compliance with IRS Regulations?

Remind employees.

Periodically remind employees they must submit an employee expense report within 60 days after an expense is incurred in order to prevent these unnecessary costs. You can refer employees to Self Service Announcements, Reminder – Business Expense Tax Implication.

Enter information correctly.

It is important that reimbursement information be entered correctly in the state's payroll system. When an expense group is saved, SEMA4 compares the trip End Date with the current entry date (which is reflected in the Submitted on field on each earnings row) to determine whether the 60-day period has been exceeded. If it has, SEMA4 automatically creates an expense row with the non-paid earn code BTX and this taxable expense amount is added to the employee's taxable gross amounts for the purpose of calculating tax withholding.

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Check the dates!

The IRS rule is based on the individual expense dates; however, for paper reports entered in SEMA4, SEMA4 uses the trip End Date because individual expense dates are not recorded in SEMA4. Therefore, with each expense report, **you** need to:

- Look at the individual expense dates along with the date the employee submitted the expense report.
- Determine if the report includes expenses that were submitted within the 60 day period and/or expenses that were not.
- Enter trip expense information accordingly.

What types of scenarios could I see?

- All of the expenses on an employee expense report were submitted within 60 days of when the expenses were incurred and you enter the expenses within 60 days of the Trip End Date. In this scenario, there is no tax impact and SEMA4 **will not** create a BTX row.
- None of the expenses on an employee expense report were submitted within 60 days of when the expenses were incurred. In this scenario, all expenses on the report are taxable and SEMA4 **will** create a BTX row.
- All of the expenses on an employee expense report were submitted within 60 days of when the employee incurred the expenses. However, by the time you process the reimbursement, 60 days were exceeded and the system **will** create a BTX row. On the BTX row, you need to change the BTX amount to zero and enter the date the employee submitted the expenses in the Submitted on field.
- Some of the expenses on an employee expense report were submitted within 60 days of when the employee incurred the expenses, and some were not. You enter the expenses within 60 days of the Trip End Date.

  In this scenario, some of the expenses are taxable; however, SEMA4 **will not** create a BTX row because based on the trip End Date it treats all of the expenses as if they were submitted "on time." You need to split the expenses into two expense groups: one for the expenses that are within 60 days, and one for the expenses that exceed 60 days and are taxable. When you split the expenses into two expense groups with separate Trip End Dates, the system will create a BTX row for the portion exceeding 60 days.

For a more extensive explanation, and to see examples, see Employee Business Expenses, BTX – Reference.

What about business expenses entered in Self Service?

Important: BTX should <u>rarely</u> be overridden for expenses entered in Self Service!

The IRS rule also applies to employees who enter business expenses in Self Service; however, be aware that SEMA4 processes business expenses entered in SEMA4 differently than business expenses originating in Self Service.

- For expenses entered in SEMA4, BTX is based on the (1) trip end date and (2) the date the agency enters the expenses.
- For expenses entered by an employee in Self Service, BTX is based on (1) the date each expense was incurred and (2) the date the employee marks the business expenses Complete.

If a BTX row is created during the agency payroll or accounting staff approval process, it will display on the Other Expenses page when the approval process is complete.

Notes about BTX:

- The BTX amount is the total of the amounts entered, excluding advances and taxable expenses that the system has determined are subject to tax since the expenses were submitted late.
- The BTX amount is not paid. The system adds this amount to the employee's FICA, Medicare, federal and state taxable grosses to ensure that taxes are withheld accordingly. The amount is also reflected on the W-2 at year-end.
- There are situations that cause SEMA4 to generate a BTX row with a negative amount. Users are not able to alter negative BTX amounts; therefore, contact Statewide Payroll Services for assistance.
- A BTX row cannot be added or deleted; however, if necessary, the amount can be reduced or changed to zero.
- BTX amounts should only be changed when management determines that overriding the BTX amount is appropriate based on when the employee submitted the expense report. Agencies should not alter BTX information without documentation and just cause. Doing so puts the State of Minnesota **in violation of IRS regulations**.
- Labor distribution for the BTX row defaults from position funding, not from an existing expense row.
- The amount that posts to the accounting system is the employer share of FICA/Medicare tax that is based on the BTX amount.

Questions?

Agency Payroll, HR, and Accounting staff should contact Jody Dahl in Statewide Payroll Services at 651-201-8206 or jody.dahl@state.mn.us if there are questions.

PLEASE SHARE THIS INFORMATION WITH APPROPRIATE AGENCY STAFF