

# Highlights of Minister Tax Issues

## REFERENCE GUIDE

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## ***INTRODUCTION: An Overview***

- Two types of taxes
  - Federal Income Taxes
  - Social Security (FICA and Medicare)
- Quarterly Tax Estimates
- 2019 Chart of Pastor's Compensation

Before we get started with the clergy issues, it is important to first understand that **we pay two types of taxes.**

**Federal income taxes** are withheld during the year when we are employees and we eagerly wait to see if we will receive a refund when we file our taxes.

But employers also withhold other taxes—they are called **FICA and Medicare**, often referred to **as Social Security**. This tax is based on a percentage of your income. You pay half by deducting it from your gross pay and your employer is required to match this amount. Often our Social Security is more than our federal income tax, but as employees we are not nearly as aware of it (since there's no chance of a refund!)

When we have our own business (called self employed) or have income from which taxes are not withheld, we are required to send in federal income tax payments four times during the year, called **quarterly tax estimates**. These four payments cover both employer and employee sides of the social security (this would be double the payment as compared to what a regular employee would have to make) in addition to the federal income taxes. The quarterly tax estimates are the means for paying both types of these taxes. A self-employed individual calculates both their income tax and their social security tax in the process of preparing their 1040 tax return.

Understanding that there are two types of taxes will help clarify how clergy taxes are determined.

Clergy employed by Churches:

Federal Income Tax—Paid as Employee

Social Security—Considered Self-Employed

Please refer to the **2019 Chart of Pastor's Compensation** on the next page. This chart lists various sources of money paid to (or for) pastors. The third column is for federal income taxes and the fourth column is for social security purposes. Use this chart to keep in mind what is taxable for which type of tax as we continue our discussion of clergy tax.

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## 2019 CHART OF PASTOR'S COMPENSATION

TYPE OF INCOME	SOURCE OF INCOME	INCOME SUBJECT TO FEDERAL INCOME TAX AND INCLUDED IN BOX 1 OF W-2	INCOME SUBJECT TO SELF EMPLOYMENT SOCIAL SECURITY TAX AND REPORTED WITH PASTOR'S 1040 ON FORM SE	
COMPENSATION	1	Cash base salary	Yes	Yes
	2	Housing allowance when pastor owns home or rents	No	Yes
	3	Fair rental value of parsonage	No	Yes
	4	Utilities paid directly by church	No	Yes
	5	Cash housing allowance for pastor living in parsonage	No	Yes
FRINGE BENEFITS	6	Accountable reimbursement plan for auto or professional expenses	No	No
	7	Nonaccountable reimbursement plan for auto or professional expenses	Yes	Expenses deductible for Soc Sec ONLY
	8	Personal use of employer-provided auto	Yes	Yes
	9	Church's contribution to retirement plan	No	No
	10A	Group health insurance paid by church	No	No
	10B	Medical expense reimbursement plan for insurance or medical expenses	HOT TOPIC	
	11	Premium for group term life insurance over \$50,000.	Yes	Yes
OTHER	12	Reimbursement for qualified moving expenses if deductible under IRS rules	YES	YES
	13	Reimbursement for non-qualified moving expenses if deductible under IRS rules	Yes	Yes
	14	403(b) salary deferral contribution	No	No
	15	Social Security offset paid by church	Yes	Yes
	16	Bonuses, love offerings, or gifts from church	Yes	Yes
	17	Implied interest on low or no interest loans over \$9,999.99 by church	Yes	Yes
	18	Salary reduction for charitable contribution to the church	Yes	Yes

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## **WHO says I'm a minister? My church? The Denomination?**

For tax purposes it's what the IRS considers you that counts.

Does the IRS consider you a minister?

Even if others don't – perhaps the IRS does!

## **QUALIFICATIONS OF A MINISTER FOR TAX PURPOSES**

- Ministers
- Lay Employees
- Qualifications of each

Knowing whether or not the IRS considers an employee a minister is very important both for the church and the employee.

**If you do qualify as a minister**, your taxes will be paid to the IRS differently. You are eligible to use special tax rules that go along with the clergy tax status. For example: housing allowances, self-employed status for social security, etc., which are covered in this guide.

If you do not qualify as a minister, you are considered to be a **Lay Employee**, with normal withholding taxes.

**All employees of churches and integral agencies of churches are divided into these two groups.** Determining the proper status is very important, otherwise both the church and the employee have a higher risk of examination by the IRS and potential penalties.

### **The IRS will consider you a minister if:**

- A. You are employed by a church or integral agency of a church
- B. You are ordained, commissioned, licensed, or the equivalent thereof. Each denomination has a different protocol for their licensing or ordination process. Often employees are hired as ministers before this process is complete. In a court case (JM Ballinger v. Court of Appeals, 10th Circuit, No 82-1928) it is stated, "We interpret Congress' language providing for an exemption for any individual who is 'a duly ordained, commission, or licensed minister of a church' to mean that the triggering event is the assumption of the duties and functions of a minister." Therefore, the IRS is going to take the position that an employee should be taxed as a minister as of the date he is hired to perform ministerial

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duties regardless of where he is in the denominational ordination or accreditation process.

- C. You are assuming the duties and functions of a minister if you are:
1. Administering the sacraments: perform marriages, funeral services, baptize or dedicate infants, and able to serve Communion.
  2. You are considered to be a religious leader by your church.
  3. You conduct religious worship: this includes preaching, Bible study, evangelism and music.
  4. You have management responsibility in the control, conduct, or maintenance of the local church or denomination.

According to Revenue Ruling (RR) 78-301, it is only necessary that a minister be able to perform “substantially all” of the duties of the ministry to be taxed as a minister.

The performance of teaching and administrative duties at theological seminaries, parochial schools, colleges and universities which are integral agencies of a church or church denomination will qualify as ministerial duties according to RR 62-171.

In a private letter ruling 9221025, the teaching staff of a school below college level was deemed to be ministers for tax purposes even though they were unable to conduct public worship or any of the sacerdotal function. Performing ministerial duties and being recognized as a religious leader by his or her church qualifies a minister, administrator or teacher for ministerial status.

**PLEASE NOTE:** Some denominations have longer ordination processes than others. It is important to look at the facts in each situation. If the minister is given the power to pastor a church and meets all of the other requirements, then for tax purposes he or she may qualify as a minister even though denominationally he/she has more criteria to meet before becoming fully ordained. This is extremely important in determining how to pay the pastor as well as in the timing of some events, such as housing allowance designations or the handling of social security.

### **Am I an Employee?**

OK, the IRS sees me as a minister.

Now, am I an employee or self-employed for income tax purposes?

Should I get a W-2 or a 1099?

**Remember, it's what the IRS considers you that counts!**

## ***MINISTERS AS EMPLOYEES***

- Seven point test
- Our recommendation

Since 1980, the IRS has taken the position that the pastor is an employee of the local church. He should receive a W-2 and report his income on Form 1040, line 7, as wages. Noncompliance and safe harbor rules are more likely to protect the church, not the minister.

Generally, ministers are employees if the church has the legal right to control both what and how work is done, even if the minister has considerable discretion and freedom of action. **The following is a seven point test that has been used in recent tax court cases to determine whether a minister is an employee or self-employed.**

1. How much control could the church exercise over your work?
2. Does the church or the minister invest in the facilities used in the work?
3. Does the minister have the opportunity for profit or loss?
4. Does the church have the right to discharge the minister?
5. Is the work performed by the minister a part of the regular business of the church?
6. How permanent is the relationship between the church and the minister?
7. What relationship do the church and the minister believe they have created?

### **Recommendation:**


Ministers are employees and should receive correctly issued W-2's. Wages are reported on Line 7, not on Schedule C. The IRS may reclassify improper Schedule C income as wages, resulting in underpayment of taxes because of treatment of business expenses. Being an employee is necessary to receive any fringe benefits, to have accountable reimbursement plans, and to **reduce your chance of an audit.**

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**Is this W-2 Correct?**  
As a qualifying minister who is an employee, I'm receiving a W-2. Now what?

**Is your W-2 correct?**

- Box 1 is required
- Box 2 is optional
- Box 3, 4, 5, 6 are blank
- Box 12 & 14 may or may not be used

a Employee's social security number <b>123-45-2789</b>		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a>								
b Employer identification number (EIN) <b>98-7654321</b>			1 Wages, tips, other compensation <b>28858.00</b>		2 Federal income tax withheld <b>4051.00</b>											
c Employer's name, address, and ZIP code <b>FIRST CHURCH 1234 MAIN STREET ANY TOWN, SD 57000</b>			3 Social security wages		4 Social security tax withheld											
			5 Medicare wages and tips		6 Medicare tax withheld											
			7 Social security tips		8 Allocated tips											
d Control number			9		10 Dependent care benefits											
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12								
PAT M PARSON 9876 MAIN STREET ANY TOWN, SD 57000						13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		12b				
						14 Other		FRV 3600.00		UT ALL 1852.00		HA 1500.00		12c		
														12d		
f Employee's address and ZIP code			15 State		Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

The first thing to check on your W-2 is to make sure that certain boxes are blank. Clergy's dual status says that ministers are treated as **employees** of the church, but must pay **self-employment tax** for Social Security purposes. **Boxes 3, 4, 5, and 6** of the W-2 **must** be blank (no social security/Medicare wages or withholding).

Generally the only boxes with numbers should be **Box 1**, which is your taxable income for federal income taxes, and **Box 14** with other information. **Box 12** is used if you have a tax shelter annuity.

Refer to the 2019 Chart of Pastor's Compensation for additional taxable income and to determine if **Box 1** was calculated correctly. Box 1 should include all of the items marked yes in the fourth column of the chart. An item that is often missed is Social Security offset paid by the church. Remember, it is income to you in the year you receive the payment.

**Box 2** may show federal income tax withheld only if you and the church have agreed to have them withhold and sent in (with the church's payroll reports) as federal income taxes for you.

**Recommendation to pastors:**

As soon as you receive your W-2, check it and immediately notify the treasurer of any questions. Perhaps asking the treasurer how he calculated your taxable wages will be helpful to insure the W-2 is correct. Treasurers can hold the IRS copy of the W-2's until the end of February so mistakes can be corrected before the IRS copies are filed.



SELF-EMPLOYMENT TAX WORKSHEET  
**FOR MINISTERS**

W-2 Box 1 church wages \_\_\_\_\_

Add other church income that should have  
been on W-2 but wasn't included \_\_\_\_\_

Add full amount of designated housing allowance \_\_\_\_\_

Add fair rental value of parsonage  
provided by church \_\_\_\_\_

Add utilities paid directly by church \_\_\_\_\_

Add Schedule C or C-EZ net profit  
for ministerial services  
without reduction for Deason \_\_\_\_\_

Subtract Form 2106 or 2106-EZ  
out-of-pocket business expenses  
without reduction for Deason \_\_\_\_\_

**TOTAL (enter on Schedule SE,  
Section A, Line 2)** \_\_\_\_\_

**NOTE:**

- Minister's contribution made to a 403(b) retirement plan through salary reduction is not subject to Social Security tax.
- Deason – unallowed business expense because of untaxable income

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**Minister's Greatest Tax Break – Housing Allowance  
Is my housing allowance designated and is it adequate?**

## ***HOUSING ALLOWANCE***

- Exempt/non-exempt
- Must be a minister
- Three criteria
- Housing allowance designation

### **One very important thing to remember:**

The Housing Allowance is exempt from Income Tax to the extent used to provide a home, but the minister must pay the Self-Employment (Social Security & Medicare) Tax on the full amount of the Housing Allowance.

### **In order to qualify for a housing allowance you must meet three criteria:**

1. You must be employed by a church or an integral agency of a church.
2. You must be performing ministerial functions.
3. You must be ordained, licensed or commissioned by a church, or the equivalent thereof.

The minister's greatest tax break is the reduction of taxable income by the designated housing allowance. The term "housing allowance" can also mean parsonage allowance, furnishing allowances, or appurtenance allowance. By definition it is designated money given to the pastor to use for his household expenses. Internal Revenue Code (IRC) Section 107 states,

### **"In the case of a minister of the Gospel, gross income does not include—**

1. The rental value of a home furnished to him as part of his compensation;  
or
2. The rental allowance (housing allowance) paid to him as part of his compensation, to the extent used by him to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities."

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This allowance is the tax-free treatment of a minister's personal home expenses on a cash basis. It also states that the allowance does not include food or a maid. See housing allowance worksheets for which kinds of expenses qualify. This can be paid to a minister whether he owns his own home, rents an apartment or house, or lives in a parsonage.

### **Housing Allowance Limits**

The tax-free minister's housing allowance is limited to the **LOWEST** of the following three amounts:

- 1) The designated housing allowance,
- 2) The amount actually spent on housing, or
- 3) The fair rental value of the home and its furnishings, plus the actual cost of utilities.

Any excess housing allowance above these limits is included on line 7 of the Form 1040 with the pastor's taxable income on his personal tax return.

### **Recommendation:**

Make sure your designated allowance is sufficient.

# CLERGY HOUSING EXPENSE WORKSHEET

## For Homeowners

*Please enter the 2019 yearly total for Lines 1-12 below and bring this worksheet to your tax interview. We can add the totals for you. Remember that IRS code prohibits expenses for food and domestic help from being included in the clergy housing allowance.*

1.	Portion of monthly mortgage payment applied to principal*	_____
2.	Closing costs and down payment on newly purchased home (Bring closing papers to tax interview.)	_____
3.	Real estate taxes paid	_____
4.	Interest (home mortgage*, home improvement loan, home equity loan used for housing expense)	_____
5.	Insurance on home and contents	_____
6.	Repairs, improvements and upkeep on home and contents	_____
7.	Purchases of furniture and appliances	_____
8.	Decorator items (curtains, rugs, pictures, wallpaper, linens, etc.)	_____
9.	Utilities:	
	Electricity	_____
	Gas	_____
	Water and Sewer	_____
	Garbage	_____
	Water softener & salt	_____
	Cable TV	_____
	Internet	_____
	Basic phone charges	_____
	Long distance charges	_____
	TOTAL UTILITIES	_____
10.	Yard (mowing, fertilizing, snow removal, landscaping, etc.)	_____
11.	Condominium or home owner's association fees	_____
12.	Miscellaneous (cleaning supplies, brooms, light bulbs, pest control, etc. Do not include personal toiletries and paper products.)	_____
13.	<b>TOTAL AMOUNT ACTUALLY SPENT ON HOUSING</b>	_____
14.	<b>AMOUNT DESIGNATED AS HOUSING ALLOWANCE</b>	_____
15.	<b>IRS HOUSING EXCLUSION LIMITATION</b> (We can determine this together.)	
	Fair rental value of home	_____
	Fair rental value of furnishings	_____
	Actual cost of utilities	_____
	TOTAL	_____
15.	<b>AMOUNT ALLOWABLE TO BE EXCLUDED FROM INCOME</b> Smallest of Lines 13, 14 or 15	_____
16.	Amount of unused housing allowance to be included as income	_____

\*Please bring the year-end statement from your mortgage lender to the tax interview.

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# PARSONAGE EXPENSE WORKSHEET

## For Pastor Residing in Church-Provided Parsonage

1. Personal property insurance on pastor-owned contents	_____
2. Repairs, improvements and upkeep of parsonage and contents paid by the pastor (painting, appliance and TV repair, dry cleaning drapes, etc.)	_____
3. Purchases of furniture and appliances	_____
4. Decorator items (curtains, rugs, pictures, wallpaper, linens, etc.)	_____
5. Utilities paid by Pastor:	
Electricity	_____
Gas	_____
Water and Sewer	_____
Garbage	_____
Water softener & salt	_____
Cable TV	_____
Internet	_____
Basic phone charges	_____
Long distance charges	_____
	TOTAL UTILITIES _____
6. Yard (mowing, fertilizing, snow removal, landscaping etc.)	_____
7. Miscellaneous (cleaning supplies, brooms, light bulbs, pest control, etc. Do not include personal toiletries and paper products.)	_____
8. <b>TOTAL AMOUNT ACTUALLY SPENT BY PASTOR ON PARSONAGE HOUSING (add lines 1-7)</b>	_____
9. <b>AMOUNT FROM SALARY WHICH CHURCH HAS DESIGNATED AS PARSONAGE HOUSING ALLOWANCE</b>	_____
10. <b>FAIR RENTAL VALUE OF PARSONAGE AS DETERMINED BY THE CHURCH BOARD</b>	_____
11. <b>ACTUAL AMOUNT CHURCH PAID FOR PARSONAGE UTILITIES</b>	_____
Note: Total of Lines 9, 10 and 11 must be added to cash salary received when calculating the self-employment tax	
12. Amount of unused parsonage allowance to be included as income (amount Line 9 exceeds Line 8)	
	<b>TOTAL</b> _____

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## **SETTING UP A HOUSING ALLOWANCE**

To be non-taxable for income tax purposes, the housing allowance must be properly designated **in advance** by the local church and included in the minutes of the meeting in which it was adopted. A sample resolution follows:

**It is noted that under IRS Code Sec 107, a minister of the Gospel is not subject to federal income tax on the housing allowance paid to him as a part of his compensation to the extent used by him/her to rent or provide a home and designated by his/her employing church.**

After considering the request of Rev. \_\_\_\_\_ for his housing allowance, a motion was made by \_\_\_\_\_, seconded by \_\_\_\_\_, and passed to adopt the following resolution:

Resolved that \$\_\_\_\_\_ (amount of housing allowance), of the total cash salary of \$\_\_\_\_\_ (total compensation) for the year \_\_\_\_\_, be designated as housing allowance.

Resolved that as long as Rev. \_\_\_\_\_ is our employee the above amount of designated housing allowance shall apply to all future years until modified.

- The resolution may (and should) be worded perpetually. That way the minister is always covered in case the board cannot meet prior to the new year due to inclement weather or some other unusual situation.
- It is recommended that the church board revise the amount of the minister's housing allowance annually.
- The church board should consult with the minister on the dollar amount he/she would like to have for that year.
- The minister should estimate on the high side. If the full amount isn't used in any year, it is the minister's responsibility to report it on his/her tax return.

If, during the year, the minister decides his housing allowance will not be adequate, he may ask the board to amend his housing allowance midyear. That will adjust his housing allowance from the date of the official action, as recorded in the minutes of the board meeting, forward. It cannot be retroactive to cover expenses already incurred.

Although some denominations have recommendations regarding the percentage of income that can be designated as housing (for example, 30% of salary) the IRS has no dollar or percentage limitation on housing allowance. The church is okay in designating the pastor's request even if it is 100% of salary. The burden of proof and limitations are the minister's responsibility. Often for part-time ministers, we do recommend 100% of the salary be designated as housing allowance.

**IRS Publication 517, Page 8, states:**

“If you own your own home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following:

1. The amount actually used to provide a home,
2. The amount officially designated as a rental allowance, or
3. The fair rental value of the home, including furnishings, utilities, garage, etc.

You must include in gross income the amount of any rental allowance that is more than the smallest of your reasonable pay, the fair rental value of the home plus utilities, or the amount actually used to provide a home.”

The minister does not submit his housing expenses to the church. He holds on to them in case the IRS audits his return. The IRS is the only organization to which the minister must verify housing expenses (except, of course, his tax preparer).

Housing Allowance is never included in Box 1 taxable wages on the W-2. It reduces the taxable cash salary. The Housing Allowance should be listed in Line 14 of the W-2. (Shown as “HA \$1200.00”)

It is perfectly OK for the church to pay the minister a cash salary and a cash housing allowance in one check.

### **What is an Accountable Plan?**

I get a check for auto expenses each month and at the end of the year I give the church my mileage record---isn't that accounting for my expenses?

## **ACCOUNTABLE REIMBURSEMENT PLANS VS. NONACCOUNTABLE REIMBURSEMENT PLANS**

**Accountable reimbursement plan** (item 6 on Chart of Pastor's Compensation)

**Example:** Church only reimburses the pastor for the miles driven on church business, which are substantiated by a mileage log submitted regularly to a designated church officer.

The advantage of accountable reimbursement plans is that payments under the plan are not included in taxable income on the W-2, nor do you have to pay self-employment (Social Security) tax on the reimbursements. It is important to make sure that your plan qualifies in all respects. If it falls short under examination by the IRS it could be costly.

The IRS reimbursement rate for standard business mileage for the use of a car (van, pickup or panel truck) per mile driven is:

2018	\$0.545 cents
2019	\$0.58 cents
2020	\$0.575 cents

There are basically four IRS requirements for an accountable plan.

1. The plan needs to be in writing.
2. The pastor must adequately account to the church for expenses within 60 days.
3. Pastor must return any excess reimbursement within 120 days.
4. If a set amount is budgeted for reimbursement of expenses, then any amount not spent at the end of the year is retained by the church. For a plan to be accountable, it's "use it or lose it."

Once an accountable plan is in place (adopted by the church board and recorded in the minutes), then each expense for which the pastor wants to be reimbursed must meet three requirements:

1. Your expenses must have a business connection -- that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
2. You must adequately account to your employer for these expenses within a reasonable period of time.

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3. You must return any excess reimbursement or allowance within a reasonable period of time.

Generally, if your expenses equal your reimbursement, you have no deduction and the reimbursement is not reported on your Form W-2. If your expenses are more than your reimbursement, you can deduct your excess expenses for SE tax and income tax purposes on a Form 2106.

**Setting up an Accountable Plan**—in writing. Plans can be tailored to fit the situation. Some churches adopt an accountable plan and do not set an upper limit, wanting to reimburse the pastor for all the necessary business expenses and mileage. Others set a limit that the church will reimburse, either a combined limit of expenses and auto mileage (this is preferred) or a separate amount for each. When a certain dollar amount is set for mileage and another for professional expenses it doesn't allow one to be higher and the other lower. Remember that if they don't use it they lose it.

#### **SAMPLE --SALARY PLUS UNLIMITED REIMBURSEMENT**

It is noted that according to Sec. 62(a)(2)(A), we can establish an Accountable Reimbursement Plan that will not be considered taxable gross income. To qualify, an employee needs to adequately account to the employer the details of their professional expenses. Sec. 62(c) further requires an employee to return any excess reimbursement or advance to the employer within a reasonable time. Reg 1.62-2(d)(3) further requires that no part of the employee's salary be recharacterized as being paid under this arrangement.

A motion was made by \_\_\_\_\_, seconded by \_\_\_\_\_, and passed to adopt the following resolution:

Resolved that in addition to the salary provided our employee, we will reimburse him/her for auto, travel and professional expenses considered ordinary and necessary for him/her to carry out his/her duties. **[Any modifications go here]** Auto mileage will be reimbursed at the IRS standard rate of \_\_\_\_\_. The employee will be required to submit copies of receipts and mileage log to \_\_\_\_\_ (church name or name of treasurer) on a monthly basis.

It is further understood that a person other than the employee will examine the adequately accounted records and that the records will be kept for at least four years by the employer.

## **SAMPLE --SALARY PLUS FIXED LIMITED REIMBURSEMENT**

It is noted that according to Sec. 62(a)(2)(A), we can establish an Accountable Reimbursement Plan that will not be considered taxable gross income. To qualify, an employee needs to adequately account to the employer the details of their professional expenses. Sec. 62(c) further requires an employee to return any excess reimbursement or advance to the employer within a reasonable time. Reg. 1.62-2(d)(3) further requires that no part of the employee's salary be recharacterized as being paid under this arrangement.

A motion was made by \_\_\_\_\_, seconded by \_\_\_\_\_, and passed to adopt the following resolution:

Resolved that in addition to the salary provided our employee, we will reimburse him/her for auto, travel and professional expenses considered ordinary and necessary for him/her to carry out his/her duties up to a fixed limit of \$\_\_\_\_\_. **[Any modifications go here]**

Auto mileage will be reimbursed at the IRS standard rate of \_\_\_\_\_. The employee will be required to submit copies of receipts and mileage log to \_\_\_\_\_ (church name or name of treasurer) on a monthly basis. If his/her actual expenses are less than the fixed limit, he/she cannot be given the difference as bonus or salary, nor can it be carried over to the next year. If his/her actual expenses are greater than this fixed limit, he/she will be responsible for the expense.

It is further understood that a person other than the employee will examine the adequately accounted records and that the records will be kept for at least four years by the employer.

### ***Nonaccountable Plan.***

A nonaccountable plan is a reimbursement arrangement that falls short of meeting all the requirements listed under *Accountable reimbursement plan*. Realize that receiving the unused amount at the end of the year or not returning excess reimbursement doesn't mean just that payment is taxable, it voids the accountable plan and all funds paid under that plan are considered nonaccountable and are taxable.