

## General Guidance and Frequently Asked Questions (FAQ) on Late Expense Reimbursements for Out-of-Pocket Expenses Incurred by Employees<sup>1</sup>

### I. GENERAL GUIDANCE

#### A. Accountable Plan Requirements and Responsibilities:

1. **Reimbursement eligibility:** To be eligible for tax-free reimbursements, employees must ensure that they submit their out-of-pocket expenses completely and accurately, *including corrections and approvals*, within 60 calendar days from the date of the transaction, the end date of the trip, or the date of the hosting event.<sup>2</sup>
2. **Consequences of Non-Compliance:** Late submissions or incomplete reports may be processed as taxable income, subject to income tax withholding and FICA taxes.
3. **Employee Responsibility:** Employees are responsible for ensuring that their expenses are submitted completely, accurately, and timely (i.e., well within the 60-day period to allow additional time for approvals and any needed corrections).
4. **Approver Responsibility:** Approvers must verify the accuracy, business purpose, and compliance of expenses, and it is recommended that they are approved or returned for corrections within 48 hours of submission by their employees.

#### B. Exceptions for Lateness:

1. **Possible Exceptions:** Extenuating circumstances (e.g., illness, emergency, or unforeseen leave) may extend the submission period.
2. **No Exceptions for Administrative Errors:** Employees are responsible for the timely submission of their reports regardless of their awareness of requirements or administrative errors or delays.
3. **Missing Receipts:** In the absence of a receipt, an approver signed “memo of exception” or documentation such as an approval email from a higher administrative authority can serve as documentation.

#### C. Late Expenses Returned for Non-Compliance:

1. **Late Reimbursement Process:** If expenses cannot be reimbursed tax-free due to non-compliance, they may be reimbursed as Additional Pay via Payroll, subject to income tax withholding and FICA taxes.
2. **Remedies for School/College/Unit (SCU) Administrative Errors:** The SCU’s financial administrator may consider grossing up the payment to cover these taxes, making the reimbursement tax-neutral for employees. That said, please know that this 'gross-up' is

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<sup>1</sup> The General Guidance and FAQs apply to university employees and do not include guests of the university.

<sup>2</sup> SPG 507.10-1 Travel and Business Hosting Expense Policy

entirely within the discretion of the SCU and is often based on various factors, including budgetary concerns, reason for lateness, amount of the reimbursement, etc.

3. **Remedies for the Shared Services Center (SSC) Administrative Errors:** The SCU's financial administrator may consider grossing up the payment to cover these taxes if errors are made by SSC. That said, please know that this 'gross-up' is entirely within the discretion of the SCU and is often based on various factors, including budgetary concerns, reason for lateness, amount of the reimbursement, etc.

**D. Users of the SSC Travel & Expense Service:**

1. **Recommendation:** Submit reimbursement requests to the SSC as soon as possible, with a recommended date of no later than 40 days, after the transaction date, the travel end date, or hosting event date. Although the submission date is 60 days, early submission will allow time:
  - a. To obtain any additional information that is needed,
  - b. For employee review and approval,
  - c. For approvers to review and approve the report, and
  - d. For any needed corrections from the approver or an audit within the 60-day timeframe.
2. **Timely Response:** Please be sure that you are responding to SSC requests for additional information within 48 hours to ensure timeliness of report completion.

**II. FREQUENTLY ASKED QUESTIONS (FAQ)**

**A. ACCOUNTABLE PLAN REQUIREMENTS AND RESPONSIBILITIES**

**1Q: Under the University of Michigan's (U-M) Accountable Employee Reimbursement Plan, what requirements must employees meet to have their out-of-pocket expenses reimbursed on a tax-free basis through Emburse Enterprise?**

1A: U-M maintains an Accountable Employee Reimbursement Plan under Treasury Regulation 1.162-2 which allows the university to reimburse out-of-pocket expenses incurred by its employees on a tax-free basis. Accordingly, the Internal Revenue Code and Treasury Regulations require that employees, when submitting their expenses for tax-free reimbursement, establish the requisite business purpose, including the appropriate documentation, allowing the university to process their payments within a reasonable period. The process includes the following:

- Each expense must establish the business purpose by substantiating each element or, as they say, answer the questions of why, who, what, when, and where.<sup>3</sup>
- The expenses require timely approval by the appropriate party or parties to verify the business purpose before the payment may be processed.

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<sup>3</sup> Treasury Regulation 1.62-2(e)(3).

- The expenses must be submitted completely and accurately, including corrections and approvals, within a reasonable period. The Treasury Regulations define the term "reasonable period" by providing a safe harbor of 60 days from the date of the transaction. In which case, employees must ensure that they submit their out-of-pocket expenses completely and accurately, including corrections and approvals, within 60 days from the date of the transaction, the end date of the trip, or the date of the hosting event.<sup>4</sup>

**2Q: What may happen if these requirements are not met?**

2A: The SPG 507.10-1 on Travel and Business Hosting Expense Policy provides that the university may not reimburse on a tax-free basis expenses incurred by faculty, staff, and others that are not in compliance with university policies, requiring that they be reimbursed via Payroll net of taxes.<sup>5</sup> This treatment is supported by Treasury Regulations, which classifies these reimbursements as compensation to the employees subject to federal and state income tax withholding and FICA taxes.<sup>6</sup> Additionally, the schools, colleges and units are responsible for their share of FICA taxes.

**3Q: Who is primarily responsible to ensure that the expenses are submitted completely and accurately, including corrections and approvals, on a timely basis?**

3A: The employees who incurred out of pocket expenses are primarily responsible to ensure that they receive their reimbursements as soon as practicable or, said differently, that the university pays them within a reasonable period. In which case, they must submit their expenses completely and accurately, including corrections and approvals, within the 60-day period.

Further, if using the Shared Services Center (SSC) Travel & Expense Service, they should make certain that the associates with SSC completely and accurately prepare the reports with enough time to allow them to be submitted with approvals and corrections on a timely basis. The recommended period is as soon as possible but no later than 40 days after the transaction date, the travel end date, or the hosting event date.

**4Q: What are the approver's responsibilities?**

4A: The SPG 507.10-1 on Travel and Business Hosting Expense Policy provides that "the approver is the control in the expense reporting process to identify potential or actual errors in expense reporting and is equally accountable for all expenditures".<sup>7</sup> Further, the approvers with the schools, colleges and units are also responsible to ensure that their employees meet the

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<sup>4</sup> Treas. Reg. 1.62-2(g)(2)(i).

<sup>5</sup> SPG 507.10-1, I, Introduction.

<sup>6</sup> Treasury Regulation 1.62-2(c)(5) provides that reimbursements treated as paid under a nonaccountable plan are included in the employee's compensation as wages and taxed accordingly.

<sup>7</sup> SPG, III, A. Approver Role and Responsibilities.

requirements for the accountable plan, including submitting the expenses completely and accurately with corrections and approvals on a timely basis, as noted below:

- Reviewing each expense to verify that the transaction is an allowable expense adhering to the guidelines outlined in [SPG 507.10-1: Travel and Business Hosting Expense Policy](https://spg.umich.edu/policy/507.10-1) (URL: [spg.umich.edu/policy/507.10-1](https://spg.umich.edu/policy/507.10-1)) and [SPG 507.01: Procurement General Policies](https://spg.umich.edu/policy/507.01) (URL: [spg.umich.edu/policy/507.01](https://spg.umich.edu/policy/507.01)).
- Reviewing receipts and other support documentation.
- Ensuring that each expense has a valid U-M business-related purpose or is appropriately marked as a personal expense.
- Ensuring that each expense is submitted completely and accurately with corrections and approval on a timely basis following U-M policy (within 60 days of the transaction date, the end date of the trip, or the date of the hosting event).
- Serving as a fiscal steward for the department, confirming that each expense is necessary and consistent with departmental budget and project/grant guidelines as per the U-M Statement of Stewardship.
- Serving as the “check” in the expense reporting process designed to identify potential or actual misuse of U-M funds.

**Note:** If the original approver cannot approve the expenses, then the employees should delegate the role to someone else to ensure that their expenses are submitted timely.

[Article - Emburse Enterprise: Approve...](#)

**5Q: How long does the approver have to approve reports?**

5A: Reports should be thoroughly reviewed and approved by approvers promptly. Approvers will receive a weekly reminder email until the report is approved. The recommended time frame is within 48 hours from the time the report is submitted for approval.

[Article - Emburse Enterprise: FAQ](#)

**B. TIMELY SUBMISSION OF REPORTS**

**6Q: When are expenses deemed to be submitted timely?**

6A: Expenses are considered to be submitted timely when they are submitted completely and accurately with corrections and approvals within 60 days from the date of transaction, the end date of the trip, or the date of the hosted event.<sup>8</sup>

Please note that SPG 507.10-1 on Travel and Business Hosting Expense Policy states that expenses should be submitted no later than 60 days from the date of the transaction, the end date of the trip or the date of the hosting event and that any expense exceeding the 60 calendar

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<sup>8</sup> Please note that an exception applies for certain exams and certificates as discussed in 11A below.

days will be reviewed by the Tax Compliance & Planning Office (TC&P) to determine whether they are reimbursable.<sup>9</sup> That said, expenses that are incomplete or inaccurate or require corrections or approvals beyond the 60-day period will be treated as late and must be reviewed by TC&P. Accordingly, they cannot be reimbursed as tax-free expenses through Emburse Enterprise unless an exception is met.

**7Q: What exactly is meant by the term “submitted timely”?**

7A: Expenses are deemed to be submitted timely when they are submitted in Emburse Enterprise completely and accurately, including all corrections and approvals, within the 60-day period to enable Emburse Enterprise to begin the payment process. Failure to submit expenses timely will be denied and processed as noted in 2A above unless an exception is met.

**8Q: What is the consequence when these expenses are submitted beyond the 60-day period?**

8A: Please note that the Internal Revenue Service (IRS) closely scrutinizes late expense reimbursement reports because every approved expense that is submitted beyond a reasonable period costs the IRS in taxes. Consequently, the IRS will reclassify tax-free reimbursements that it deems to be late as compensation which are subject to income tax withholding and FICA taxes with penalties and interest. The university’s accountable plan is also at risk that it will be subject to audit.

**9Q: What are the start dates of the transaction to ensure that the expenses are submitted timely?**

9A: The start date is generally the date of the transaction or when the expense is incurred; however, other dates may also serve as the start date.

- a. When traveling, the start date for expenses incurred that relate to the trip is the end date of the trip.
- b. When hosting an event, the start date for expenses incurred that relate to the event is the date of the event.
- c. When hiring an employee, the start date for expenses incurred prior to employment is the date the employee begins employment.

Please note that virtual and online conference fees are treated as incurred on the date of the purchase since there is no actual travel.

**C. EXCEPTIONS FOR LATENESS**

**10Q: Is there an exception for expenses that are submitted beyond the 60-day period?**

10A: Yes—The Internal Revenue Service recognizes exceptions for extenuating circumstances (e.g., extended personal illness, death in the family, unanticipated leave of absence, unforeseen emergency beyond the control of the employee, and other similar circumstances). Examples

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<sup>9</sup> III. D., Internal Revenue Service Requirements.

include the employees having surgery or suffering an extended illness. The rationale is that the employees due to their circumstances are unable to perform their daily responsibilities. The period that the employees are out of office will not be counted toward lateness.

**11Q: Is there an exception for exams and certifications that must be paid in advance but will only be reimbursed by the school, college or unit on the condition that the employees pass them?**

11A: Yes—An exception applies when the reimbursement for exams and certifications is contingent on the employees receiving a passing grade. Accordingly, the transaction date is the date the employees have been notified that they were passed. The employees must include the document with the date of their notice when submitting their expenses as defined in 7A above.

**12Q: Is there an exception for cash advances?**

12A: No—The policy extends to cash advances that are made within 30 days of when the expense is paid or incurred which must be substantiated and fully approved within 60 days of the trip's end date. Failure to reconcile within this timeframe may result in Payroll deducting the entire cash advance amount and any reimbursements subject to taxation.

**13Q: Is there an exception to the substantiation requirement if a certain receipt cannot be provided?**

13A: Yes—In lieu of the actual receipt, please have the approver provide a signed “memo of exception” or documentation such as an approval email from a higher administrative authority. This is required along with an explanation of the circumstances for the missing receipts (e.g., it is lost). This memo of exception or related documentation must be submitted with the expenses as defined in 7A above.

**14Q: Is there an exception to the substantiation requirement if the expenses need to be itemized due to a hosting event or other transaction?**

14A: No—Treasury Regulations require that itemized expenses meet the substantiation requirements under the accountable plan rules. It is critical that each expense establishes the business purpose by substantiating every element or, as noted, answer the questions of why, who, what, when, and where when submitting the expenses as defined in 7A above.

**15Q: Is there an exception if the expenses are required to be funded by grant funds which have not yet been made available?**

15A: No—Please note that in these circumstances the Internal Revenue Service expects the employer to reimburse the employees their expenses regardless of how the payments are funded. While the timing of funds can create additional administrative steps, it is important that they be followed to ensure compliance with U-M policies and IRS standards. The unit may charge the expenses against an unrestricted fund source and then transfer the cost once the grant funds

arrive. When using this approach, the transfer between the funds must be completed within 120 days.

**16Q: Is there an exception for faculty on sabbaticals?**

16A: No—There is no exception for faculty on sabbaticals so long as they have access to the appropriate resources (e.g., expense apps).

**17Q: Is there an exception for newly hired employees who are unaware of the requirements for the university's accountable plan?**

17A: No—There is no exception for new employees, placing greater emphasis on the roles and responsibilities of the approvers with the schools, colleges and units noted in 4A above.

**18Q: Is there an exception for interns who are unaware of the requirements for the university's accountable plan?**

18A: No—There is no exception for interns, in which case, placing greater emphasis on the roles and responsibilities of the approvers with the schools, colleges and units (SCUs) noted in 4A above.

**19Q: Is there an exception for employees who were out of the office due to U-M's season days or personal vacation days?**

19A: No—Employees should plan accordingly for U-M's season and personal vacation days when meeting the accountable plan requirements, (i.e., submitting expenses completely and accurately), including corrections and approvals, within 60 days from the date of the transaction, the end date of the trip, or the date of the hosting event.

**20Q: Is there any exception when the school, college or unit (SCU) makes administrative errors?**

20A: No—As noted, in 21A below, the Internal Revenue Service is not willing to forgo collecting taxes when the expenses are submitted late because the taxpayer, in this case the SCU, made a mistake or an error. However, the SCU's financial administrator may consider grossing up the payment to cover these taxes, making the reimbursement tax-neutral for employees. That said, please know that this 'gross-up' is entirely within the discretion of the SCU and is often based on various factors, including budgetary concerns, reason for lateness, amount of the reimbursement, etc.

**D. THE NEXT STEPS WHEN THE EXPENSES ARE RETURNED FOR FAILURE TO MEET THESE REQUIREMENTS**

**21Q: What is the process if the expenses are returned for failure to meet the requirements of the accountable plan, meaning they cannot be reimbursed tax-free through Emburse Enterprise?**

21A: As noted in 2A above, SPG 507.1-01 on Travel and Business Hosting Expense Policy provides that the university may not reimburse on a tax-free basis expenses incurred by faculty, staff, and others who are not in compliance with university policies. Accordingly, the school, college and unit should report their employees' expenses as Additional Pay using earnings code TEA that will be included in their wages and subject to income tax withholding and FICA taxes. In these instances, employees will be reimbursed net of taxes.

If the Shared Services Center (SSC) Travel & Expense Service is used, it may report these taxable reimbursements to Payroll on the employee's behalf.

These taxable reimbursements are generally **not** allowable on Sponsored Project/Grants. Please reach out to your Sponsored Programs Coordinator if you have questions.

**22Q: Is there a remedy if the school, college or unit (SCU) inadvertently erred or made a mistake when administering the employees' expenses, (e.g., the approver did not approve the expenses promptly), causing the expenses to be late and processed through Payroll?**

22A: Yes— As a possible remedy, the SCU's financial administrator may consider grossing up the payment to cover these taxes, making the reimbursement tax-neutral for employees. That said, please know that this 'gross-up' is entirely within the discretion of the SCU and is often based on various factors, including budgetary concerns, reason for lateness, amount of the reimbursement, etc. Please note that the Internal Revenue Service is not willing to forgo collecting taxes when the expenses are submitted late because the taxpayer, in this case the SCU, made a mistake or error.

**23Q: Is there a remedy if an associate with the Shared Services Center Travel & Expense Service inadvertently caused the expenses to be late?**

23A: No— unless the school, college, or unit in its discretion agrees to gross up the payments as noted in 22A above.

Based on the roles and responsibilities as noted in the SPG on Travel and Business Hosting Expense Policy, SPG 507.10-1, please note that, although associates with the Shared Services Center (SSC) may on occasion inadvertently make mistakes, errors and oversights, they are not responsible for the reimbursement itself. The SSC only prepares expense reports whereas the employees and approvers are responsible for them as noted in 3A and 4A above. The only available remedy, as mentioned in 22A above, is when the SCU agrees to gross up the reimbursement to cover the employee's taxes. Please know that this 'gross-up' is entirely within the discretion of the SCU and is often based on various factors, including budgetary concerns, reason for lateness, amount of the reimbursement, etc.

**24Q: Are there alternatives to incurring expenses out-of-pocket?**

24A: Yes—The [PCard or Travel card](#) can be issued to eligible employees to be used for travel and travel-related expenses, especially international and conference travel. U-M employees are

encouraged to use [Collegiate Travel Planners \(CTP\)](#), the university's designated travel partner. When booking airfare for employees, guests, or students in U-M's online booking tool, [Lightning](#), the Central Travel Account (CTA) virtual credit card is automatically populated as the payment method.