



Tax Policy on the Tax-Free Reimbursement of Local Lodging Expenses Incurred by Employees¹

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I. Purpose

Under the university's accountable plan, which is administered in accordance with Internal Revenue Code (IRC) Section 62(c), expenses incurred by employees who stay overnight for business purposes may be reimbursed tax-free when the employees are away from their tax home and out of the metropolitan area.² However, the Treasury Regulations presume that local lodging expenses incurred by employees and reimbursed by an employer generally trigger taxable income to the employee(s).³ That said, exceptions may arise based on certain circumstances. This policy clarifies when such reimbursements must be treated as wages and discusses the exceptions when they may be reimbursed on a tax-free basis.

II. Definition of local lodging

Local lodging refers to overnight accommodation provided to employees in the same general area as their tax home⁴. Generally, tax home is defined as the employee's principal place of business, not their personal residence.

For example, lodging in the same city or metropolitan area where the employee primarily works is considered "local."

III. General rule and rationale

In general, local lodging expenses are considered personal and taxable to the employee. Lodging expenses are not excludable from taxable income if the employee can

¹ Please know that this tax policy is separate and apart from the tax policy on commuting. For instance, although in scenarios when the lodging does not establish a business purpose and is subject to taxation as wages, the travel to and from the destination may establish a business purpose and qualify for tax-free reimbursement.

² These expenses qualify for the working condition fringe benefit under IRC Section 132.

³ Treasury Regulation 1.162-32.

⁴ Revenue Ruling 54-147, 1954-1 C.B. 51.

reasonably complete the round trip to and from their tax home within the same day without the need for overnight rest.⁵ Said differently, the Internal Revenue Service (IRS) states the distance must be far enough so that the employee would need to stop for substantial sleep or rest.⁶

For purposes of this policy, an overnight stay is required when employees must drive more than three hours or the equivalent of 200 miles from their principal place of work to reach their destination and the facts and circumstances demonstrate a robust workday for the employee.⁷ For example, employees who travel to events outside of their primary tax home (e.g., Ann Arbor to Traverse City) to then work a full day would require an overnight stay, which would allow their expenses to be reimbursed on a tax-free basis.

IV. Exceptions to local lodging

Local lodging expenses incurred by employees and reimbursed by the university may qualify for tax-free treatment when either of the exceptions below are met.

- A. Host and facilitator —The IRS provides an exception for employees who must stay overnight at events hosted by the school, college, or unit to serve as program supervisor or facilitator to ensure that the event is successful and that the overnight guests are well cared for even when they are held within the same city or metropolitan area.

For example, this exception is met when an employee who works on the UM-Ann Arbor campus must arrive early in the morning to set up a conference that is being held in Ann Arbor, oversee the event throughout the day, host a late-night dinner that allows the guests to network, and is expected to do the same the next day.

A copy of the agenda and other supporting documentation must be provided as noted in FAQ #3 below.

- B. Duration of the event—Employees who attend conferences or similar events with a full day and night agendas (e.g., an early start, 7 a.m., a late finish, usually with a late-evening dinner, and an early start the next morning) may require an overnight stay.

⁵ Revenue Ruling 75-170, 1975-1 C.B. 60.

⁶ Revenue Ruling 73-529, 1973-2 C.B. 37.

⁷ This threshold may need to be adjusted for employees whose principal place of work is their campus address but work remotely from their homes or another location that is closer to their destination. In such cases, the employees' travel time and mileage are measured from their remote locations rather than from their principal place of work. However, if the distance from their remote workplace to their destination is greater than the distance from their principal place of work, no adjustment is needed; the distance is measured from the employee's principal place of work (i.e., the campus address).

For example, lodging expenses may be reimbursed on a tax-free basis when: employees who work on the UM-Ann Arbor campus as their principal place of work must travel to Lansing after having worked a full day for a late-evening dinner with the conference attendees, such as from 7 to 10 p.m., and then attend the conference beginning the next morning at 7 a.m.

A copy of the agenda(s) and other supporting documentation must be provided as noted in FAQ #3 below.

V. Frequently asked questions (FAQ)

1Q. **How do I determine if lodging is necessary for my trip?**

1A. Lodging should only be considered when same-day travel to and from the employee's tax home, including attendance at the event, requires the employee to stop for substantial sleep or rest. If the employee can commute, attend, and return home within the same day, lodging is not considered necessary.

2Q. **What is my principal place of work when I work remotely?**

2A. Generally, employees' principal place of work is their campus address, regardless of where they work remotely. Typically, the address provided on MCommunity will be used as the employee's primary place of business.

When traveling to your destination, time and mileage should be calculated from your principal place of work. If the distance from your remote location to your destination is shorter, use the remote location as the starting point instead.

3Q. **What supporting documentation or information is required to substantiate tax-free reimbursements for local lodging?**

3A. A detailed itinerary of the employees' meetings and activities, such as the event agenda and other supporting documentation, along with the business purpose of the stay is required.

4Q. **What if the conference or event is a one-day event?**

4A. Generally, lodging is not necessary for one-day events unless exceptional circumstances make same-day travel unreasonable.

5Q. **If an employee extends their stay for personal reasons before or after the business event, how is lodging reimbursement handled?**

- 5A. Expenses related to the personal extension of the stay trigger taxable income for the employee. To be reimbursed tax-free, the stay for that night must meet the criteria or exceptions discussed above.

VI. Pre-trip assistance

If administrators with the school, college, or unit have any questions regarding whether employees' trips will qualify for tax-free treatment, please contact the Tax Compliance and Planning office no less than five business days before the trip at taxreporting@umich.edu with the information listed below and the tax team can provide guidance:

- A. Purpose of the trip
- B. Distance
- C. Reason for the overnight stay (provide agenda(s) and other supporting documentation)
- D. Responsibilities of the employee(s) in addition to or other than attendance, e.g., setting up a presentation for an early morning lecture, etc.