

# Sample Policies for Reimbursements

*Resolutions such as the ones below need to be placed in the church board minutes by December 31.*

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## Salary Plus Unlimited Reimbursement

The chairman informed the meeting that according to Section 62(a)(2)(A), employees who adequately accounts to their employer the details of their professional expenses is allowed a deduction from gross income. Section 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 our employees' salaries may be recharacterized as being paid under this reimbursement arrangement.

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

Resolved, that in addition to the salary provided our employees, we will reimburse them for auto, travel, and professional expenses considered ordinary and necessary for them to carry out their duties. Automobile expenses will be reimbursed according to the current IRS standard mileage rate for actual miles traveled, plus tolls and parking expenses incurred.

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

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## Salary Plus Fixed Limited Reimbursement

The chairman informed the meeting that according to Section 62(a)(2)(A), employees who adequately accounts to their employer the details of their professional expenses is allowed a deduction from gross income. Section 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 our employees' salaries may be recharacterized as being paid under this reimbursement arrangement.

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

Resolved, that in addition to the salary provided our employees, we will reimburse them for auto, travel, and professional expenses considered ordinary and necessary for them to carry out their duties up to a fixed limit of \$\_\_\_\_\_. If actual expenses are less than this fixed limit, employees cannot be given the difference as bonus or salary. If actual expenses are greater than this fixed limit, employees will be required to deduct the extra expenses on Form 2106 and Schedule A.

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

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## Accountable Expense Reimbursement Policy

*Sample of wording which needs to be placed in the church board minutes by December 31. It only needs to be approved once, not annually.*

Whereas, Income tax regulations provide that an arrangement between an employee and employer must meet the requirements of business connection, substantiation, and return of excess payments in order to be considered reimbursement;

*Whereas*, Plans that meet the three requirements listed above are considered to be accountable plans, and the reimbursed expenses are generally deductible from gross income to arrive at adjusted gross income;

*Whereas*, Plans that do not meet all the requirements listed above are considered nonaccountable plans, and expenses are subject to the two-percent floor imposed on certain itemized deductions; and

*Whereas*, First Community Church wants to establish an accountable expense reimbursement policy in compliance with the income tax regulations;

### **Resolved,**

That First Community Church establish an expense reimbursement policy whereby ministers and other staff serving the church may receive advances for or reimbursement of expenses to the extent provided in the current adopted budget if:

- a. The expense has a stated business purpose related to the ministry of the church.
- b. The minister/employee provides substantiation to the church for all expenses.
- c. The minister/employee returns all excess reimbursements within a reasonable time.

### **Resolved,**

That the following methods will meet the "reasonable time" definition:

- a. An advance is made within 30 days of when an expense is paid or incurred.
- b. An expense is substantiated to the church within 60 days after the expense is paid or incurred.
- c. An excess amount is returned to the church within 120 days after the expense if incurred.

### **Resolved,**

That substantiation of business expenses will include: business purpose, business relationship ( including names of persons present), cost (itemized accounting), time, and place. Auto mileage reimbursed must be

substantiated by a daily mileage log which separates business and personal miles. The minister may keep copies of the expense substantiation, but the church will retain the original copies.