



ADVANTAGES OF AN ACCOUNTABLE REIMBURSEMENT PLAN

The implementation of an accountable reimbursement plan by a church is an important component of compensation planning. Consider the following benefits of such a plan:

- Employees report their business expenses to the church rather than to the IRS.
- Staff members who report their income taxes as employees (or who report as self-employed and who are reclassified as employees by the IRS in an audit) reduce or eliminate the effect of the loss of any itemized deduction for unreimbursed (and nonaccountable reimbursed) employee business expenses after 2017.
- The *Deason* allocation rule (discussed earlier and under [“The Deason Rule” on page](#)) is avoided. Under this rule, self-employed ministers must reduce their business expense deduction on Schedule C (Form 1040) by the percentage of their total compensation that consists of a tax-exempt housing allowance.
- The 50-percent limitation that applies to the deductibility of business meals and entertainment expenses is avoided. Unless these expenses are reimbursed by an employer under an accountable arrangement, only 50 percent of them are deductible by self-employed workers. See IRS Publication 463.
- Ministers who report their income taxes as employees minimize the tax impact of being reclassified as an employee by the IRS in an audit. One of the reasons the IRS targets self-employed workers is that by reclassifying them as employees, the deduction for employee business expenses is eliminated since the itemized deduction for such expenses has been eliminated after 2017. If a worker’s business expenses are reimbursed under an accountable arrangement, the IRS has much less audit incentive to reclassify the person as an employee.