

Timely business expense reimbursements save money

- Tax rates: FICA 6.2% and Medicare 1.45%.
- More information on tax rates can be obtained from the IRS website at www.irs.gov.
- Expense reports should be submitted within 60 days of the date expense was incurred or paid.

Did you know your agency incurs an additional cost (employer-paid taxes) if employees are late in submitting their business expense reimbursement requests?

The Internal Revenue Service (IRS) requires employee business expenses to be submitted for reimbursement within ‘a reasonable period of time’ which is further defined as within 60 days after the expenses were paid or incurred. If not submitted within 60 days, the expense reimbursement is categorized as supplemental wages, becomes taxable and withholding tax must be taken. Since the agency must match the FICA and Medicare tax paid by employees, the result of non-compliance is a cost not only to the employee but also to the agency. Currently, these tax rates are 6.2% (FICA) and 1.45% (Medicare).

Therefore, it is essential that employee expense reports be submitted within the 60 day IRS requirement in order to prevent unnecessary costs to the state.

Is your agency incurring this additional cost? Your payroll staff has access to reporting information that can provide you with data specific to your agency.

In order for agencies to be in compliance with IRS regulations, reimbursement information must be entered accurately in the state’s payroll system. The system automatically assesses taxability based on the dates entered. Therefore, it is critical that each situation be evaluated carefully and entered appropriately.

This information is outlined in Minnesota Management & Budget Operating Policy and Procedure PAY0021, Employee Business/Travel Expenses, Policy – Travel Expense Reimbursement Responsibilities at [Travel Expense Reimbursement Responsibilities](#).

If you have questions, please contact your payroll staff or Jeff Moe in Statewide Payroll Services at 651-201-8063 or jeff.moe@state.mn.us.