

Travel Reimbursements

A reimbursement or allowance policy provides for payment of advances, reimbursements, and allowances for travel, meals, and entertainment expenses incurred by your employees during the ordinary course of business. If the expenses are substantiated and accountable, the amounts reimbursed to the employee are non-taxable. If the expenses are not substantiated, they do not meet accountable plan requirements and are taxable to the employee.

An accountable plan requires your employees to meet all of the following requirements. Each employee must:

1. Have paid or incurred deductible expenses while performing services as your employee,
2. Adequately account to you for these expenses within a reasonable period of time, and
3. Return any excess reimbursement or allowance within a reasonable period of time.

If any expenses reimbursed under this arrangement aren't substantiated, or an excess reimbursement isn't returned within a reasonable period of time by an employee, you cannot treat these expenses as reimbursed under an accountable plan. Instead, treat the reimbursed expenses as paid under a non-accountable plan.

Your employees must adequately account to you for their travel, meals, and entertainment expenses. They must give you documentary evidence of their travel, mileage, and other employee business expenses. This evidence should include items such as receipts, along with either a statement of expenses, an account book, a day-planner, or similar record in which the employee entered each expense at or near the time the expense was incurred.

The manner in which you report them depends on how the reimbursement/allowance compares to the federal rates. [See Table below.](#)

Allowance less than or equal to the federal rate. If your allowance for the employee is less than or equal to the appropriate federal rate, that allowance isn't included as part of the employee's pay in box 1 of the employee's Form W2.

Allowance more than the federal rate. If your employee's allowance is more than the appropriate federal rate, you must report the allowance as two separate items.

- Include the allowance amount up to the federal rate in box 12 (code L) of the employee's Form W2. This part of the allowance is treated as reimbursed under an accountable plan.

- Include the amount that is more than the federal rate in box 1 (and in boxes 3 and 5 if they apply) of the employee's Form W2. Deduct it as wages subject to income tax withholding, social security, Medicare. This part of the allowance is treated as reimbursed under a non-accountable plan

Enter the appropriate reportables code on the employee payline:

- **WRM** for excess, non-accountable, un-substantiated travel reimbursements or allowances
- **WXN** for accountable/substantiated reimbursements that are reported in box 12

Table 11-1. Reporting Reimbursements

IF the type of reimbursement (or other expense allowance) arrangement is under	THEN the employer reports on Form W-2
An accountable plan with:	
<i>Actual expense reimbursement:</i> Adequate accounting made and excess returned	No amount.
<i>Actual expense reimbursement:</i> Adequate accounting and return of excess both required but excess not returned	The excess amount as wages in box 1.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting made and excess returned	No amount.
<i>Per diem or mileage allowance up to the federal rate:</i> Adequate accounting and return of excess both required but excess not returned	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.
<i>Per diem or mileage allowance exceeds the federal rate:</i> Adequate accounting made up to the federal rate only and excess not returned	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.
A nonaccountable plan with:	
Either adequate accounting or return of excess, or both, not required by plan	The entire amount as wages in box 1.
No reimbursement plan	The entire amount as wages in box 1.

Helpful Links:

[IRS Publication 535](#) (Updates to this publication have been discontinued, last revision is 2022)

[IRS Tax Topic 511](#)

[IRS Publication 463](#) (as of this document creation, the 2026 version has not been published)