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## 10.80.70 Internal Revenue Service regulations affecting travel expenses and travel advances

10.80.70.a According to the federal Internal Revenue Service (IRS), travel expense reimbursements and travel advances, treated as paid under an accountable plan, are excluded from an employee's gross income, are exempt from withholding and payment of employment taxes, and are not reported as wages on the employee's Form W-2. The IRS requires travelers to substantiate their travel expenses and to return to their employer any unspent portions of a related travel advance within a reasonable time period. If the traveler does not substantiate the travel expenses or does not return any unspent portion of a travel advance within a reasonable time period, the traveler's employer is required to report the amount of the travel advance as income in Box 1 of Form W-2. This payment is subject to applicable payroll withholding taxes.

10.80.70.b **Travel expense reimbursements.** Consistent with the IRS rules for accountable plans, Maine's expense reimbursement arrangement requires employees to meet all three of the following rules:

1. Employee expenses must have a business connection. This means they must be deductible under the rules for qualifying work-related expenses.
2. Employees must substantiate their expenses within a reasonable period of time.
3. Employees must return any advance in excess of the substantiated expenses within a reasonable period of time.

When all three of these requirements are met, we do not include any reimbursement income on employees' Form W-2.

10.80.70.c For purposes of state travel regulations, if a traveler substantiates their expenses on a state Travel Expense Voucher on or before the last day of the month following the month in which the expense was incurred, the traveler will have met the reasonable time period requirement (e.g., all January travel submitted on or before the last day of February). When this occurs, the expenses the traveler incurred will not be considered income.

"Substantiated" means the Travel Expense Voucher has been properly completed and submitted.

"Properly completed" means the Travel Expense Voucher has been signed by the employee and his/her supervisor, the amount due has been correctly calculated and all required supporting documentation is attached.

“Submitted” means the Travel Expense Voucher has been received by the agency accounting staff or financial service center accounting staff for review and processing.

10.80.70.d

**Travel advances.** If a traveler returns to the employer any unspent portion of a travel advance within 120 days after incurring a travel expense related to the travel advance (calculated from the last day of travel), the traveler will have met the reasonable time period requirement. When this occurs, the unspent portion of the travel advance will not be considered income.

This does not supersede the requirement that the traveler shall submit a fully itemized Travel Expense Voucher on or before the 15th day following the date in which a traveler has returned (SAAM Section 10.80.60.d). The State of Maine has the right to recover any unused portion and not returned travel advance (i.e., any advance in excess of the substantiated expenses) through payroll deduction and deny any future request for travel advance.

10.80.70.e

When a traveler fails to meet either of the timeliness criteria stated in item b above, the agency is required to consider the unsubstantiated travel expense and/or the unspent portion of the travel advance as paid under a non-accountable plan, to be included in the employee’s gross income for the taxable year, and reported as wages or other compensation on the employee’s Form W-2.

In order to facilitate proper reporting, the Office of the State Controller (OSC) has established two W-2 reportable object codes:

**4250 W-2 Reportable In-State Travel**

This object code should be used when reimbursing an employee for in-state travel if the employee does not substantiate the travel expenses or does not return any unspent portion of a travel advance within the required time period.

**4350 W-2 Reportable Out-of-State Travel**

This object code should be used when reimbursing an employee for out-of-state travel if the employee does not substantiate the travel expenses or does not return any unspent portion of a travel advance within the required time period.