

The Bankler Report

October 16, 2014

The IRS has issued a new notice for simplified per diem rates for travel after October 1, 2014.

Background

An employer can elect to pay a per diem amount to an employee for business travel instead of reimbursing actual substantiated expenses for away-from-home lodging, meal and incidental expenses (M&IE). If the rate paid doesn't exceed IRS-approved maximums, and the employee provides simplified substantiation (time, place and business purpose), the reimbursement is treated as made under an accountable plan. As such, it isn't subject to income or payroll tax withholding and isn't reported on the employee's Form W-2. Also, receipts of expenses aren't required.

In general, the IRS rates are the same as the GSA (General Services Administration) rates paid by the federal government to its workers on travel status. These rates vary by locality. The rates in effect for the federal government's fiscal year period beginning October 1, 2014 can be found at gsa.gov.

However, in applying the per diem, an employer may continue using the CONUS (continental U.S.) rates that were in effect for the first nine months of 2014 for all expenses in 2014, instead of using the GSA rates that are effective October 1, 2014, provided that the employer consistently uses those prior rates for the last three months of 2014.

Changed Definition of Incidental Expenses

The General Services Administration published final regulations revising the definition of incidental expenses. These now include only fees and tips given to porters, baggage carriers, hotel staff, and staff on ships. Transportation between places of lodging or business and places where meals are taken, and the mailing cost of filing travel vouchers and paying employer-sponsored charge card billings are no longer included in incidental expenses. Therefore, these expenses may be paid in addition to the incidental expense rate.

High-Low Rates

An employer that utilizes the per-diem allowance in lieu of reimbursing actual expenses may use the high-low substantiation method.

Under the high-low substantiation method, there is one uniform per diem rate for all "high-cost" areas within CONUS, and another per diem rate for all other areas within CONUS. Under the optional high-low method for travel on or after October 1, 2014, the high-cost-area per diem is \$259 (up from \$251), consisting of \$194 for lodging and \$65 for M&IE. The per diem for all other localities is \$172 (up from \$170), consisting of \$120 for lodging and \$52 for M&IE.

Limitation

An employer that uses the high-low substantiation method for an employee must use that method for all amounts paid to that employee for travel away from home within CONUS during the calendar year. The payor may use any permissible method (actual expenses, the per diem substantiation method, or the M&IE-only per diem substantiation method) to reimburse that employee for any CONUS travel away

from home.

Meals & Incidental Expenses

Under some circumstances, an employee may receive a per diem reimbursement only for his M&IE for travel away from home. If simplified substantiation is supplied (time, place, business purpose), and one of several conditions is met (e.g., the employer provides lodging in kind or pays the service provider directly for lodging), the amount paid is deemed paid under an accountable plan as long as the rate does not exceed the federal M&IE rate.