

The Bankler Report

October 10, 2013

INTRODUCTION

The IRS has just issued a new notice (Notice 2013-65) simplifying the per-diem rates for post September 30, 2013 business travel.

Background.

An employer may use a per-diem amount to reimburse an employee for business travel instead of reimbursing actual substantiated expenses. These expenses are for 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. Therefore, it isn't includable in the employee's income, not subject to payroll taxes, and not reported on the employee's W-2. Receipts of expenses are not also required.

In general, the IRS uses the same GSA per-diem rate paid by the US government to its workers on travel status. This rate varies by locality. The rates in effect for the federal government's fiscal year period beginning Oct. 1, 2013, may be found at gsa.gov. However, in applying the per-diem, M&IE (meals and incidental expenses) and incidental expenses only allowances, an employer may continue using the CONUS (continental U.S.) rates that were in effect for the first nine months of 2013 for CONUS expenses for all of 2013, instead of using the GSA rates that are effective Oct. 1, 2013, provided that the employer consistently uses those prior rates for the last three months of 2013.

Employer's deduction for high-low per-diem.

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 (low) for all other areas. Under the optional high-low method for post-Sept. 30, 2013 travel, the high-cost-area per diem is \$251 (up from \$242), consisting of \$186 for lodging and \$65 for M&IE. The per-diem for all other localities is \$170 (up from \$163), consisting of \$118 for lodging and \$52 for M&IE.

The following localities have been added to the list of high-cost localities: Santa Cruz, CA; Boca Raton/Delray Beach/Jupiter, FL; Charleston, SC; and Midland, TX.

The following localities have changed the portion of the year in which they are high-cost localities: Monterey, CA; Telluride, CO; Miami, FL; Chicago, IL; and Park City, UT.

No localities have been removed from the list of high-cost localities.

Other optional methods.

For employees and self-employed individuals who don't have meal expenses for a calendar day (or partial day) of travel after Sept. 30, 2013, deduct \$5 per day (same as previous rate) that the taxpayer is away from home.

An employee may receive a per-diem only for his M&IE for travel away from home. If simplified substantiation is supplied (time, place, business purpose), and one of the following conditions are met: (a) payor provides lodging in kind or (b) pays the service provider directly for lodging, then amount paid is deemed to be under an accountable plan as long as the rate does not exceed the federal M&IE rate for the locality. Similar rules apply to self-employed individuals who pay or incur meal expenses.

Please feel free to contact me should you have any questions.