



Office of the State Comptroller
PAYROLL BULLETIN

Subject Travel Advances and Non-Overnight Travel Reimbursements	Bulletin No. P700/A262
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INTRODUCTION

This bulletin explains agency responsibilities for complying with IRS' "accountable plan" rules for employee travel expenses. Any noncompliance with these rules may cause IRS to consider the State's entire travel expense plan to be nonaccountable. This would result in subjecting all employee travel reimbursements to withholding of income and employment (Social Security/Medicare) taxes.

Effective July 1, 1991, IRS will assess penalties for failure to report or failure to withhold and pay taxes in accordance with these rules. Agencies will be responsible for any penalties assessed by IRS against NYS as a result of agency failure to comply.

For NYS to retain its accountable plan status and avoid penalties, agencies must comply with the following requirements for continuous travel advances and non-overnight travel reimbursements.

**CONTINUOUS TRAVEL
ADVANCES**

The Comptroller's Rules and Regulations allow continuous travel advances up to \$400 to employees whose duties require overnight assignments away from their official stations for at least 30 percent of the work year. This policy is consistent with IRS requirements for an accountable plan.

Agencies should review their continuous travel advances to ensure compliance with the above policy. Employees not expected to travel 30 percent of the work year must return advances.

NOTE: If travel advances are provided to employees who are not likely to travel, the State's travel expense plan can be rendered nonaccountable, resulting in subjecting all travel reimbursements to withholding of income and employment taxes.

NON-OVERNIGHT
TRAVEL
REIMBURSEMENTS

IRS requires employers to report and withhold income and employment taxes from excess overnight travel reimbursements, as explained in Bulletin A245/P670 issued 10/31/90. IRS also requires employers to report and withhold income and employment taxes from meal allowances for non-overnight travel (day trips). The specific IRS rule states that taxpayers traveling on business can only deduct meal allowances if the trip requires him to stop for 'sleep or rest'.

The following IRS examples, while not involving State employees per se, illustrate IRS' intent and explain their rationale involving the 'sleep or rest' rule.

IRS Example #1:

Traveling salesman who customarily left home at about 5 a.m., ate breakfast and lunch on road, ordinarily drove 150 to 175 miles daily, finished his daily schedule by 4 p.m. and returned home by 5:30 p.m. could not deduct cost of breakfast and lunch since daily trips required neither sleep nor rest and were therefore not "away from home", since IRS Code Section 162 speaks of "meals and lodging" as a unit, ordinarily the only taxpayer who finds it necessary to stop for "sleep or rest" incurs significantly higher living expenses as direct result of business travel and only such taxpayers should be permitted to deduct living expenses while on road.

IRS Example #2:

Railroad conductor could deduct expenditures for lodging and meals as traveling expenses during 6-hour layovers away from home on regular trips, each trip requiring about 16-hour absence from home terminal since, if nature of employment is such that when taxpayer is away from home it is reasonable for him to need and obtain sleep or rest in order to meet requirements of his employment his expenditures for purpose of obtaining sleep or rest are deductible traveling expenses under IRS Code Section 162.

IRS Example #3:

Consulting engineer employed on per diem basis who often left home early, ate breakfast on way, ate lunch at work, and stopped for dinner on drive back home to which he returned about 10 p.m. could not deduct expenses of meals since he was not away from home to sleep or rest.

It is clear from these examples that meal allowances for non-overnight travel are generally not deductible. Meal allowances which are not deductible are subject to withholding of income and employment taxes and must be reported on employee W-2's.

NOTE: Meal allowances on the first and last day of an overnight trip meet the 'sleep or rest' requirement and are deductible and therefore not reportable.

REPORTING
'NON-OVERNIGHT'
MEALS

Meal allowances paid after 6/30/91 through the travel voucher process for non-overnight travel (day trips) must be reported to OSC's Payroll System on PR 75's by your agency Payroll office.

Finance Offices must forward name and accumulated amount information to Payroll Offices for preparation of quarterly PR-75's.

NOTE: No payments for non-overnight meal allowances should be made in December since there will be insufficient time to process them through the Payroll System to be included on W-2's for that year. PR-75's for the period ended November 30 must be processed through the Payroll System in December.

Agency Payroll Offices must complete PR-75's for non-overnight meal allowances as follows:

- Use transaction code TAX EXP and the information shown below for reporting the information for active employees.

GROUP 3

CLASS B

Block Requirements:

01 thru 06 and

07 Transaction Code - TAX EXP

49 Misc Block A - Taxable Amount

- Do not include the meal allowance amount in the Gross (Add). It is not an amount to be paid by the Payroll System, but only reported as gross income. The meal allowance amount must be in the Miscellaneous Block; do not report it in Remarks.

In payroll processing, meal allowance amounts will be added to the biweekly gross prior to the calculation of Federal, State and Social Security/Medicare taxes. The taxes will be computed on the full amount, provided that the employee has not paid the maximum Social Security/Medicare tax.

Meal allowance amounts will be shown on the check stub in the ADDT'L SAL INFO block with the code TXE and will be included in YTD GROSS. It will also appear on the Salary Register and in the YTD GROSS and YTD TAX EXP on the YTD summary.

Direct questions on this bulletin to the Accounting Information Center (518) 473-1170 or Payroll Audit (518) 474-1246.