

## Accountable Plan Worksheet Instructions

Please take the time to review how an accountable plan works and the benefits of using it if you are unclear-

[www.watsoncpagroup.com/kb/27/](http://www.watsoncpagroup.com/kb/27/)

If you haven't already downloaded the MS Excel spreadsheet, you can do that here-

[www.watsoncpagroup.com/AccountablePlan.xlsx](http://www.watsoncpagroup.com/AccountablePlan.xlsx)

**Try the new beta version-**

[www.watsoncpagroup.com/AccountablePlan-beta.xlsx](http://www.watsoncpagroup.com/AccountablePlan-beta.xlsx)

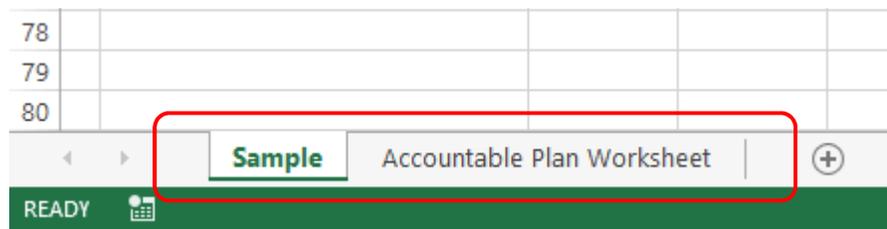
If your browser won't open or download this link, please let us know- we can email you a copy as well.

### Over-Arching Concept

Recall that as an owner of an S corporation, you are both shareholder and employee. Two roles. Two purposes, with different rights and privileges. This is no different than working for Google or IBM, and turning in expense reimbursement requests for the business use of your personal things and direct expenses. Keeping an arms-length perspective on the relationship you have to the S Corp will help validate your accountable plan reimbursements and demonstrate that you and your business are separate entities (which helps add to your liability "onion").

### Sample

The spreadsheet has two tabs called Sample and Accountable Plan Worksheet. The following screenshots are from the Sample tab.



### Cell Colors

Green cells can be modified with data. Yellow cells are formulas or summations, and typically should not be changed. Blue cells are also summations and should not be changed.

Cell Phone and Internet	
	Quarter
Total Cell Phone (\$450 max / quarter)	360
Total Internet	150
Total Cell Phone Internet	510
Biz Use % (max 80%)	80%
Allocated to Cell/Internet	408

### Employee Name and Period

Enter the employee's name that is being reimbursed- in a true technical sense, shareholders are not being reimbursed through an Accountable Plan. So if a shareholder is not an employee (and therefore not receiving a wage) then typically he or she cannot be reimbursed for expenses.

For the period, enter Q1, Q2, Q3, Q4 or the year if you are only completing this annually. We prefer quarterly since memories fade and it keeps you involved in your business expenses. Having said that, the IRS requires this to be completed quarterly if you advance stipends to employee since excess advances must be returned back to the company in a timely fashion- this doesn't apply to most small businesses and closely held corporations.

## Home Office

Enter the square footage of your office (e.g., 12 x 12 space would be 144 square feet) and the square footage of your home. Only consider useable space- so if your basement is unfinished and you do not use it, then it does not factor in your total home square footage. However, if you use an unfinished basement for business and want to get reimbursed for its use, then the square footage used must be included in the total home square footage. In other words, if you claim it in the numerator (i.e., office square footage) then it must also be included in the denominator (i.e., total home square footage). No arbitrage.

Home Office			
Office Square Footage	150		
Total Home Square Footage	2,500		
Biz Use %	6.0%		
	Annual	Quarter	Sched A
Mortgage Interest or Rent	5,000	1,250	-300
Property Taxes	1,000	250	-60
Private Mortgage Insurance (PMI)	0	0	0
Hazard Insurance	800	200	
Utilities		0	
HOA Dues		0	
Repairs, Maintenance		0	
Cleaning		0	
Other 1		0	
Other 2		0	
Total Home Office Expenses		450	
Allocated to Home Office		27	

Same for garages and other spaces, like attics.

Enter the annual amounts for mortgage interest, property taxes, private mortgage insurance and hazard insurance (casualty insurance). Mortgage interest might be tough to estimate looking forward- two thoughts here. First, you can always true up in the fourth quarter after the exact interest amount is known. This requires some manual manipulation.

Second, if the business use portion of the mortgage interest is under-reimbursed, the difference will still be deductible on Schedule A of your individual tax return.

Note that the quarterly amounts are automatically computed. If you using this as an annual worksheet, then you can simply type over the yellow cells or if you need true-up at the end of the year.

Home Office			
Office Square Footage	150		
Total Home Square Footage	2,500		
Biz Use %	6.0%		
	Annual	Quarter	Sched A
Mortgage Interest or Rent	5,000	1,250	-300
Property Taxes	1,000	250	-60
Private Mortgage Insurance (PMI)	0	0	0
Hazard Insurance	800	200	
Utilities		0	
HOA Dues		0	
Repairs, Maintenance		0	
Cleaning		0	
Other 1		0	
Other 2		0	
Total Home Office Expenses		450	
Allocated to Home Office		27	

If you rent your home and subsequent home office, then enter the annual rent amount on the same line as mortgage interest.

For the remaining items (utilities, HOA dues, etc.), enter the total amounts paid for the period. There are two additional places to enter home office related expenses- these will always be reduced to the business use percentage calculation. If you have an expense that is 100% home office, such as new paint, the company should pay for that directly (or use the Out of Pocket section if you paid for the expense personally).

## Schedule A

Mortgage interest, property taxes and PMI are routinely deducted on Schedule A of your individual tax return. Therefore, if you are getting reimbursed for these expenses you cannot deduct them in full on Schedule A- the IRS frowns on double-dipping.

Home Office			
Office Square Footage	150		
Total Home Square Footage	2,500		
Biz Use %	6.0%		
	<b>Annual</b>	<b>Quarter</b>	<b>Sched A</b>
Mortgage Interest or Rent	5,000	1,250	-300
Property Taxes	1,000	250	-60
Private Mortgage Insurance (PMI)	0	0	0
Hazard Insurance	800	200	
Utilities		0	
HOA Dues		0	
Repairs, Maintenance		0	
Cleaning		0	
Other 1		0	
Other 2		0	
Total Home Office Expenses		450	
Allocated to Home Office		27	

These amounts show the reduction necessary on Schedule A- if we prepare your individual tax returns, we leave breadcrumbs behind by making two entries-

Mortgage Interest	\$5,000
Less: Reimbursement	\$-300
Deduction	\$4,700

Our tax software is expensive (over \$20,000 a year... no kidding) but it comes with the cool feature of entering negative amounts in the statement entry. This is simply good accounting practice to show the steps to arrive at your ultimate deduction. If TurboTax or other retail tax preparation software allows negative amounts, we suggest entering your mortgage interest the same way.

This would also be done with property taxes and PMI.

## Cell Phone and Internet

We commonly hear clients stating that they use their cell phone completely for business. Without two cell phones, this is simply unrealistic. The minute you call Mom or get a text from your spouse asking for milk and eggs on your way home, your cell phone is less than 100% business use.

In our experience, the maximum business use is 80% unless you have two cell phones.

Cell Phone and Internet	
	Quarter
Total Cell Phone (\$450 max / quarter)	360
Total Internet	150
Total Cell Phone Internet	510
Biz Use % (max 80%)	80%
Allocated to Cell/Internet	408

If you look at most cell phone plans being advertised, \$150 per month is a safe figure to use if you cannot readily determine your portion of a group cell phone bill. If your singular cell phone expense can be determined readily, then use that amount. This number should also include your data plan, text message package, etc.

Internet is your home internet. So if you are not claiming a home office, then you won't have a reimbursement.

As a side note, your cell phone and home internet expenses should be paid for personally, and the later reimbursed by the company.

## Mileage

If the auto is titled by the business, and therefore owned by the business, the business can only deduct actual expenses such as lease payments, fuel, maintenance, etc. There is not a mileage deduction.

If the auto is owned by you personally, the mileage rate is typically your best method of reimbursement. For example, if you pay for fuel with the company debit card, only the business use percentage is deductible to the business (and the difference would be a shareholder distribution to you). In other words, if you drive 10,000 miles total and 2,000 miles are for the business, only 20% of your fuel purchase would be deductible.

The mileage rate for 2016 is 54 cents. Of this, 28 cents is depreciation. Getting reimbursed by the mile is a great way to pull money out of the business as tax-free reimbursements. We can run the analysis on both methods (actuals versus mileage). See our article for more information-

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Enter the miles that were driven for business and the total miles driven (this is needed to determine the business use percentage for auto loan interest and registrations which are a reimbursement in addition to mileage.).

Mileage		
	Annual	Quarter
Biz Miles Auto #1 (owned by EE)		2,000
Biz Miles Auto #2 (owned by EE)		500
Total Biz Miles		2,500
Total Miles Driven (both autos)		10,000
Biz Use %		25.0%
Auto Loan Interest	500	125
Auto Registrations	220	55
Mileage Rate 2016		\$0.540
Allocated to Auto Expense		1,395

Enter the annual amount for auto loan interest and registrations. Similar to the mortgage interest- this might be tough to estimate looking forward. A fourth quarter true-up or reconciliation might be necessary.

## Out of Pocket Expenses

Enter the amounts that you paid for personally but the company should reimburse in full. It is common for people to use a personal credit card because of an incentive such as miles or cash-back for expenses that are 100% business expenses. This is not elegant, but at the same time we understand the reality.

Meals and entertainment has two entries- one for 50% and the other for 100%. 100% is only used for office parties, social events and snacks for the convenience of employees. It is rare for a business who has one employee (i.e., you) to have a 100% reimbursable meal and entertainment expense.

The 50% entry is reserved for meals and entertainment with clients, prospects and for travel away from home. Ideally the business should pay for these directly. The deduction is only 50%, however, the reimbursement is still made at 100%. The 50% limitation would be applied within the corporate tax return.

Out of Pocket (Paid by Employee)		Quarter
Travel - Airfare		0
Travel - Lodging		350
Parking, Tolls (non-commuting)		0
Meals & Entertainment 50%		330
Meals & Entertainment 100%		50
Health Insurance Premiums		0
HSA Contributions		0
Office Supplies		85
Other 2		0
<b>Allocated to Out of Pocket</b>		<b>815</b>

If you are a 10% owner or greater in a corporation, you cannot get reimbursed at the federal per diem rate for meals and incidentals. These expenses must be substantiated separately and only be reimbursed for the amount spent.

Please read Chapter 7 of our Taxpayer's Comprehensive Guide to S Corps and LLCs for more information about tax deductions and fringe benefits-

[www.watsoncpagroup.com/kb/28/](http://www.watsoncpagroup.com/kb/28/)

Health insurance premiums including vision and dental should be also paid directly by the business. However, some providers in certain states will not accept business payments- if this applies to you, continue paying the expense personally but you must get reimbursed by the company for the full benefit of the deduction.

HSA contributions should also be made by the company directly on your behalf.

This section also has two additional entries that can be modified. In this example, you accidentally paid for office supplies with a personal debit card.

Out of Pocket (Paid by Employee)	
	Quarter
Travel - Airfare	0
Travel - Lodging	350
Parking, Tolls (non-commuting)	0
Meals & Entertainment 50%	330
Meals & Entertainment 100%	50
Health Insurance Premiums	0
HSA Contributions	0
Office Supplies	85
Other 2	0
Allocated to Out of Pocket	815

### Making Payment

Now that the reimbursement is determined, there are two ways to handle this. The most elegant way is to write a check (or make a bank transfer) from the business account to your personal account in the exact amount of the reimbursement. This creates a paper trail that can easily be tied out upon review or examination.

The other way is to reverse out a previous shareholder distribution. Here is a sample journal entry for an S Corp shareholder who took out \$20,000 as a shareholder distribution, but later re-categorized the transaction as distributions, wages and reimbursements.

	<u>DR</u>	<u>CR</u>
Owner Wage Expense	7,000	
Employee Reimbursements	1,950	
Shareholder Distributions		8,950
Totals	8,950	8,950

When the original distribution took place, there was a debit to Shareholder Distributions for \$20,000 and a credit to Cash for the same. We are simply reducing the \$20,000 by \$8,950 so the actual distribution reflects \$20,000 less \$8,950 or \$11,050. No adjustment is made to Cash. Make sense?

If we were putting this transaction into the books from the start, it would look like this starting with the shareholder distribution-

	<u>DR</u>	<u>CR</u>
Shareholder Distributions	11,050	
Cash		11,050
Totals	11,050	11,050

And then the Owner Wage Expense and Employee Reimbursements-

	<u>DR</u>	<u>CR</u>
Owner Wage Expense	7,000	
Employee Reimbursements	1,950	
Cash		8,950
Totals	8,950	8,950

Everything would end up in the same spot- Shareholder Distributions at \$11,050, Owner Wage Expense at \$7,000 and Employee Reimbursements at \$1,950. Cash spent would be \$20,000. The only difference is the first example is a correcting or reversing entry.

This is a slight over-simplification since there would also be a Payroll Tax Expense entry for the company's portion of Social Security, Medicare, Unemployment, etc.

## Splitting Expenses

The above example has all the expense reimbursements lumped together. You are not done- you need to split this out further into the following expense accounts so they are accurately presented on your business tax returns-

- ▲ Home Office
- ▲ Required Communications
- ▲ Internet Connectivity
- ▲ Auto (included Parking and Tolls)
- ▲ Travel
- ▲ Meals and Entertainment 50%
- ▲ Meals and Entertainment 100%
- ▲ Owner Health Insurance Premiums
- ▲ HSA Contributions
- ▲ HRA and LTC
- ▲ <fill the blank, such as Office Expense, Advertising, etc.>

In accounting-speak you would debit the accounts above and credit the Employee Reimbursement temporary expense account (so, at the end of the year it would be zero). In QuickBooks or similar accounting platforms you would split the accountable plan reimbursement transaction into the accounts above.

## Recordkeeping

Proper recordkeeping includes keeping receipts, credit card statements and bank records which demonstrate the date, the amount paid, to whom, and the business purpose. Just a credit card statement without receipts will usually not suffice. Please read Chapter 7 of our book for more information on recordkeeping, Cohan rule for estimating, etc.-

[www.watsoncpagroup.com/kb/28/](http://www.watsoncpagroup.com/kb/28/)

## Assistance and Upload

Remember, spreadsheets are only meaningful to the person who created it. If you need us to walk you through the entries and the math, please let us know. We are happy to show you.

Once you have finalized the worksheet, save a copy for safekeeping but also upload a copy to your business client portal under the Tax folder. Pick a naming convention that makes sense to you- just be sure to include the period such as 2016Q2 or 2016EOY or something to separate the files.

We will use this for future tax projections including S corporation payroll estimates. They will also be used in tax preparation of your business tax returns.