Accountable Plan Quick Guide

For S Corporation Owners

Maximize your deductions. Stay IRS-compliant. Reimburse yourself tax-free.

Tax-Free Reimbursements	Cleaner Documentation	Stronger Audit Support

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A practical client handout for organizing reimbursements, avoiding common mistakes, and keeping S Corporation records clean throughout the year.

Who This Guide Is For

✓ S Corporations
✓ Corporations with employee reimbursements
✓ Shareholder-employees

Special Situations

The following may require different treatment — consult your advisor:

- Partnerships
- Multi-member LLCs taxed as partnerships
- Sole proprietors

Important Note

This guide is provided for general educational purposes only and does not constitute tax, legal, or accounting advice for any specific situation. Tax laws change frequently. Always consult with a qualified CPA or tax advisor before implementing any tax strategy. IRS rules regarding accountable plans are found in IRC §62, §274, and Treasury Regulation §1.62-2.

Schedule a Consultation

Questions about your Accountable Plan or S Corporation tax strategy? We're here to help.

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1. What Is an Accountable Plan?

An Accountable Plan is an IRS-approved reimbursement arrangement under Internal Revenue Code §62(a)(2)(A) and Treasury Regulation §1.62-2. It allows an S Corporation to reimburse a shareholder-employee for ordinary and necessary business expenses paid out of pocket — tax-free and without payroll taxes.

When Properly Administered, Reimbursements Are:

☑ Not taxable income to the shareholder-employee

☑ Not subject to payroll taxes (FICA)

☑ Not reported on Form W-2

☑ Deductible by the S Corporation

WITHOUT a plan:

Reimbursements may be treated as W-2 wages — triggering income tax AND payroll taxes on both sides.

Contrast: What Happens Without an Accountable Plan?

Without a written Accountable Plan, any reimbursements paid to a shareholder-employee may be treated by the IRS as additional W-2 wages. This triggers:

- Federal and state income tax on the reimbursed amounts
- FICA payroll taxes on both the employer side and the employee side
- Additional administrative burden and potential audit risk
- Possible loss of deductions that could have been fully captured

In short: without a proper plan, you pay taxes on money you already spent on legitimate business expenses.

2. Why Every S Corporation Owner Needs an Accountable Plan

Many S Corporation owners routinely pay business expenses from personal accounts — cell phones, internet service, home office costs, mileage for client visits, meals with prospects — and never recover these costs in a tax-efficient way. This is one of the most common and costly oversights in S Corporation tax planning.

Without a Formal Accountable Plan:

- Business expenses paid personally are often lost or under-deducted
- The IRS may reclassify informal reimbursements as taxable wages
- Payroll taxes apply to amounts that should have been tax-free
- Audit risk increases when reimbursements appear inconsistent with payroll records
- Since the Tax Cuts and Jobs Act, employees can no longer deduct unreimbursed employee business expenses as a miscellaneous itemized deduction on their personal returns — making the Accountable Plan the only legitimate path to recover these costs

With a Written Accountable Plan in Place:

- The corporation reimburses the owner completely tax-free
- All eligible deductions are systematically captured
- Proper documentation creates strong audit protection
- The corporation reduces its taxable income dollar-for-dollar on every reimbursement

See Section 8 for an Illustrative Tax Savings Example

A typical S Corporation owner who fully utilizes an Accountable Plan may capture $5,000 – $10,000 or more in annual reimbursements that would otherwise be lost or taxed. Ask your advisor to model the estimated savings for your specific situation.

3. The IRS Three-Part Test: Requirements for a Valid Accountable Plan

Your Accountable Plan Must Meet All Three IRS Requirements

Requirement 1 — Business Connection

Every reimbursed expense must have a legitimate business purpose. The expense must be ordinary and necessary in the conduct of the S Corporation's trade or business. Personal expenses — even if incidental to a business activity — do not qualify and must be excluded from any reimbursement request.

Requirement 2 — Adequate Accounting (Substantiation)

The shareholder-employee must submit documentation to the corporation within a reasonable period after incurring the expense. The IRS safe harbor treats 60 days as the outer limit for adequate accounting purposes. Required documentation must include:

- Date of the expense
- Amount of the expense
- Business purpose — a specific description of why the expense was incurred
- Business relationship — required for meals (names and titles of all attendees)
- Supporting receipt or log (mileage log for vehicle expenses; receipt for all other items)

Requirement 3 — Return of Excess Amounts

If the corporation advances funds to an employee before expenses are incurred and the actual expenses are less than the advance, the excess must be returned to the corporation within a reasonable period. The IRS safe harbor for returning excess advances is 120 days after the expense was paid or incurred.

> **⚠ Critical Warning**
>
> Failure to meet **all three requirements** converts the arrangement into a **non-accountable plan** by default. Every dollar the corporation pays you then flows through your W-2 as taxable wages, is subject to FICA on both sides, and you receive no offsetting personal deduction. There is no partial credit — the plan either qualifies in full or it does not.

Must the Plan Be in Writing?

A written plan demonstrates intent, establishes the reimbursement structure, and provides critical audit protection. All well-advised S Corporations maintain a written plan on file, approved by the board of directors (or documented in corporate minutes).

4. Eligible Expenses: What Can Be Reimbursed?

The following categories of expenses are commonly reimbursable under an Accountable Plan. All reimbursements require supporting documentation. Consult your advisor for treatment of unusual or mixed-use expenses.

🏠 Home Office

- Requires **regular and exclusive business use** of a dedicated space (see Section 7 for full rules)
- Reimbursable amount = (Office sq ft ÷ Total home sq ft) × Eligible home expenses
- Eligible expenses: mortgage interest, property taxes, rent, utilities, homeowners insurance, repairs and maintenance, internet
- *Document:* Annual home office calculation worksheet retained on corporate file

📱 Cell Phone

- Personal cell phones used for business may be reimbursed for the **business-use percentage**
- *Example:* $120/month bill × 75% business use × 12 months = **$1,080/year**
- *Document:* Monthly bills + written business-use percentage estimate

🌐 Internet Service

- Home internet used for business may be partially reimbursed based on business-use percentage
- *Example:* $80/month × 50% business use × 12 months = **$480/year**
- *Document:* Monthly bills + written business-use percentage estimate

🚗 Business Mileage

- Client visits, bank errands, supply runs, travel to temporary work locations
- Use the **IRS standard mileage rate** (confirm current rate with your advisor each year)
- **Commuting from home to a regular place of business is NOT reimbursable**
- *See Section 6 for complete mileage rules and log requirements*

🍽 Business Meals

- Meals with clients, prospects, referral partners, or employees when discussing business
- The corporation reimburses **100%** of the meal expense to the employee
- The corporation's own **tax deduction may be limited to 50%** under IRC §274 for most business meals
- *Required documentation:* date, amount, restaurant name, business purpose, and **names and business relationship of all attendees**

✈ Travel & Lodging

- Business-related overnight travel: airfare, hotel, rental car, parking, tolls
- **Not reimbursable:** personal side trips, spouse or companion expenses unless the spouse is also a bona fide employee with a documented business purpose

📚 Professional Development & Dues

- Continuing education, professional licenses, professional association dues, trade publications, industry subscriptions
- Must be **ordinary and necessary** for the business

💻 Software & Subscriptions

- Business-use software, cloud services, SaaS tools, industry-specific applications
- For mixed personal/business use, apply a documented business-use percentage

🖨 Office Supplies & Equipment

- Printer ink, paper, postage, toner, pens, small equipment used for business purposes
- Retain all receipts; note business purpose for non-obvious purchases

5. Top 10 Expenses Owners Forget

☑ Top 10 Missed Reimbursements

- Home office
- Cell phone
- Internet
- Mileage
- Parking
- Tolls
- Software subscriptions
- Professional dues
- Continuing education
- Small office supplies

6. Business Mileage: What Counts and What Doesn't

☑ Reimbursable Mileage

- Travel to client meetings (provided your home is your principal place of business, or travel originates from your office)
- Travel to **temporary work locations**
- Bank deposits, post office runs for business purposes
- Travel to purchase business supplies
- Travel between **multiple business locations**

✕ Not Reimbursable

- **Commuting** from home to your regular office or primary place of business — this is never deductible regardless of distance
- Personal errands combined with a business trip — only the **business portion** qualifies; the personal detour mileage must be excluded

Mileage Log Requirements (IRC §274(d))

The IRS requires a **contemporaneous mileage log** — meaning recorded at or near the time of each trip, not reconstructed later. Every mileage reimbursement must be supported by a log showing:

- **Date** of travel
- **Starting point** and **destination**
- **Business purpose** of the trip
- **Odometer readings** OR total miles driven for that trip

💡 Tip: Mileage Tracking Apps

Apps such as **MileIQ**, **Everlance**, or **TripLog** can automatically track mileage via GPS and generate IRS-compliant reports. These tools substantially reduce audit risk by producing contemporaneous, timestamped records with minimal manual effort.

Standard Mileage Rate

The IRS adjusts the standard mileage rate annually. For reference, the 2026 business mileage rate is **72.5 cents per mile** (up from 70 cents in 2025). Always confirm the current rate with your advisor at the start of each year before submitting mileage reimbursements.

Year	Business Rate (per mile)	Note
2025	70.0 cents	Prior year rate — use for 2025 reimbursements
2026	72.5 cents	Current rate — confirmed by IRS Notice 2026-10

7. Home Office Reimbursement: The Exclusive-Use Requirement

The home office is one of the most valuable — and most scrutinized — categories under an Accountable Plan. To qualify, the space must satisfy **both** of the following conditions:

1. **Regular use** — The space must be used for business on a consistent and ongoing basis, not just occasionally
2. **Exclusive use** — The space must be used *only* for business; any personal use of the same physical space disqualifies the entire area

⚠ The Exclusive-Use Rule Is Strictly Applied

If the space is also used for personal activities — a TV room, guest bedroom, children's homework area, or general storage — it does **not qualify**, even if business use is frequent. The space must be a dedicated business space only.

Calculating the Reimbursable Amount

Follow these four steps each year to determine your home office reimbursement:

3. Measure the **office square footage**
4. Divide by **total home square footage** to calculate the business-use percentage
5. Apply that percentage to each **eligible annual home expense**
6. Submit the total calculated amount to the corporation on the reimbursement form with the supporting worksheet

Sample Home Office Calculation

Example: 200 sq ft office ÷ 1,667 sq ft total home = approximately 12% business use. Internet uses a separate 50% business-use estimate.

Expense	Annual Amount	Business %	Reimbursable Amount
Mortgage Interest	$12,000	12%	$1,440
Property Taxes	$4,800	12%	$576
Utilities	$3,600	12%	$432
Homeowners Insurance	$1,800	12%	$216
Internet Service	$960	50%	$480
Repairs (whole-home)	$2,000	12%	$240
TOTAL	**$25,160**	**—**	**$3,384**

Note: Internet service may use a separately justified, higher business-use percentage than the room-square-footage ratio. Document your rationale in writing.

8. Putting It All Together: Illustrative Annual Savings

The table below illustrates what a typical S Corporation owner might submit for reimbursement under a fully utilized Accountable Plan. These are **illustrative figures only** — your actual amounts will vary based on your personal situation.

Expense Category	Illustrative Annual Reimbursement
Home Office (12% of eligible home expenses)	$3,384
Cell Phone (75% business use)	$1,080
Internet Service (50% business use)	$480
Business Mileage (1,500 miles @ 2026 rate)	$1,088
Business Meals	$1,200
Software & Subscriptions	$720
Professional Dues & Continuing Education	$600
TOTAL ILLUSTRATIVE REIMBURSEMENTS	**$8,552**

What This Means for You

These reimbursements flow through the S Corporation as a fully deductible business expense and are received by you **completely free of income tax and FICA**. At a combined federal and state marginal rate of 35%, the tax savings on $8,552 in reimbursements could be approximately **$2,993 per year** — without taking on any additional risk or complexity.

Your actual savings depend on your specific tax rate, state of residence, and reimbursable expense profile. **Consult your advisor for a personalized estimate.**

9. How the Process Works: Step by Step

Following this workflow on a consistent basis — quarterly is recommended — ensures your plan remains compliant and your documentation is always current.

Step 1 — Incur the Expense

Pay the business expense from your **personal account or personal credit card**. Keep the receipt or confirmation at the time of purchase.

Step 2 — Collect Documentation

Gather all receipts, credit card statements, mileage logs, and any required substantiation (meal attendees, business purpose notes).

Step 3 — Complete the Reimbursement Form

Fill out the company's expense reimbursement form listing each expense, its date, amount, and business purpose. Attach all supporting documentation.

Step 4 — Submit to the Corporation

Submit the completed form with supporting documentation to the corporation. **This step is required even if you are the sole shareholder.** The paper trail between you-as-employee and the corporation-as-employer must exist.

Step 5 — Corporation Issues Reimbursement
The corporation issues a check or ACH transfer to you in the exact amount of the documented expenses. Do not pay more or less than what is documented.

Step 6 — Corporation Records the Expense
The reimbursement is recorded on the corporation's books as a business expense (e.g., "Home Office Expense," "Vehicle Expense," "Meals & Entertainment") — not as compensation or a distribution.

Step 7 — Retain Records
Keep all documentation for a **minimum of 3 years** from the date the tax return is filed. For significant items (home office, large equipment), **7 years is recommended**. Digital copies are acceptable but must be legible and complete.

Recommended Submission Frequency

Submit reimbursement requests **quarterly** — or at a minimum **annually, before tax return preparation begins**. Quarterly submissions keep documentation current, satisfy the 60-day substantiation window, and prevent year-end scrambles.

10. Typical Reimbursement Timeline

Quarterly Reimbursement Example — Use this as a planning rhythm for client reminders and record collection.

Quarter	Submit By
Q1 Jan–Mar	April 30
Q2 Apr–Jun	July 31
Q3 Jul–Sep	October 31
Q4 Oct–Dec	January 31

11. Ten Common Accountable Plan Mistakes to Avoid

1. No Written Plan in Place

Verbal arrangements provide no meaningful protection. A signed, written Accountable Plan document — ideally referenced in corporate minutes — is essential. Without it, you cannot demonstrate to an IRS examiner that a formal arrangement existed.

2. Reimbursing Without Receipts

Every reimbursement must be supported by contemporaneous documentation. Estimates and reconstructed receipts are highly vulnerable in an audit and are frequently disallowed.

3. Reimbursing Personal Expenses

Only ordinary and necessary business expenses qualify. Including personal costs — groceries, clothing, personal entertainment — invalidates those reimbursements and can call the entire plan into question.

4. Missing Mileage Log

IRC §274(d) specifically requires a contemporaneous mileage log. Logs reconstructed from memory at year-end are frequently challenged and disallowed by IRS examiners.

5. Reimbursing Commuting Miles

Travel from your home to your regular office is non-deductible commuting — not business travel — regardless of the distance. This rule applies even if you work from home and your office is nearby.

6. Skipping the Home Office Worksheet

The annual home office calculation must be supported by a documented worksheet showing actual square footage and actual annual expenses. Estimated percentages without calculations are difficult to defend.

7. Paying Expenses Directly From the Corporate Account

The Accountable Plan primarily applies when an owner or employee personally incurs a business expense and later seeks reimbursement. Expenses paid directly by the corporation generally do not require reimbursement through an Accountable Plan.

8. Not Returning Excess Advances

If the corporation advances funds that exceed actual documented expenses, the excess must be returned within 120 days. Failure to return excess advances causes the entire plan to lose its accountable status.

9. Submitting Expenses Late

Expenses should be substantiated and submitted within 60 days of being incurred. Year-end dumps of 12 months of expenses weaken the plan's credibility and may fall outside the IRS safe harbor window.

10. Failing to Document Meal Attendees

IRS regulations require the names and business relationships of all persons present at a business meal. A receipt alone — even with a large dollar amount — is not sufficient. Missing attendee information is one of the most common audit adjustments for meal expenses.

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12. Accountable Plan Annual Compliance Checklist

Complete This Checklist Before Each Tax Year-End

Review each item with your CPA. Flag any items marked incomplete for immediate follow-up. This checklist does not constitute tax advice — it is a practical planning tool only.

PLAN FOUNDATION

☐ Written Accountable Plan document is in place and signed by the appropriate corporate officer

☐ Plan has been reviewed or reaffirmed for the current tax year

☐ Corporate minutes or a board resolution references and authorizes the Accountable Plan

DOCUMENTATION

☐ All receipts collected and organized (meals, travel, supplies, software, professional dues)

☐ Mileage log maintained consistently throughout the year and is complete

☐ Home office square footage documented with a floor plan or measurement record

☐ Annual home office expense worksheet completed with actual amounts

☐ Cell phone and internet business-use percentages documented in writing with rationale

☐ Business purpose noted on all meal receipts (attendees, titles, and purpose of meeting)

REIMBURSEMENT PROCESS

☐ Expense reimbursement forms completed and signed for each submission period

☐ Reimbursements recorded on corporate books as business expenses (not compensation)

☐ No personal expenses included in any reimbursement request

☐ Any corporate advances reconciled and excess amounts returned to the corporation

MILEAGE

☐ Contemporaneous mileage log maintained throughout the year (not reconstructed)

☐ Commuting miles excluded from all reimbursement requests

☐ IRS standard mileage rate confirmed for the current tax year

HOME OFFICE

☐ Office space used regularly and exclusively for business throughout the year

☐ Business-use percentage calculated from actual, measured square footage

☐ Annual home expenses compiled: mortgage interest, property taxes, utilities, insurance, internet, repairs

☐ Internet business-use percentage separately documented and justified

YEAR-END

☐ All expenses submitted to the corporation before year-end (or within 60 days of being incurred)

☐ Total reimbursements reconciled to the corporate expense ledger

☐ All documentation retained and organized for potential audit (minimum 3 years; 7 years recommended for significant items)

☐ Unusual items, large expenses, or new expense categories flagged for discussion with your CPA

☐ Reimbursements confirmed as **not** included in W-2 wages for the year

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