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Expertise

July 1, 2016

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When the summer travel season kicks off, some employees like to add a little pleasure to their businesses by tacking on personal travel time to a business trip. This can sometimes make it difficult to track authorized travel and related expenses and reimbursements. To make sure everyone is on the same page ? companies should make sure they have a well-defined travel policy that clearly outlines what is considered authorized business travel, what expenses are covered by the company (pre-paid and reimbursable) and those that are not, and how and when reimbursements are made.

The IRS defines travel expenses as the ?ordinary and necessary expenses of traveling away from home for your business, profession, or job.? There are also specific rules for how and when an employee can be reimbursed for those expenses. To be considered an ?accountable plan? under federal tax laws, a company?s reimbursement or allowance arrangement (expense policy) must include the following rules:

- Reimbursements can only be made for business expenses incurred by the employee in connection with the performance of the employee?s duties;
- An expense advance must be made within 30 days of when an expense is paid or incurred;
- Employees are required to substantiate their expenses within a reasonable period of time (within 60 days after the expense is incurred); and
- Employees must be required to repay any reimbursements which exceed substantiated expenses within a reasonable period of time (within 120 days after an expense is incurred).

A travel and expense policy should define the items that are considered reimbursable or can be prepaid as well as the procedures for reporting covered expenses and when possible, have employees sign the procedures in acknowledgment. The policy should indicate that changes to the rules or guidelines can be made by the company according to business needs as well as outline corrective actions if rules are violated. Most importantly, travel and expense policies should have an extensive auditing process.

With the growing popularity of workplace policies such as unlimited vacations, and the ability of employees to work virtually from just about anywhere, the boundaries between professional and personal travel will continue to blur. The difference between business and personal expenses, however should always be crystal clear. The

cost of travel and related expenses can easily get out of control if they are not closely monitored. Expense policies should account for common circumstances such as how to identify and separate travel costs for non-employees (spouses or other family members). It is also a good idea for employers to ask workers to pre-authorize any business travel plans and remind employees that personal expenses such as those incurred during a vacation added to a business trip are not authorized expenses and will not be reimbursed.

Lastly, before implementing a travel and expense policy, consider the company culture and your workforce. If work teams in your company are typically made up of independent self-starters, it is more likely that those employees will arrange for coverage prior to extending a business trip and know how to account for authorized travel expenses without much direction. In that case, a highly regulated travel and expense policy and strict reporting procedures may not be the best fit.

A practical first step for a company is to consult with an HR professional who can help with both the legal issues involved and the culture fit considerations when crafting any workplace policy.

Topics:

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