



Information Announcement

Year End Procedure for Taxable Employee Expense Reimbursements

October 17, 2017

The Office of the State Comptroller (OSC) has recently released [Bulletin #1596](#) to provide agencies with the 2017 calendar year-end procedures for taxable travel reimbursement.

To avoid under-withholding of income taxes for 2017 and subsequent deductions for Social Security and Medicare tax deficiencies in 2018, **Agencies should work with their employees to accelerate the submission of Expense Reports to SFS so that these are received, audited and paid no later than November 30, 2017.**

Taxable travel reimbursements include:

Excess Personal Car Mileage (PCM) Reimbursements and Excess Per Diem Payments:

- IRS rules relating to employee business expense reimbursements require withholding and Form W-2 reporting on any excess amounts paid.
- “Excess amount” is the portion that is greater than the applicable Federal rate and not substantiated by receipts.
- The 2017 maximum rate allowed by IRS for PCM is 53.5 cents per mile effective from January 1, 2017 through December 31, 2017.
- Current maximum Federal per diems for the continental U.S. can be found in the Guide to Financial Operations [Chapter XIII Section 4.E](#).

Non-Overnight Meal Allowances:

- The IRS requires employers to report and withhold income and employment taxes from meal allowances for non-overnight travel (day trips).

Employee Payments Taxable Under the IRS One-Year Rule:

- The IRS requires employers to report travel reimbursements and withhold income and employment taxes if employment away from home at a single location is realistically expected to last for more than one year.

Further explanations of rules for excess PCM, Per Diem Amounts, Non-Overnight Meal Allowances and One-Year Rule can be found in the Guide to Financial Operations [Chapter XIII Section 4.E](#).

OSC Actions:

Each month, taxable travel reimbursement data is transferred from the Statewide Financial System (SFS) to PayServ and the amount is reflected on the employee's paycheck advice or pay stub as a "Taxable Expense" (Earnings code TXE). The final transfer of taxable travel reimbursements for 2017 will occur on November 30, 2017, and will include all reimbursements paid by SFS from November 17, 2017 through November 30, 2017. The reimbursements will be reflected as "Taxable Expense" on the advices or pay stubs of the Administration and Institution paychecks dated December 13, 2017 and December 21, 2017, respectively.

Year End - Any taxable travel reimbursement paid by SFS from December 1, 2017 through December 31, 2017 will be handled differently in PayServ. Taxable travel reimbursements are subject to income and employment taxes; however, these "Taxable Expense" items will not have taxes withheld in 2017, as the expense will not be reflected in employee paychecks. Instead, the automated process will add these amounts to the employee's reportable taxable income in box 1 on the employee's 2017 Form W-2.

Social Security/Medicare tax deficiency deductions will be initiated in early 2018 for any "Taxable Expense" that did not have taxes withheld in 2017. Employees who paid the maximum amount of Social Security tax (\$7,886.40) for 2017 will only have a deduction for the Medicare tax deficiency in a 2018 paycheck.

Tax Information:

Taxable Employee Expense Reimbursements are considered taxable fringe benefits. As such, they are supplemental taxable income, will be added to the employee's taxable gross wages, for tax withholding purposes, and are subject to employment and income taxes.

Federal, State and New York City income tax withholding will be calculated using the Aggregate method. Yonkers income tax withholding will be calculated using the Flat Rate method. Yonkers Flat Rate Withholding is 1.61135% for Yonkers residents and 0.50% for Yonkers non-residents.

For any questions regarding this announcement, please contact the BSC Payroll Unit at BSCPayrollAdmin@ogs.ny.gov or (518) 457-4272.