

## INTEROFFICE MEMORANDUM

**TO:** Ray Novak – Provost’s Office

**FROM:** Lisa LeMontague

**DATE:** March 2, 2000

**RE:** Tax Treatment of Travel Expense Reimbursements for Recruits

To assist in recruiting new employees, the University may reimburse prospective employees for travel expenses incurred in the recruiting process.<sup>1</sup> Alternatively, the University may pay a vendor directly for an expense incurred by a recruit (e.g., the University may pay a New Haven area hotel for a recruit’s lodging expense). Based on the Tax Department’s conversations and email correspondence with the Provost’s office, travel expenses may be incurred by a recruit for a variety of purposes including traveling to the New Haven area to interview with University personnel, to meet with colleagues, to research housing options, etc. The Provost’s Office has requested guidance as to the tax treatment of such reimbursements.

### Reimbursement Without Required Receipts

In accordance with University Policy 3301 and Procedure 3301 PR.0, travel expenses must be substantiated by receipts. (Please refer to the policy and procedure for more details on and exceptions to the travel expense substantiation requirement.) Reimbursement of travel expenses without the documentation required by University policy constitutes an exception to University policy and must be approved by a University officer or designee. Travel expense reimbursements without the required documentation will be treated as taxable income to the recruit, even if the reimbursement is approved by a University officer or designee.

### Reimbursement With Required Receipts

The chart that begins on page 3 addresses the federal<sup>2</sup> income tax treatment of reimbursing recruits’ travel expenses that are adequately substantiated in accordance with University policies and procedures.<sup>3</sup> The chart also applies to travel expenses paid directly to a vendor by the University on a recruit’s behalf.

To use the chart, determine the purpose for which the recruit’s travel expenses were or are to be incurred and find the corresponding description in the first column of the chart. It is possible that

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<sup>1</sup> Reimbursement of a recruit’s travel expenses is authorized by Yale University Policy 3301, *Traveling on University Business*, section 3301.1, E. It is assumed for purposes of this memo that recruits travel to the University at the University’s invitation and that approval for reimbursement of their travel expenses is granted in advance of their incurring the expenses.

<sup>2</sup> The rules for state income tax withholding and reporting generally follow the federal rules outlined in this memo.

<sup>3</sup> Different rules may apply to payments to non-U.S. residents. See Policy 3415.

a single trip may be described by two or more different categories in the chart. For example, a recruit may travel to the University to interview with faculty and bring his/her spouse along to interview with other area employers. If one of the purposes for the visit is not taxable and another purpose is taxable, an allocation of expenses between the taxable and non-taxable purposes must be made. Please contact the tax department for assistance with allocating the expenses of a multiple-purpose trip. Also, if the purpose of the travel is not described in the chart, please contact the Tax Department for assistance.

The chart's second column indicates whether travel expenses incurred for each purpose are taxable. In general:

- Reimbursements that are not taxable according to the chart are not reported to the IRS and no tax is required to be withheld from the payment.
- Reimbursements that the chart indicates are taxable are treated as taxable income, are subject to tax reporting requirements and are subject to withholding when the amounts are considered wages.<sup>4</sup>

*Expense Reimbursements Not Permitted Under University Policy.* The rules outlined in the chart apply to travel expenses (e.g., meals, lodging, airfare, etc.) that are described in University Policy 3301 as reimbursable business travel expenses. Among other restrictions outlined in that policy, it states that travel expenses must be reasonable<sup>5</sup> and business related.<sup>6</sup> Reimbursement of expenses that are not permitted under University policy (but which have been approved by an officer as an exception to University policy) may result in taxable income to the recruit. Please contact the Tax Department regarding the tax treatment of any such reimbursement.

*Moving Expenses.* As indicated in the chart and accompanying notes, travel expenses that are considered "moving expenses" by the IRS are subject to different rules than other travel expenses.

- Please refer to the Tax Department memo dated 8/3/98 re: *Income Tax Reporting and Withholding of Moving Expense Reimbursements* for a summary of the IRS rules on moving expense reimbursements.
- See also the *Personnel and Policies Practices Manual* (Section 103.4) and the *Faculty Handbook – Jan. 1993* (Section XII, B) regarding the University's policies on reimbursement of moving expenses.

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<sup>4</sup> Taxable reimbursements to a recruit who **has not** accepted the University's offer of employment are paid through Accounts Payable and are generally subject to reporting (on Form 1099-MISC) but not withholding. Taxable reimbursements to a recruit who **has** accepted the University's offer of employment are paid through Payroll as wages and are subject to reporting and withholding. Wages are normally subject to FICA tax, federal income tax withholding and state income tax withholding and must be reported to the IRS and the appropriate state tax authorities on Form W-2.

<sup>5</sup> For example, a three-night stay in a hotel would probably not be a reasonable expense if the sole purpose of the recruit's visit was to attend a series of interviews and business meetings that took place during a single day.

<sup>6</sup> For example, the policy states that in-room movies are a personal rather than business expense.

*Procedures for Obtaining Expense Reimbursement.* In general, taxable payments to employees are processed through Payroll. Non-taxable expense reimbursements to employees are processed through Accounts Payable as are reimbursements (both taxable and non-taxable) to non-employees.<sup>7</sup> Please refer to the appropriate University Procedures (e.g., Procedures 3401 PR.1, *Employee Reimbursements*, 3401 PR.2, *Check Request*, and 3501 PR.21, *Extra Compensation*) or contact these departments directly with questions relating to the specifics of processing taxable and non-taxable expense reimbursements.

### **Tax Treatment of Travel Expense Reimbursements for Recruits**

<b>Purpose for Incurring Travel Expenses</b>	<b>Taxable?</b>
A. The recruit travels to New Haven to interview with University personnel, meet with faculty, tour University facilities, etc. (prior to accepting the University's offer of employment).	No
B. Prior to accepting the University's offer of employment, the recruit visits New Haven to investigate housing, schools, etc.	Yes
C. Prior to accepting the University's offer of employment, the recruit visits New Haven for additional/follow-up job-related meetings and also investigates housing, schools, etc.	No
D. Prior to accepting the University's offer of employment, the recruit's family (spouse and/or children) visits the New Haven area to investigate housing, schools, etc.	Yes <sup>8</sup>
E. After accepting the University's offer of employment, the recruit (with or without his/her family) visits the New Haven area to investigate housing, schools, etc.	Yes
F. The recruit's <i>spouse</i> travels to New Haven to interview with University personnel in connection with the spouse's potential employment at the University.	No
G. The recruit's <i>spouse</i> travels to New Haven to interview with other area employers.	Yes

<sup>7</sup> Different rules may apply to payments to non-U.S. residents. See Policy 3415.

<sup>8</sup> If the recruit visits New Haven for job-related meetings and his/her family accompanies him/her on the trip, the additional expenses incurred due to the family's presence on the trip would be taxable. Please contact the Tax Department for assistance with determining the taxable portion of the reimbursement.

H. After accepting the University’s offer of employment and before moving to the New Haven area or officially commencing work as a University employee, the recruit travels to New Haven for a job-related visit to meet with colleagues, set up his/her office, etc.	No
I. The recruit and his/her family move to the New Haven area around the time that the recruit commences work as a University employee.	No (“qualified” expenses)  Yes (“non-qualified” expenses) <sup>9</sup>
J. Upon moving to the New Haven area to commence work, the recruit (and/or his/her family) incurs temporary lodging expenses while waiting to move into his/her/their new residence.	Yes
K. The recruit commences work as a University employee and incurs expenses in traveling between his/her previous home and the University/New Haven area for several weeks or months until the recruit obtains a residence in the New Haven area.	Yes
L. The recruit commences work as a University employee and incurs expenses in traveling between his/her New Haven area home and his/her former area of residence (e.g. to visit family members who still reside in the area of his/her former residence).	Yes
M. The recruit commences work as a University employee but does not move to the New Haven area. He/she incurs expenses in traveling between his/her home (e.g., in New York) and the University. He/she also incurs meals and lodging expenses each time he/she stays in the New Haven area.	Yes <sup>10</sup>

<sup>9</sup> Refer to Tax Department memo dated 8/3/98 re: *Income Tax Reporting and Withholding of Moving Expense Reimbursements* for an explanation of qualified and non-qualified moving expenses (e.g., meals are not a qualified moving expense).

<sup>10</sup> There is a limited exception to the general rule that this is a taxable reimbursement. When an employee’s residence and principal place of business are not in the New Haven area, the employee’s job at the University may constitute a secondary work location. Travel to and from a secondary work location is considered a business expense (not taxable if reimbursed) rather than a commuting expense (taxable if reimbursed). Due to the complexity of the tax rules in this area, please contact the University Tax Department for assistance if you think this type of situation may exist.

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