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BUSINESS

By Jamie Herzlich

Elimination of tax deduction for business expenses could cost workers

The tax overhaul wiped out the deduction for unreimbursed business expenses. Some companies might choose to ease the burden by setting up plans to reimburse their employees, experts say.

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Employees whose companies don't reimburse them for certain business expenses will potentially lose out come tax time.

The Tax Cuts and Jobs Act eliminates the deduction for certain unreimbursed business expenses and miscellaneous itemized deductions for tax years 2018 through 2025. Some employers might consider helping ease the burden.

“Employees are going to be in for a big surprise when they file their 2018 returns,” says Barbara Weltman, a Vero Beach, Florida-based small-business tax specialist and author of "J.K.

Lasser's Small Business Taxes 2018" (Wiley; $22.95). “In this tight job market, where employers are looking for every edge to find and retain great employees, they should look for ways to help their employees cover business expenses.”

Prior to the passage of the tax overhaul, employees were allowed to deduct certain qualified unreimbursed business expenses and certain other miscellaneous itemized deductions that exceeded 2 percent of their adjusted gross income, she says.

So if your AGI was $50,000, you could only claim a deduction for qualified expenses that exceeded $1,000.

Previously eligible unreimbursed business expenses included travel and mileage, meals, subscriptions, work clothes/uniforms, union dues and certain other items, including tax preparation fees, Weltman says.

With the deduction eliminated, employers should review their employee classifications because certain workers treated as “statutory employees” can still write off their business expenses on Schedule C, Weltman says.

For all others, it pays for an employer to consider setting up a so-called "accountable plan," she says.

An accountable plan is a vehicle through which to reimburse employees that has certain benefits: Employees aren't taxed on reimbursements and employers can claim a deduction on expenses reimbursed through the plan, says Jeffrey Cohen, partner and tax services leader at Grassi & Co., a Jericho-based CPA firm.

"An accountable plan doesn't have to be presented to the IRS," he says. "It just has to exist within the organization as a document."

Expenses would have to be documented by employees through regular expense reports, he says.

Many mid-to-large-sized companies Grassi works with — and Grassi itself — have an accountable plan set up, Cohen says.

He uses an app, Spend Manager, which takes pictures of his business receipts that are then automatically submitted to the firm's accounting department.

"I think the smaller companies are now going to have to change to doing what the larger companies are and offer pre-tax benefits," he says.

The individual tax deduction that's been eliminated had some limitations, says Carolyn Mazzenga, managing partner of the Melville office of Marcum LLP, an accounting and advisory firm.

"Typically higher wage earners would not have gotten as much if any benefit from unreimbursed employee business expenses" because of the 2 percent AGI threshold, she says.

Also, itemized deductions such as unreimbursed employee business expenses are not deductible for those employees subject to the alternative minimum tax, typically higher wage earners, Mazzenga says.

Marcum has an accountable plan for employees that reimburses such expenses as mileage to and from client offices and travel expenses, and has an automated expense program to keep track of expenses, she says.

You can establish an accountable plan at any time, says Daniel Smogor, a tax partner in the South Bend, Indiana, office of Kruggel Lawton CPAs.

To qualify as "accountable," your plan must meet the following criteria: Payments must be for "ordinary and necessary" business expenses; employees must substantiate these expenses — including amounts, times and places; and employees must return any advances or allowances they can't substantiate within a reasonable time, he says.

So educate employees on what's required and set expectations, informing them if there are any reimbursement caps, he says.

"There's a number of small businesses that are putting caps on the amount they will reimburse," says Smogor. "But even covering partial expenses can help."