CP+PLUS PROGRAM WHITE PAPER

The purpose of the CP+PLUS Program is to allow Employers the opportunity to outsource the administration and provide tax-free reimbursements to their Employees for work related expenses that employees paid for out of his/her own personal funds for items that are used for the sole benefit of their employer. The tax-free reimbursements are to be paid to employees pursuant to a working condition fringe benefit plan under Treas. Reg. Section 1.132-5(a)(1)(v) and an accountable plan under Treasury Regulation Section 1.62-2(c)(1). Such reimbursements for the business-related expenses would qualify under Treas. Reg. Sec 1.62-2(c) (4). Also, I.R.C Section 61 and Section 62 (a)(2)(a).

TAX LAW HISTORY
TAX CODE-SECTION 61 AND SECTION 62

LAW AND ANALYSIS
Section 61 of the Internal Revenue Code (Code) defines gross income as all income from whatever source derived.
Section 62(a) defines adjusted gross income as gross income minus certain deductions.
Section 62(a)(2)(A) provides that, for purposes of determining adjusted gross income, an employee may deduct certain business expenses paid by the employee in connection with the performance of services as an employee of the employer under a compliant reimbursement or other expense allowance arrangement.

Gross Wage Allocated and Converted by the Employer and Employee
It is indisputable that money can be allocated from gross wages and converted into a non-taxable reimbursement arrangement. Once the money is set aside and totally controlled by the employer, the reimbursement plan must follow the rules of an Accountable Reimbursement Plan to be tax-free for both the employee and employer.

PAYROLL TRANSACTION
To comply with the money allocated and converted into the tax-free reimbursement arrangement, the plan is clearly recognized on the employee's paycheck stub. Per plan year pay periods, the plan clearly shows on the employee's paycheck stub throughout the

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plan year, the employee's annual gross wage divided equally by the number of plan year pay periods. In addition, to comply with tax law, included on the paycheck stub it clearly shows the expected annual amount of business expenses divided equally by the number of pay periods for the amount allocated and converted into the tax-free reimbursement arrangement. Once determined, this amount cannot be reduced during the plan year. This process demonstrates the employee's adjusted gross wage and the amount of money put aside for their accountable reimbursement arrangement.

POLICY

Requirements include:

1. Business connection requirement - Advances, allowances or reimbursements are only for allowable business expenses that are paid or incurred by the individual in the course of conducting company business.
2. Substantiation requirement - The individual must substantiate each out-of-pocket business expense with a detailed record within a reasonable period of time (60 days). a. The equivalent of the original receipt(s) with amount of each business expenditure b. Dates of expenditure and location c. Business purpose
3. Return of funds requirement – All money advanced to the employee that is not substantiated during the plan year, will need to be returned to the employer under the Return-of-Excess rules. If the money is not returned by the employee, the money will be converted to a taxable wage on the employee's W-2.

If an arrangement meets the requirements of paragraphs 1, 2, and 3 of this section, all reimbursements are treated under the accountable plan rules. These amounts are reimbursed and excluded from the individual's gross income.

GUIDELINES

RECEIPT REQUIREMENTS

A. Original or E-receipts are required for all expenses. EXCEPTIONS: union dues if supplied by the company payroll department. Monthly Cell Phone Bill and Home Internet Bill if applicable under $75 per month. Employee will be reimbursed 100% for their Cell Phone, as long as the plan does not have a unique charge, such as unlimited international calling. In such a case the bill will be adjusted accordingly.
B. It will be determined on a case-by-case basis the value for Home Internet use.
C. Where applicable, Cell Phone and Home Internet bills only need to be submitted once annually.
D. Mileage logs must be turned in with proper reason for business use at a minimum of once a month. Supervisor must approve employee mileage logs.

E. Entertainment expenses must be approved by supervisor before submission to be reimbursed.

RECEIPT SUBMITTAL PROCESS

All employees will receive a Personal On-line Portal where they can upload and view their receipts.

- All employees will have the opportunity to upload an app on their phone where they can easily take a picture of their receipt and upload it into their online file.
- All employees will have the opportunity to email receipts directly to their administrator.
- All employees will have the opportunity to fax receipts directly to their administrator.

All receipts must be turned in within 60 days of when the expense incurred, along with a 30-day safe harbor according to the rules of the IRS. Except at the end of the plan year, where the employee must turn in all receipts with 60 days, with no additional 30-day safe harbor. In addition, the employer has the right to require all receipts to be turned in within the plan year.

RECEIPT PROCESS

Once the administrator has received the employee receipt for their out-of-pocket business expense, their receipt will be reviewed and if approved employee will be notified by email within seven working days.

If the receipt is not approved for whatever reason employee will be notified within seven days by email and will have the ability to explain why this was a business-related expense.

Every time an employee receipt is approved, the employee will be notified of its approval. A copy of the receipt(s) will be sent back to them and any remaining balance they have on their account. This allows the employee to always know what their remaining account balance is for the plan year.

PLAN YEAR END

At the end of the plan year if the employee has a remaining balance on their account, this means they were advanced more money tax-free for their estimated business expenses then they submitted with receipts. The rules of Return-of-Excess will apply.

PLAN FEES

In most cases the employees will pay the administration fee for the plan. The plan fees will be payroll deducted equally throughout the plan year.

Monthly, the employer will run a Plan Fee Report and submit a check to the administrator for the monthly plan fees. If the employer will email the plan report to the administrator for the month, the employer will not have to reconcile the bill.

TERMINATION OF EMPLOYEE

When an employee is terminated from the plan during the plan year, the employer should notify the administrator immediately. This will allow the administrator to let the employee know if they have a remaining balance on their account and to immediately turn in any final substantiation documents. Any remaining balance on the employees account will be returned to the employer under the Return-of-Excess rules.

In most cases, the majority of employees will not have a remaining balance since most of their expenses are already fully substantiated. Such as, cell phone, home Internet and association dues.

REPORTS

At the end of the plan year, the administrator will provide a report to the client that their CPA will need for their chart of accounts. The administrator will detail the total annual amount of expense reimbursements by category, so the CPA can post the expenses to the proper ledger accounts.

FOR ANY QUESTIONS PLEASE CONTACT US DIRECTLY:
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