

THE CALIFORNIA STATE UNIVERSITY

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To: CSU Presidents

From: Samuel A. Strafaci
Interim Senior Director
Human Resources

Subject: EXECUTIVE ENTERTAINMENT ALLOWANCE ACCOUNTABLE PLAN

Working with Human Resources, the State Controller's Office (SCO) is conducting a review of fringe benefits and employee business expenses to ensure compliance with federal and state requirements. One benefit, the monthly entertainment allowance provided to executives by the Trustees, in its current form, represents a taxable and reportable benefit. However, if the California State University (CSU) adopts and applies an Accountable Plan for Executive Entertainment Allowances, the allowance payments become non-taxable, non-reportable income. Under tax law, only the employer, CSU, can decide whether reimbursements will be paid via an accountable plan or non-accountable plan.

This memorandum is to advise you that effective immediately, the CSU has adopted an Accountable Plan for Entertainment Allowances and each campus shall administer plan provisions and reporting processes as follows:

1. Business Connection: Entertainment allowance expenses must be for tax deductible, ordinary and necessary business expenses directly related to or associated with the active university's business. Other expenses are also covered wherein the executive need not show that expenses are directly related to or associated with the university's business. These exceptions are addressed in the attached IRS Publication 463 and Commerce Clearing House information. **NOTE:** The IRS 50% tax deduction limit on meal and entertainment expenses does not apply to reimbursements paid under an accountable plan.
2. Substantiation: Executives must submit documentary evidence monthly to the designated business officer to substantiate the amount, time, place and business purpose of the entertainment expenses. Documentary evidence includes receipts, canceled check, bills, etc., for all entertainment expenses allowance amounts received.

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Distribution: All with Attachments

Vice Presidents, Administration
Chancellor's Office Executives
Chancellor's Office Accounting Director

3. Returning Amounts in Excess of Expenses: Executives shall return to the designated business officer any monthly amounts received in excess of those substantiated each month. The excess amount must be returned no later than 120 calendar days after the allowance was paid.

NOTE: Failure to meet any of the three criteria above results in taxable and reportable compensation. For example, an entertainment expense allowance is provided under the above accountable plan. However, if an executive does not return excess amounts within the 120 day schedule, the excess amount is treated by federal and state tax authorities as taxable/reportable compensation. This amount must be reported by the campus to the state Controller's Office as taxable income in accordance with Payroll Procedures Manual Section 1-160-165. Applicable federal income, Social Security/Medicare and state income taxes will be withheld from the executive's subsequent, regular payroll warrant.

If you have any questions regarding the information in this memorandum, please do not hesitate to contact Cathy Robinson, Senior Director, Human Resources Administration, at (562) 985-2657. Thank you.

SAS/cr

Attachments