

THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4275
(562) 951-4000

Date: April 20, 1999 **Code:** AD 99-06
To: Vice Presidents for Administration
From: William P. Musselman
Acting Accounting Director
Business and Finance
Subject: Payroll Letter 98-038 Clarification

Payroll Letter 98-038, issued on December 1, 1998 by the State Controller's Office addressed the taxability and reporting of certain meal reimbursements for travel less than 24 hours. To separate this issue with other closely related topics, it is important to clarify the scope of the Payroll Letter.

The Payroll Letter applies only to meal reimbursements given to employees who are on travel status during a period of less than 24 hours, and which does not require overnight lodging or a substantial rest period. Short-term travel of this nature is found in State Administrative Manual (SAM) Section 0721. The SAM section defines short-term travel expenses as those that are incurred at least 25 miles from an employee's headquarters. Further, short-term travel reimbursable expenses do not include lunch or incidental expenses.

The Payroll Letter does not address the possible taxability of other allowable work related reimbursements.

Questions may be directed to Mr. Mark Osborne at (562) 951-4610 or via e-mail at mosborne@calstate.edu, or to Ms. Lisa Chavez at (562) 951-4610 or via e-mail at lchavez@calstate.edu.

WPM:tp AD 99-06

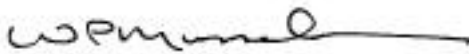
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Distribution: Presidents
Financial Managers
Accounting Officers
Budget Officers
Chancellor's Office

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STATE OF CALIFORNIA

KATHLEEN CONNELL,
Controller of California

OFFICE OF STATE CONTROLLER
PERSONNEL/PAYROLL SERVICES DIVISION
300 Capitol Mall
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: December 1, 1998

PAYROLL LETTER # 98-038

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: RALPH ZENTNER, Chief
Personnel/Payroll Operations Bureau

RE: MEAL REIMBURSEMENTS FOR TRAVEL LESS THAN 24 HOURS

PLEASE CHECK WITH YOUR ACCOUNTING OFFICE TO DETERMINE WHETHER IT RECEIVES PAYROLL LETTERS VIA OFFICEVISION. IF IT DOES NOT, PLEASE PROVIDE A COPY OF THIS LETTER TO THEM.

This letter provides revised tax and reporting instructions affecting meal reimbursements for travel away from home for less than 24 hours wherein neither an overnight stay nor substantial sleep/rest are required.

GENERAL INFORMATION

Internal Revenue Code (IRC) 162(a) requires that meal expenses, reimbursed by an employer to an employee, for travel away from home for less than 24 hours wherein neither an overnight stay nor substantial sleep/rest are required, represent taxable and reportable income. Meal reimbursements, even when paid under an employer's accountable reimbursement plan provisions, do not qualify as "business expenses". Rather, these meal reimbursements are a "personal expense" under the IRC, Sections 162(a) and 62(c).

DETERMINATION OF TAXABILITY

Taxable and Reportable Travel Related Meal Reimbursements

All meal reimbursements for travel for less than 24 hours are taxable and reportable unless:

* Travel requires an overnight stay (lodging)

OR

* Travel satisfies the three Sleep/Rest Rule provisions required by IRS Announcement 90-127:

- the trip lasts substantially longer than an ordinary day's work
- AND
- the employee cannot reasonably be expected to make the trip without being released from duty for sufficient time to obtain substantial sleep/rest. NOTE: the IRS has ruled that brief rest periods, few hours or less, do not satisfy the definition of substantial sleep/rest
- AND
- the release from duty is with the employer's tacit or expressed acquiescence or is required by governmental regulations.

The Sleep/Rest Rule generally applies to employment occupations, by the nature of the work performed (truck drivers, airline pilots and other transportation jobs entailing the safe operation of equipment), which require limited work shifts, followed by a substantial sleep/rest period, before an employee is allowed to begin a new work shift or continue a trip.

EXAMPLE 1 (TAXABLE): An employee drives from Sacramento to San Francisco leaving at 5:00 a.m. and returning at 6:00 p.m. The employee is entitled, under the employer's (accountable or non-accountable) reimbursement plan, to \$6.00 for breakfast. Since the employee did not require an overnight stay nor were the Sleep/Rest Rule provisions satisfied, the \$6.00 is taxable and reportable income.

EXAMPLE 2 (TAXABLE): An employee flies from Los

Non-taxable and Non-reportable Travel Related Meal Reimbursements

Meal reimbursements, for travel for less than 24 hours when paid under accountable plan provisions are non-taxable and non-reportable when:

* travel requires an overnight stay (lodging)

OR

* travel satisfies the three Sleep/Rest Rule provisions noted above.

EXAMPLE 3 (NON-TAXABLE): An employee flies from San Diego to Sacramento leaving at 4:00 p.m., spending the night at a hotel and returning to San Diego the next day at 10:30 a.m. The employee is entitled, under the employer's accountable reimbursement plan, to claim \$18.00 for dinner and \$6.00 for breakfast. Although the trip was less than 24 hours, because of an overnight stay was required, the dinner and breakfast reimbursements are non-taxable, non-reportable income.

EXAMPLE 4 (NON-TAXABLE): An employee, a truck driver, is scheduled for a round trip run between Los Angeles and Sacramento. The employee leaves Los Angeles at 4:00 a.m. and returns to Los Angeles at 11:00 p.m. The employer requires the employee to secure 4 hours of rest in Sacramento before beginning the return portion of the trip. The employee is entitled, under the employer's accountable reimbursement plan to claim \$6.00 for breakfast and \$18.00 for dinner. Because the Sleep/Rest Rule provisions were satisfied, the breakfast and dinner reimbursements are non-taxable, non-reportable income.

REPORTING REQUIREMENTS

FORM STD. 676 COMPLETION INSTRUCTIONS

When completing the Form STD 676F, please refer to the Payroll Procedures Manual (PPM), Section I-163. The following Item Code and Item Description must be entered on the Form STD. 676P when reporting taxable meal reimbursements:

<u>Item Code</u>	<u>Item Description</u>
MP	Meals and Lodging - Per Diem

WITHHOLDING REQUIREMENTS

Taxable meal reimbursements are subject to Federal/State Income and applicable Social Security/Medicare taxes. All taxes will be withheld from a subsequent, regular payroll warrant.

EMPLOYEE NOTIFICATION

Please advise your employees of the revised tax withholdir and reporting requirements. As these requirements represent a significant change in meal taxability, employees should be aware of the tax implications before traveling.

CONTACTS

PPM revisions are forthcoming. Please use the following contacts for assistance:

Form STD. 676 Completion
Payroll Operations
W-2 Unit

(916) 322-8100
CALNET 492-8100

Reporting Requirements