Cell Phone Reimbursement Issues

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The use of a cell phone is a requirement for many types of work. Some small companies provide employees with cell phones and allow a limited amount of personal use, while others prefer to reimburse employees for the costs of their business calls and some or their entire monthly contract fee. In September 2011, the Internal Revenue Service issued tax guidelines for cell phone reimbursement policies, which businesses of all sizes must follow to remain compliant with the law.

Reimbursement for Calls

A company cell phone reimbursement policy can work in several ways. One option is for the company to reimburse only the value of actual business calls. Under this type of reimbursement policy, the employee submits a copy of his cell phone account each month, highlighting the calls made for business purposes and recording the recipient of the call and the reason for it. The company reimburses the employee by a check payment or by adding the value of the reimbursement to his compensation for the next period. This form of reimbursement is not taxable for the employee, and does not cover the cost of maintaining the cell phone.

Monthly Contract Coverage

If an employee uses the cell phone for substantial “non-compensatory” business purposes, for example to be available for the company to contact him at any time, the employer can reimburse the full value of the monthly cell phone contract, as well as the cost of calls. Alternatively, if the employee has a cell phone plan that includes the cost of calls, and these calls are made substantially for business purposes, the full cost of the plan can be reimbursed. Provided the amount reimbursed does not exceed the value of the total cell phone account, the reimbursement is not taxable. This policy also requires the submission of monthly cell phone statements for accounting purposes.

Unusual Reimbursement

Companies should never reimburse the full amount of a monthly cell phone account without recording the monthly statements, as this could be considered an unusual reimbursement or a taxable fringe benefit. Businesses with a policy that provides full reimbursement must clearly identify whether the bulk of the cell phone costs are incurred for business, to determine if the reimbursement constitutes additional wages or income. If the reimbursement is more than $100 per month, the IRS recommends close examination to decide if it is additional income and if so, whether it is taxable under the De Minimis fringe benefit policy, which involves a minimal value benefit provided occasionally to employees, usually in the form of a reimbursement.

Replacement of Wages

The IRS frowns upon a company cell phone reimbursement policy that is used as a method of providing the employee with additional income, as well as a policy that offers reimbursement in place of a portion of the wages. This type of policy reduces the tax payable on the lower wages, and even if the employee submits a monthly statement with detailed information, the reimbursement is taxable. In the case of all cell phone reimbursement policies, the company should obtain a detailed copy of the monthly cell phone bill from the employee to keep as a financial record of the reason for the reimbursement.
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