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Synopsis

- 1) Article V, Section 2(1) of the Constitution of the State of North Carolina requires that funds generated by taxation be spent for a public purpose only.
- 2) A travel policy should ensure that public funds are expended for travel only when it serves a public purpose.
- 3) A travel policy should include the following: 1) the parties covered by the policy; 2) the definition of travel; 3) a list of those persons or positions authorized to approve travel; 4) the procedures for approval; and 5) the rates for reimbursement.
- 4) An employee or board member traveling on official business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds.
- 5) Travel advances represent a payment of public funds to an employee or official for travel costs, which have not yet been incurred. Advances should be made for the minimum amount necessary, paid just prior to travel, and reconciled immediately at the conclusion of the travel. They are not to be used as interest-free loans.
- 6) G.S. 138-6 (amended by S.L. 1998-212, Sec. 28.20) sets the maximum lodging and subsistence reimbursement rate for State employees. County and municipal employees are not covered by this limit, but it should be used as a guide in setting reimbursement rates.
- 7) G.S. 14-247 states that it is illegal for a publicly-owned vehicle to be used for a private purpose.
- 8) G.S. 159-181(a) states that any officer or employee of a local government or public authority who submits a written claim or approves a claim for funds that he/she knows to be false is guilty of a misdemeanor.
- 9) The finance officer should determine whether an unencumbered balance remains in the budget sufficient to pay for travel requests.
- 10) In certain situations it may be in a local government's best interest for particular employees to have employer-provided vehicles at their homes. In such cases, the personal use of an employer-provided vehicle is a taxable fringe benefit. Local governments should follow the IRS guidelines regarding these vehicles.

Guide to Preparation of a Travel Policy

Purpose and Applicability - Article V Section 2(1) of the Constitution of the State of North Carolina requires funds generated by taxation to be spent for public purpose only. The purpose of a travel policy is to establish the procedures and controls necessary to ensure that laws relating to public funds and public property are being followed. A travel policy also should ensure that public funds are expended prudently and that the maximum benefit possible is derived from public funds expended for travel. A written travel policy also should make it clear to the employees what the policy is, i.e. what they are expected to do, and what they can expect of the unit. It also provides assurance to employees that everyone is treated equally. Non-employees traveling on unit business should be subject to the same policies and requirements as employees if the unit is paying their expenses. To ensure proper use of public funds and public property, a travel policy should apply to all travel paid from public funds and all travel for which a public vehicle will be used. To accomplish these objectives, a travel policy should clearly set forth the following items:

- (1) The parties covered by the policy;
- (2) The definition of travel;
- (3) The authority for approval of travel, travel advances, use of a public vehicle, travel allowances, and travel reimbursements;
- (4) The procedures for approval of travel, travel advances, travel allowances, and travel reimbursements; and
- (5) Rates for travel reimbursements.

Employee and Board Member Responsibility - An employee or board member traveling on official business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes, delays, or luxury accommodations and services unnecessary or unjustified in the performance of official business are not acceptable under this standard. To maximize benefits received from public funds expended for travel, employees and officials traveling on behalf of the unit should be encouraged to travel together, when possible, to minimize travel costs. Employees should be responsible for unauthorized costs and any additional expenses incurred for personal preference or convenience. Generally, non-employees traveling with employees will not be reimbursed for travel expenses unless they are on official unit business. The travel policy adopted for a unit should state that willful violations of the policy may result in disciplinary or criminal action and may constitute grounds for dismissal from the unit's

employment. A sample travel policy has been provided in Appendix A.

Definitions - A general term that will have a specific meaning within the context of the travel policy should be defined. Once the term is defined, that definition becomes part of the travel policy.

General Guidelines

Travel expenses for unit business may be paid through several different methods (advances, allowances, credit cards, and reimbursements). These methods and other general guidelines are discussed in the following section.

- A. Advances - Travel advances represent a payment of public funds to an employee or official for travel costs that have not yet been incurred. Advances should not be used as interest free loans to employees or officials. However, employees or officials of the unit should not be expected to endure a financial hardship, even for a short period of time, in order to conduct the unit's business. Advances should always be issued from a receivable account for proper recording and control. The advance should be reconciled as soon as practical after the employee returns from travel.
1. Occasional Travel - Careful consideration should be given to the amount of expected travel costs and the nature of travel plans when authorizing travel advances. Requests for travel advances should be submitted in advance of the planned date of departure to allow the authorizing individual adequate time to consider the request.
 2. Regularly Scheduled Travel - For employees or officials, who travel extensively each month, a travel advance may be issued. To prevent the need for issuing an advance prior to each trip, the unit could issue that employee or official a single travel advance and allow the individual to receive full reimbursement for travel costs incurred. Consideration should be given to the amount of travel costs incurred by the individual each month as well as the nature of travel plans. The costs saved by processing fewer travel advances should be weighed against the amount of interest that could be earned on the advance between trips. If the employee or official ceases to travel on a regular basis, the travel advance should be repaid. At the end of each fiscal year (or earlier if conditions dictate), this advance should be repaid and the unit should consider whether the advance will be made in the future.

- B. Allowances - Employees or officials who travel short distances in their personal vehicle each month to conduct unit business may be given a travel allowance to cover the cost of such travel. A travel allowance should not be used to supplement the salary of an employee or official. A travel allowance should serve as a reasonable reimbursement for estimated travel costs. When a travel allowance is used, the unit does not have to determine whether certain travels are personal or business related; however, the employee is not relieved of the responsibility to maintain records supporting a personal income tax deduction.

Whether an allowance is taxable to the employee is determined by whether the allowance is issued pursuant to an "accountable plan vs. nonaccountable plan." Amounts treated as paid under an accountable plan are excluded from the employee's gross income, are not reported as wages or other compensation on the employee's Form W-2, and are exempt from the withholding and payment of employment taxes.

Amounts paid under an allowance arrangement are treated as paid under an "accountable plan" if the arrangement meets the following requirements:

Employees must have paid or incurred deductible expenses while performing services as employees;
Employees must adequately account to the organization for these expenses within a reasonable period of time;
Employees must return any amounts in excess expenses within a reasonable period of time.

Amounts paid under a nonaccountable plan are treated as wages and subject to income tax withholding and payment of social security, Medicare and FUTA taxes. Payments are treated as paid under an "nonaccountable plan" if:

Employees are not required to or do not substantiate timely those expenses to the organization with receipts or other documentation; or
The unit advances an amount to its employees for business expenses and the employees are not required to or do not return timely any amount they do not use for business expenses.

When electing to issue a travel allowance, the cost savings of not maintaining detailed travel records and processing reimbursement requests should be weighed against the added costs of matching social security taxes and reporting compensation. Authority for approval of a travel allowance should be made at a high level of management that can evaluate the need for the allowance and the estimated costs and benefits of issuing a travel allowance.

Employees may be reimbursed by travel days (per diem), or miles, or some other fixed allowance. In these cases, the employee is considered to have accounted to the organization if the payments do not exceed rates established by the Federal Government. The calendar year 2000 standard mileage rate is 32.5 cents per mile. The 1999 rate through March 31 was also 32.5 cents per mile, and 31 cents per mile beginning April 1. If the per diem or allowance paid exceeds the specified amounts, the excess amount must be reported as wages and is subject to income tax withholding and payment of social security, Medicare, and FUTA taxes. For more information and current mileage rates see Chapter 16 in IRS Publication 535, *Business Expenses* (see www.irs.ustreas.gov).

- C. Credit Cards - Credit or procurement cards belonging to a unit of government are sometimes supplied to certain employees and officials of that unit. The use of credit cards provides the least degree of internal control over travel-related expenditures because the unit of government is liable for amounts charged to the card by the employee or official before any consideration is made by a person of authority about the need for the expenditure, or whether funds are available to pay the amounts incurred. For these reasons, units of local government should use extreme caution in authorizing the use of credit cards, and each charge should be reviewed to determine if it is an appropriate expenditure of the unit. Detailed documentation should be provided by the person using the credit card to support each expenditure. A detailed policy regarding acceptable and unacceptable uses of credit cards should be adopted before any cards are issued. This policy should clearly state the disciplinary action that will be taken if the card is used inappropriately. Additional policy information on procurement cards can be found in the Purchasing Section of this manual.
- D. Reimbursement - Reimbursement of expenses after the employee has paid them is the other main method for handling travel costs. Reimbursement rates for lodging and subsistence should be set at a level that allows the employee or official to be reimbursed for reasonable costs, but will not reimburse him/her for unreasonable costs. General Statute 138-6 (amended by S.L. 1998-212, Sec. 28.20) sets the maximum lodging and subsistence reimbursement rate for State employees. County and municipal employees are not covered by this limit, but it may be used as a guide in setting reimbursement rates. General Statute 153A-92 states that the board of county commissioners has the authority to establish reimbursement rates for county officials and employees. General Statute 160A-64 states that the city council has the authority to set reimbursement rates for elected city officials and employees, but the reimbursement rates for elected

officials may not exceed reimbursement rates for employees. Though not specifically addressed in the statutes, counties should follow the guidelines set for municipalities concerning reimbursement rates for elected officials.

- E. Excess Subsistence - If the unit requires an employee or official to travel to an area in which reasonable lodging cannot be obtained at the maximum reimbursement rate, the travel policy should allow the reimbursement limit to be increased. The reimbursement allowance should not include meals if they are included as part of a registration or lodging fee.
- F. Travel Limitations - Attendance at conventions and conferences should be limited to the individuals for which the cost of attendance matches expected benefits.
- G. Employee's Duty Station - An employee's duty station is the location at which the employee spends the majority of his or her working hours. For an employee in travel status, the duty station should be the point where travel begins the majority of the time (home or office). The designation of an employee's home as the duty station should require prior approval from the manager or the governing board.

Specific Guidelines - Transportation

- A. Reimbursement - Travel costs for transportation which were incurred while conducting unit business, and for which a travel request was approved, should be reimbursed provided they are supported by receipts and other documentation and the actual cost does not materially exceed the estimated cost. The most economical mode of transportation should be determined by the approving authority taking into consideration the costs of transportation, the time factor, and subsistence expenses.
- B. Personal Vehicle - When approving the use of a personal vehicle, the unit should weigh the benefits derived from the use of the personal vehicle against the costs of using a unit vehicle. To do this effectively, each unit should determine the total cost of operating a unit vehicle. Total cost includes depreciation, maintenance, insurance, etc. For short trips, reimbursement at a rate that exceeds the operating cost may be justified if the additional cost does not exceed the administrative cost of using a unit vehicle. However, for long trips it is not a prudent use of public funds to reimburse personal vehicle travel costs that exceed the cost of operating a unit vehicle. Other factors such as the availability of a vehicle and the need for a specially equipped vehicle by handicapped individuals also should be considered when determining the reimbursement rates. The unit, in most circumstances, should not establish reimbursement rates that are in excess

of the IRS current mileage allowance. Using the IRS rate would eliminate the requirement for the unit to report the entire reimbursement as compensation on the employee's Form W-2. Units should contact their CPA for additional information in this area. The unit should state in its policy its guidelines for reimbursing parking fees, tolls, and storage fees (e.g., airport parking is limited to 96 hours, with a receipt required).

- C. Unit Vehicles - General Statute 14-247 states that it is illegal for a publicly owned vehicle to be used for private purposes. A travel policy should restrict use of unit vehicles to public purposes to ensure compliance with this statute. Minimal personal use of a unit vehicle, such as driving to and from dinner, should be allowed. Non-local government employees may be allowed to accompany local government employees when they have a mutual business interest in the travel. The policy may allow spouses and children of local government employees to accompany them in unit-owned vehicles if space is available and the trip is strictly for official unit business. Personal use of employer-provided vehicles is discussed in a subsequent section of the policy.
- D. Rental Vehicles - A travel policy should limit use of a rental vehicle to cases in which it would be the most economical method of travel available.
- E. Local Transportation - A travel policy should permit reimbursement costs for the most economical method of local transportation. To prevent misuse of public funds, receipts for the cost of local transportation should be required to be submitted with reimbursement requests.
- F. Common Carrier - The governing board should set guidelines regarding the use of common carriers. The LGC recommends that only actual coach fare (substantiated by receipt) be reimbursed by the unit. First class travel should be used only in extraordinary circumstances. The travel policy should state the circumstances in which the unit will pay for penalties and charges resulting from the cancellation of reservations. If the employee's travel has been approved in advance and the cancellation or change is made at the direction of and for the convenience of the unit, the unit should pay the resulting penalties and other charges. If the cancellation or change is made for the personal benefit of the employee, it should be the employee's obligation to pay the penalties and charges. The unit may have a policy of paying the penalties and charges in the event of accidents, serious illness or death within the employee's immediate family or other critical circumstances beyond the control of the employee. The travel policy also should address whether or not the unit will pay subsistence for additional days of travel if

employees travel earlier than necessary and/or delay their return to avail the unit of reduced transportation rates.

- G. Commuting - The unit should not reimburse employees for the use of a personal vehicle in commuting from an employee's home to his/her duty station. The travel policy should state the unit's guidelines for reimbursing expenses of commuting to/from the airport. The unit should consider having strict guidelines on the use of taxis and rental cars. In most cases, airport limousines and buses are a more economical means of transportation.

Specific Guidelines - Subsistence

- A. Lodging - To ensure that the unit will receive maximum benefits from funds expended on travel, a limit on the reimbursable costs of lodging should be established. The request for reimbursement should be supported by receipts and other documentation. If the unit requires an employee or official to travel to an area in which reasonable lodging cannot be obtained at the maximum reimbursement rate, the travel policy should allow the reimbursement limit to be lifted. Exceptions may also be required for attendance at conferences where the conference hotel rate exceeds the maximum reimbursement rate. Employees or officials of a unit should not be expected to spend their own money or stay in unreasonable lodging in order to conduct unit business. When an employee is traveling with his/her spouse and children, the reimbursement rate for lodging should be limited to the lowest prevailing single room rate. The unit should state in its travel policy whether or not personal gratuities are included in the subsistence rate, and if sharing of rooms is expected when 2 or more employees or officials travel together.
- B. Meals
- (1) To prevent misuse of public funds, a limit on the cost of meals that will be reimbursed should be set by the travel policy. A less cumbersome method of handling reimbursements for meals is to establish fixed per-meal limits without requiring receipts. A more restrictive policy would allow actual costs, supported by receipts, up to fixed amounts. If the unit adopts a policy of not requiring receipts and adopts reimbursement rates in excess of the Internal Revenue Service allowance, the entire amount reimbursed must be reported as compensation on the employee's Form W-2. The unit's CPA should be contacted for more information regarding this area.
 - (2) If the cost of a meal served as part of a convention or conference is included in the registration fee, it is not a prudent use of public funds to reimburse the

employee or official for that part of the registration fee if the employee or official chooses to eat elsewhere. However, it is a prudent use of public funds to reimburse an employee or official for the cost of a convention meal that exceeds the reimbursement rates if the unit will benefit from the individual attending the meal, if it is an integral part of the registration, or if it is impractical for the individual to dine elsewhere.

- (3) It is not a prudent use of public funds to reimburse employees or officials for meal costs incurred while traveling out-of-town for a day unless the individual has been forced to incur additional costs for the meal as discussed above. For instance, an employee who has the option of bringing lunch from home, going home for lunch, or buying lunch has not been forced to incur additional costs if the employee has the option of bringing lunch to work or buying lunch while out-of-town. Also, an employee who elects to purchase breakfast or dinner while out-of-town for the day should not be reimbursed for the cost unless the overnight travel schedule of the individual requires him/her to depart or return home at a time which makes it impractical to eat that meal at home.

C. Other Costs

- (1) The reimbursement of telephone calls may be allowed if supported by adequate documentation. The policy should state the number and frequency of calls that will be reimbursed and state maximum reimbursable costs and/or time limits.
- (2) If attendance at a convention or conference by an employee or official has been approved, the registration fee for the convention or conference should be reimbursed if receipts support it.

Authorization - General Statute 159-181(a) states that any officer or employee of a local government or public authority who submits a written claim for funds that he/she knows to be false, or approves a claim he/she knows to be false, is guilty of a misdemeanor. To ensure that public funds are spent properly, a travel policy should state that any employee or official who violates this statute will be subject to disciplinary action (including possible dismissal from the unit's employment) and criminal proceedings.

To ensure that public funds are expended prudently and that the unit receives the maximum possible benefit for public funds expended for travel, authority for approval of travel requests by employees should be placed at a level of management that can evaluate the need for the requested travel and estimate the

expected cost compared to the benefit of the requested travel. This will normally be an employee, such as a department head, who has supervisory responsibility for the requesting party and budgetary control over the area in which the requesting party works. An employee given the authority to approve the travel requests of other employees should not have the authority to approve his/her own travel request. The chief executive officer of the unit and/or a member of the governing board should approve these travel requests. Authority for approval of travel requests of the chief executive officer of the unit should be assigned to a member of the governing board who can evaluate the need for requested travel and the expected costs and benefits.

The requesting party should complete a reimbursement form and attach receipts for expenses requiring them and submit it to the authorizing party. Written travel requests should be submitted for approval in advance of departure to allow the authorizing party adequate time to consider the need, estimated costs, and benefits of the requested travel.

Travel plans and estimated costs should be included on the travel request so the individual(s) authorized to approve the request can weigh the estimated costs of the travel against the benefits of the travel. Travel requests should not be approved when the estimated benefit to the unit does not exceed the estimated cost of travel. If travel plans and/or estimated costs change, the individual(s) approving the travel request should be informed. After approval by the authorizing party, the form should be forwarded to the finance officer. The finance officer should be involved in the approval process and be informed if estimated travel costs increase significantly.

Out-of-state travel generally necessitates a longer time period than in-state travel, and more travel costs will be incurred. Approval of out-of-state requests should be obtained from the chief executive officer of the unit or a member of the governing board who is able to evaluate the value of such travel to the unit.

Verbal approval may be given for travel that covers a minimal distance and is not for an overnight period if the costs for such travel are small. However, requests for such travel should still be based upon the need for the travel and the estimated costs compared to the benefits of the travel.

A high level of management, such as the chief executive officer of the unit should approve use of a unit vehicle. Use of a unit vehicle may result in the unit's becoming liable for any damages that might be caused by the employee or officer while using the vehicle. The individual(s) authorizing use of a unit vehicle should be able to evaluate the character of the party requesting use of the vehicle, verify that the requesting individual has a valid North Carolina driver's license, and weigh the risks and costs of using the vehicle against the benefits derived.

General Statute 159-28(a) states that a unit may not incur an obligation unless an unencumbered balance sufficient to pay the obligation remains in the budget. To ensure compliance with the law, the finance officer of the unit should be informed of the estimated cost of all travel requests, and determine whether an unencumbered balance sufficient to pay the obligation remains in the budget. The travel request is a contractual agreement to pay funds; therefore, it needs a preaudit certification. Budgetary controls would require the finance officer to sign travel requests, attesting to the availability of funds. Units required to record or show encumbrances in their accounting systems, under General Statute 159-26(d), should encumber the estimated cost of approved travel requests.

Personal Use Of Employer-Provided Vehicle

As stated previously, G.S. 14-247 states that it is illegal for a publicly owned vehicle to be used for a private purpose. Therefore, vehicles owned by a governmental unit should not be used for the personal benefit of a local government employee or official. Although the staff of the Local Government Commission recommends that no personal use of a local government-owned vehicle be allowed, there are certain situations where it is in a local government's best interest for particular employees to have employer-provided vehicles at their homes. Consequently, we have included the following discussion of the Internal Revenue Service's regulations concerning the personal use of employer-provided vehicles. For more detailed information, see IRS Publication 535, *Business Expenses* (see www.irs.ustreas.gov).

The personal use of an employer-provided vehicle is a taxable fringe benefit. However, the law exempts certain vehicles from recordkeeping requirements (i.e. substantiation), and income inclusion. Vehicles that are qualified, nonpersonal use vehicles include the following:

- A. Clearly marked police and fire vehicles,
- B. Unmarked vehicles used by law enforcement officers if the use is officially authorized,
- C. Ambulances or hearses used for their specific purpose,
- D. Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds,
- E. Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat,
- F. Passenger buses with a capacity of at least 20 passengers used for its specific purpose,

G. School buses,

H. Tractors and other special purpose farm vehicles.

Employees with these vehicles will not need to keep any records on the personal or business use of the vehicle, and the personal use will not be taxable income on the employee's Form W-2. These vehicles should not be used more than a de minimis amount for personal purposes. (An example of de minimis personal use is a stop for lunch between two business deliveries.)

For vehicles that are not exempt, the written policy statements adopted by the governing board and meeting the following "no personal use" conditions will satisfy the recordkeeping requirements of the law.

No Personal Use Policy

A policy statement that prohibits personal use by an employee satisfies the employer's substantiation requirements if all the following conditions are met. There also must be evidence that would enable the IRS to determine whether the use of the vehicle meets the five following conditions:

- (1) the vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business,
- (2) when the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere, for example, for maintenance or because of a mechanical failure,
- (3) no employee using the vehicle lives at the employer's business premises,
- (4) under a written policy of the employer, neither an employee, nor any individual whose use would be taxable to the employee, may use the vehicle for personal purposes, except for de minimis personal use, and
- (5) the employer reasonably believes that, except for de minimis use, neither the employee, nor any individual whose use would be taxable to the employee, uses the vehicle for any personal purpose.

Rules for Valuation of Personal Use of Employer-Provided Vehicles

For the purpose of determining the taxable value of fringe benefits derived from personal use of an employer-provided vehicle, two types of valuation rules are available: 1) a general valuation rule and 2) a special valuation rule.

1. Under the general valuation rule, the value of the availability of a vehicle for personal use is the cost at which an individual could lease the same or a comparable vehicle from a third party in the geographical area in which the vehicle is available for use. For this purpose, a cents-per-mile rate cannot be used unless it can be demonstrated that the same or a comparable vehicle could be leased on a cents-per-mile basis in the geographic area in which the vehicle is available for use.

The amount included in the employee's gross income is the amount by which the fair market value (FMV) of the fringe benefit is more than the sum of: the amount the employee paid for the benefit and any amount the law excludes from income. Specifically, the FMV of a fringe benefit is the amount the employee would have to pay a third party to buy or lease the particular fringe benefit. If the law excludes a fringe benefit cost from income, do not include in the employee's gross income the difference between the FMV and the excludable cost of that fringe benefit. However, if the law excludes a limited amount of the cost, include in the FMV of the fringe benefit that is due to any excess cost.

2. Under the special valuation rule, there are actually three special rules available for valuing the taxable fringe benefit of personal use of an employer-provided vehicle:
 - a. Annual lease value rule, b. Commuting valuation rule, and c. Vehicle cents-per-mile rule.

- a. Annual Lease Value Rule - The amount of taxable income attributed to an employee is derived by establishing a fair market value for the automobile, determining an annual value, and multiplying this by the percentage of personal use. The IRS publishes an annual lease value table. This table is for automobiles only. Other road vehicles will have to use a different valuation method.

If the employer provides fuel, the fair market value of the fuel used for personal mileage must be determined and included as taxable income to the employee in addition to the annual lease value. As an alternative, fuel may be valued at an amount per mile set by the IRS.

- b. Commuting Rule - A written policy statement adopted by the governing board that prohibits personal use by an employee, other than commuting, satisfies an employer's substantiation requirements if all the following conditions are met:

- i. The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business and is used in the employer's trade or business.
- ii. For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle.
- iii. The employer has established a written policy under which neither the employee, nor any individual whose use would be taxable to the employee, may use the vehicle for personal purposes, other than for commuting or de minimis personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home).
- iv. The employer reasonably believes that except for de minimis personal use, neither the employee, nor any individual whose use would be taxable to the employee, use the vehicle for any personal purpose other than commuting, and
- v. The employee required to use the vehicle for commuting is not a control employee of the employer. However, if the vehicle a control employee commutes in is not an automobile, then this restriction does not apply. A control employee of a federal, State, or local governmental unit is any of the following: (1) an elected official, or (2) an employee whose pay is at least as much as that paid to a federal government employee Level V. Since 1998, this amount is \$110,700.

If the above requirements i. through v. are met, the commuting use is valued at the IRS statutory rate per one-way commute (e.g., from home to work or work to home). If there is more than one employee who commutes in the vehicle, then the amount includible in each employee's income is the IRS statutory rate per one-way commute. In 1999, the statutory rate was \$1.50 per one way commute; a round-trip \$3.00.

c. Vehicle Cents-Per-Mile Rule

The IRS regulations allow use of a standard mileage rate for valuing the taxable fringe benefit for personal use of an employer-provided vehicle, provided the following conditions are met:

- i. the vehicle is reasonably expected to be used in the employer's business, or
- ii. the vehicle is actually driven (primarily by the employee(s)) at least 10,000 miles in the calendar year.

The standard mileage rate used for valuation of the taxable fringe benefit assumes that the employer provides all fuel. If the employee provides fuel, the standard mileage rate may be reduced by an IRS set rate per mile. For current mileage rates, check the IRS website (www.irs.ustreas.gov) for Publication 535.

Use of this valuation rule requires that adequate records documenting business mileage be maintained. You cannot use the vehicle cents-per-mile rule for an automobile first made available to an employee for personal use in 1999 if the FMV of the automobile is more than \$15,500.

Withholding Requirements

The employer may elect to withhold federal or State income tax for personal use of employer-provided vehicles. Those units choosing to withhold may do so either by pay period, or on a quarterly or annual basis. In either case the employer must withhold social security tax (FICA). If the employer elects not to withhold federal and State income taxes, he must (1) have notified the employee of the unit's election not to withhold and (2) include the amount of taxable fringe benefits incurred from personal use of an employer-provided vehicle on the employee's Form W-2 for the year in which the benefit is received.

For the administrative convenience of employers, a special accounting rule is available as an alternative to the above general rule. Under the special accounting rule, the employer may treat the value of the benefits provided during the last two months of the calendar year or any shorter period as paid during the subsequent calendar year.

Use of the special accounting rule is optional. An employer may use the rule for determining the value of some fringe benefits but not others, and the period for which it is used need not be the same for each fringe benefit. However, an employer who uses the rule for a particular benefit must use the rule with respect to all employees who receive that fringe benefit. If the employer uses the special rule, the employee must use the special accounting rule and must use it for the same period as the employer.

The LGC staff recommends that the unit determine which vehicles are exempt from or subject to taxation, based on the above IRS guidelines. The local government's CPA should be consulted in

cases in which the unit is not able to determine if a vehicle is exempt. Employees should be notified after a final determination on the status of vehicles has been made. We recommend that for non-exempt vehicles, the unit make the election not to withhold federal and State income taxes; however, FICA for the entire year will have to be withheld on the value of the personal use of the vehicle.

Our sample travel policy does not discuss the regulations regarding personal use of employer-provided vehicles. In implementing these regulations a unit should contact its CPA if there are any problems or questions.

Sample Travel Policy

Appendix A

City of Dogwood
Travel Policy

- I. Purpose - It is the intent of this policy to provide City departments and agencies a comprehensive reference for uniform interpretation of payment or reimbursement for travel expenses pertaining to official travel and subsistence.

Applicability of Travel Policy - All employees and officials of the City are subject to this policy.

- II. Employee and Board Member Responsibility - An employee or board member traveling on official business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes, luxury accommodations, and services unnecessary or unjustified in the performance of official business are not acceptable under this standard. Employees and board members will be responsible for unauthorized costs and any additional expenses incurred for personal preference or convenience. Willful violations of this policy may result in dismissal from City employment or other disciplinary action.

III. Definitions and General Guidelines

- A. Authorizing Party - An individual authorized by this policy to approve or disapprove requests for travel, cash advances, travel reimbursements, etc.
- B. Employee's Duty Station - "Duty station" is defined as the job location at which the employee spends the majority of his or her working hours. For an employee in travel status, the duty station should be the point where traveling begins the majority of the time (home or office). The designation of an employee's home as the duty station by a department head requires prior approval from the City Manager.
- C. Non-City Employees - Non-City employees traveling on official business whose expenses are paid by the City are subject to these regulations, including subsistence allowances, to the same extent as City employees. Travel expenses for members of a non-employee's family are not eligible to be paid by the City. No travel advances will be made to non-City employees.
- D. Prospective Professional Employees - Department heads are authorized to approve reimbursement of

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transportation expenses of individuals visiting for employment interviews. These expenses are limited to transportation and subsistence for one day at the in-State rate.

- E. Registration Fees - The City allows for registration fees to be reimbursed at the actual amount as shown by a valid receipt or invoice. They may be paid by the employee and then reimbursed or paid by the department. The amount is the same for in-state or out-of-state meetings. These fees are charged to "travel expense." The department must require itemization and documentation of expenses.
- F. Reimbursements - All reimbursement requests shall be filed for approval and payment within 30 days after the travel period ends for which the reimbursement is being requested. "Travel period" is defined as the calendar month during which the travel occurred.
- G. Requesting Party - The person who will be reimbursed for travel costs incurred while conducting City business or visiting for employee interviews.
- H. Subsistence (Meals and Lodging) - Subsistence is an allowance related to lodging, meal costs, and gratuities thereon.
- I. Transportation - Transportation expenses include personal automobile, taxi, bus, train, airplane, motor pool charges, auto rentals, tolls, and parking fees. All travel expenses must be incurred by and for employees, board members or other eligible travelers while conducting official City business or visiting for employee interviews in order to be eligible for reimbursement.
- J. Travel - Travel is defined as going to and from the normal job location to a site located more than 20 miles from the normal job location to conduct City business. Authorization of travel requests will be based upon need and cost/benefit of travel as determined by the authorizing party. All travel costs except airline tickets and registrations will be paid directly by the requesting party, and will not be billed to the City. In many cases, it is customary for airline tickets and registrations to be paid directly by the unit either in advance or billed to the unit by invoice later. The requesting party is encouraged to use travel agents and reserve transportation and lodging in advance when possible. The requesting party also is encouraged to share

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transportation with other employees and officials of the City and representatives of other government units when possible. The requesting party will be reimbursed for actual costs incurred only, subject to the limitations established in this policy.

1. In-State-Travel - For all in-State travel, other than travel by the City Manager and elected City officials, the department head (and ultimately the finance officer) is responsible for determining that a sufficient unexpended appropriation remains in the department travel budget to reimburse all expected costs of travel. A travel authorization form will be submitted by the requesting party to the department head for authorization of travel at least five working days prior to the date upon which travel will commence. If the department head is the requesting party, the form should be submitted to the City Manager.
2. Out-of-State Travel - Out-of-State travel status begins when the employee leaves the State and remains in effect until the employee returns to the State. However, in-State allowances and reimbursement rates apply when employees and other qualified official travelers use hotel and meal facilities located in North Carolina immediately prior to and returning from out-of-State travel during the same travel period. Out-of-State travel requests by employees and department heads will be approved by the City Manager in addition to the department head. The travel authorization form will be submitted to the City Manager no later than five working days prior to the date travel will commence.
3. Travel Requests by the City Manager, Other Appointed Officials, and Elected Officials - These will be authorized by the chairperson of the finance committee. The chairperson's travel will be approved by another predetermined elected official. The travel authorization form will be submitted to the chairperson of the finance committee no later than five working days prior to the date travel will commence.
4. Short Distance Travel - Employee travel within a 75 mile radius of the employee's normal job location not involving subsistence does not require written approval of the authorizing party. However the authorizing party should be

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notified of the travel plans, and should give verbal approval of the plans. Failure to notify the authorizing party of the travel plans will result in the requesting party receiving no reimbursement for travel costs.

5. Travel Advances - Travel advances will be issued at the discretion of the City Manager or chairperson of the finance committee. Advances will be submitted with the travel request to the authorizing party no later than 5 working days prior to the date travel will commence. The amount of the travel advance may not exceed the estimated travel cost. Excess travel advances will be repaid no later than five working days after the completion of the approved travel. The Finance Officer will not issue a travel advance unless it has been approved.

At the discretion of the City Manager and chairperson of the finance committee, a requesting party who incurs \$200 in travel costs each month may be allowed to receive full reimbursement for travel costs and not repay the travel advance. The advance must be repaid when the requesting party ceases to travel to the extent that at least \$200 in travel costs are incurred each month.

Monthly travel allowances to an employee should be approved by the total Board. The amount of the allowance may not exceed \$125 per month. A requesting party receiving a travel allowance may not request additional reimbursement for any cost incurred while traveling within a 75 mile radius of the requesting party's normal job location. This travel allowance is classified as a "nonaccountable plan" (justification not required). Therefore, the travel allowance will be subject to State and federal income tax withholdings, social security withholding, and social security employer's matching contributions.

The Finance Officer will receive a copy of each approved travel request. The Finance Officer is responsible for determining that an unencumbered appropriation sufficient to cover the estimated cost of the approved travel remains in the appropriate expenditure item. If a sufficient balance remains in the expenditure item, the estimated travel cost will be encumbered. If the

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remaining balance in the expenditure item is insufficient to cover the estimated cost of travel and other moneys are not yet available, the authorizing party will be notified by the Finance Officer. The authorizing party should receive a response from the Finance Officer before notifying an employee that he/she may travel.

IV. Specific Guidelines Relating to Transportation, Subsistence, and Other Costs

A. Transportation

1. Common Carrier - Actual coach fare (substantiated by receipt) will be reimbursed. First class travel should be used only in extraordinary circumstances. Penalties and charges resulting from the cancellation of airline reservations (or other travel reservations) shall be the City's obligation if the employee's travel has been approved in advance and the cancellation or change is made at the direction of and for the convenience of the City. If the cancellation or change is made for the personal benefit of the employee, it shall be the employee's obligation to pay the penalties and charges. However, in the event of accidents, serious illness or death within the employee's immediate family, or other critical circumstances beyond the control of the employee, the City will be obligated to pay the penalties and charges.

Super Saver Rates - When traveling by common carrier to conduct official City business, employees traveling to their destination earlier than necessary and/or delaying their return to avail the City of reduced transportation rates may be reimbursed subsistence for additional travel days if, in the opinion of the department head, the amount saved in transportation costs due to the early and/or delayed travel is greater than the amount expended in salary and additional subsistence. Prior written approval of the department head is required.

2. Personal Vehicle - A requesting party may use his/her personal vehicle for travel and be reimbursed only if one of the following conditions is met:

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- a. No City vehicle is available or use of a City vehicle is not practical.
- b. Travel mileage is less than 60 miles in total.
- c. The requesting party needs a specially equipped vehicle.

Use of a personal vehicle must be approved in advance. The allowable IRS rate per mile will be paid to an employee who uses his/her personal vehicle.

There are three different rates which currently can be used for mileage reimbursements when employees use their personal vehicles on official business:

- The business standard mileage rate set by the Internal Revenue Service (32.5 cents per mile for the year 2000) will be paid for round trips when a municipal-owned vehicle is not reasonably available. "Reasonably available" is defined as available for use and adequate to meet any special needs of the employee and the City in the given circumstances.
- Mileage reimbursement rates set by any other law by reference to G.S. 138-6(a)(1) are established at 25 cents per mile, not the IRS rate.
- Motor pool rate (currently 23 cents) per mile will be paid for trips exceeding 60 miles round trip when a municipal-owned vehicle is available and the employee elects to drive his/her personal vehicle with approval of appropriate management.

Actual mileage is reimbursable. Mileage is measured from the closer of the duty station or the point of departure to the destination (and return).

Parking fees, tolls, and storage fees are reimbursable. Receipts are required for fees in excess of \$3.00 per day. Reimbursement of expense for airport parking is limited to ninety-six hours, with a receipt required. Airport parking expenses in excess of 96 hours may be

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reimbursed if advance approval is obtained from the department head.

3. Rental Vehicle - A receipt is necessary for reimbursement. Rental vehicles are to be used as a last resort. Use of a rental vehicle must be approved in advance.
4. Commuting
 - a. No reimbursement shall be made for the use of a personal vehicle in commuting from an employee's home to his/her duty station.
 - b. Travel to/from airport: at employee's duty station - Reimbursement for travel between the employee's or board member's duty station and the nearest airline terminal and for appropriate parking may be made under the following circumstances. For travel by:
 - Airport limousine - one round trip limousine fare;
 - Taxi - limited to reimbursement for actual costs, receipt required;
 - Private vehicle - the IRS rate per mile for a maximum of two round trips with parking charges for a maximum of one hundred twenty hours (5 days). Receipts are required for airport parking claims.
 - c. Travel to/from airport: at employee's or board member's destination - Reimbursement for travel to and from the airline terminal at the employee's or board member's destination may be made where available as listed below:
 - Airport limousine - one round trip limousine fare;
 - Bus - one round trip bus fare;
 - Taxi - when limousine service is not available, actual fare to and from airline terminal;
 - Rental vehicles - may be used as a last resort (receipt required).

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In situations where one way trip costs exceed 20 dollars, receipts are required.

d. Taxis and limousines other than trips to and from the airport - The actual cost of taxi and limousine fares is reimbursable when required for travel on official City business.

5. Unit Vehicles - City vehicles may be used for any authorized travel. The requesting party must obey all laws of the jurisdiction in which the vehicle is being operated. The vehicle will be used in conducting City business only. A de minimis amount of personal use, such as driving the vehicle to and from dinner, may be allowed. Non-City employees may accompany City employees if they have a business interest in the travel. Spouses and children of City employees may accompany them in City-owned vehicles if space is available and the trip is strictly for official City business. Use of a City vehicle must be approved by the City Manager no later than five working days prior to the date of use. The City Manager or chairperson of the finance committee may approve on a shorter notice if the situation dictates such action.

B. Subsistence - The following is the maximum allowable rate:

1. The following schedule shall be used for reporting allowable subsistence expensed incurred while traveling on official City business:

	<u>In-State</u>	<u>Out-of-State</u>
Breakfast	\$ 6.00	\$ 6.00
Lunch	8.00	8.00
Dinner	14.00	16.00
Lodging	<u>53.00</u>	<u>63.00</u>
	<u>\$81.00</u>	<u>\$93.00</u>

2. Lodging:

a. Authorization - Written approval by a department official designated by the department head must be obtained in order to qualify for reimbursement for overnight stays. Supervisory personnel certifying the reimbursement request as necessary and proper must require documentation from the

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traveler to substantiate that the overnight lodging was necessary.

- b. Reimbursement - Each employee is responsible for his or her own request for reimbursement. Requests for reimbursement must be filed within 30 days after the travel period ends for which the reimbursement is being requested. Specific dates of lodging must be listed on the reimbursement request, and substantiated by a receipt from a commercial lodging establishment, not to exceed \$53 per night for in-state lodging and \$63 per night for out-of-state lodging. Payment of sales tax, lodging tax, local tax, or service fees applied to the cost of lodging are to be paid in addition to the daily subsistence amount. Other entertainment expenses, such as the cost of movies, that are included with the bill for lodging will not be reimbursed.
 - c. Tips - The subsistence rate is inclusive of personal gratuities, except baggage handling tips that may be claimed for porters at terminals and hotels as "other expenses."
 - d. Excess - Excess lodging authorization must be obtained in advance from the department head. Excess lodging is allowed when the employee or board member is in a high cost area and unable to secure lodging within the current allowance.
3. Meals
- a. Reimbursement - Each employee and board member is responsible for his or her own request for reimbursement. Filing procedures are the same as for lodging [see 2(b) above]. Each meal reimbursement rate must be listed on the reimbursement request. Time of departure and arrival must be listed on the reimbursement request.
 - i. Daily Travel (Overnight) - Employees and board members may receive allowances for meals for partial days of travel when the partial day is the day of departure or the day of return:

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Breakfast - Depart duty station prior to 6:00 a.m.

Lunch - Depart duty station prior to 10:00 a.m. (day of departure). Return to duty station after 2:00 p.m. (day of return).

Dinner - Return to duty station after 8:00 p.m. If stopping for dinner would cause the employee to return after 8:00 p.m., when he/she would otherwise have returned before 8:00 p.m., dinner will not be reimbursed.

- ii. Daily Travel (Not Overnight) - Allowances shall not be paid to employees for lunches if travel does not involve an overnight stay. To be eligible for allowances for the breakfast and evening meals, employees must:

Breakfast - depart duty station prior to 6:00 a.m. and extend the normal workday by two hours.

Dinner - return to duty station after 8:00 p.m. and extend the normal workday by three hours.

To be eligible for both meal allowances, the employee must have worked five hours longer than the normal workday.

The travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station.

- b. Reimbursement for Meals - Required Employee Attendance

- i. A City employee or board member may be reimbursed for meals, including lunches, when the job requires his/her attendance at the meeting of a board, commission, committee, or council in his/her official capacity and the meal is preplanned as part of the meeting

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for the entire board, commission, committee, or council.

- ii. A City employee or board member may be reimbursed for meals, including lunches, when the meal is included as an integral part of a congress, conference, assembly, convocation, etc. Such congress must involve the active participation of persons other than the employees of the City; the employee's attendance is required for the performance of his/her duties, but must not be part of the employee's normal day-to-day business activities; the congress must be planned in advance with a formal agenda; and the congress must provide written notice or an invitation to participants. Employees claiming reimbursement under this provision are limited to the meal subsistence rates for City officials and employees.

C. Other Costs

1. Conventions and Conferences

Limitations - Attendance at conventions and conferences will be normally limited to two requesting parties, in addition to any requesting parties involved in the convention or conference program. Management may waive this limit as appropriate.

2. Telephone Calls

- a. Long distance - One personal long distance phone call is allowed for every two nights away on business.
- b. Reimbursement - Official phone calls are reimbursable under "other expenses." Individual calls over \$3.00 must be identified as to point of origin and destination.

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V. Authorization for Reimbursement Procedures

A. Submitting expense reports

1. A requesting party will complete a reimbursement form and attach receipts for expenses requiring them, and submit it to the authorizing party no later than five working days after returning from travel. Advances will be deducted from reimbursable costs.
2. A requesting party submitting a falsified reimbursement form will be subject to disciplinary action and criminal prosecution. An authorizing party or Finance Officer who approves a falsified reimbursement form that they know to be false will be subject to disciplinary action or criminal prosecution. Violations of the City's travel policy may result in dismissal from City employment.

B. Approval and processing of reimbursement requests

1. Reimbursement requests will be submitted to the authorizing party for approval. After approval by the authorizing party, the form should be forwarded to the City Finance Officer.
2. The Finance Officer will determine that the reimbursement form has been properly approved, that it is mathematically correct, and that requested reimbursements agree to submitted receipts and are within the limits set by this policy. If an error in the reimbursement request is found, the requesting party will be informed and the error will be corrected before payment is made.
3. Before the reimbursement is made, the Finance Officer will determine that an amount sufficient to pay the request has been encumbered for payment, or that there is a sufficient unexpended appropriation in the expenditure item. The Finance Officer will immediately inform the authorizing party and requesting party if payment cannot be made.

REFERENCES

Internal Revenue Service. 1999. Publication 535, *Business Expenses*.

Internal Revenue Service. Apr. 2000. Publication 1542, *Per Diem Rates*.

Internal Revenue Service. Jan. 2000. Publication 15, *Circular E, Employer's Tax Guide*.

Internal Revenue Service. Jan. 2000. Publication 15-A, *Employer's Supplemental Tax Guide*.

Internal Revenue Service. Dec. 1999. Publication 505, *Tax Withholding and Estimated Tax*.

All of these publications can be accessed via the IRS web site at www.irs.ustreas.gov or 1-800-TAX-FORM.