

**Pennsylvania's State System of Higher Education  
Tax Procedures for University Operations**

**Tax Procedure 2015-3  
Temporary Work Assignments and Permanent Transfers**

**Approved by:**  \_\_\_\_\_ **Date:** November 2, 2015  
Vice Chancellor for Administration and Finance

**History:**

**Revised:**

**Additional History:**

**Related Policies, Procedures, or Standards:** [Board of Governors' Policy 1986-07-A: Travel Expense Regulations](#); [Board of Governors' Policy 1984-14-A: Terms and Conditions of Employment of Senior Policy Executives](#)

**Internal Revenue Service (IRS) References:** IRS Publication 15, *Employer's Tax Guide*; IRS Publication 15-A, *Employer's Supplemental Tax Guide*; IRS Publication 463, *Travel, Entertainment, Gift, and Car Expenses*; IRS Publication 5137, *Fringe Benefit Guide Office of Federal, State and Local Governments*; IRS Publication 521, *Moving Expenses*

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*All references to "university" or "universities" in this document apply to the 14 State System universities, all branch campuses, and the Office of the Chancellor.*

**I. Background and Summary**

IRS regulations provide that, under specific circumstances, an employer's reimbursements or payments for an employee's commuting and living expenses when the employee works temporarily away from his/her main place of work are not taxable to the employee. If the assignment lasts longer than one year, however, an employer's reimbursements or payments for an employee's commuting and living expenses may be taxable as compensation to the employee. State System employees sometimes are assigned to work away from their campus at branch campuses, as loaned executives at other campuses, etc., and the State System sometimes will provide reimbursements or payments for these employees' commuting and living expenses.

**II. Definitions**

- A. **Temporary Work Assignment.** A work assignment away from an employee's regular or main place of work that is realistically expected to be, and does in fact last, one year or less.
- B. **Indefinite Work Assignment.** A work assignment away from an employee's regular or main place of work that is realistically expected to, and does in fact, last for more than one year.
- C. **Tax Home.** The place where the employee conducts the principal part of his/her work, not the employee's residence, is the employee's tax home. Generally, a State System employee's tax home is the university campus or other State System property where the employee works. If an employee works only from home, the employee's residence is his/her tax home. If an employee works in more than one location, the location where the work predominantly takes place generally is the employee's tax home.

- D. **Main Place of Business or Work.** An employee's main place of business or work is where the employee regularly reports to work, usually the university campus or branch campus. If an employee has more than one place of work, the main place of business or work is determined by the total time the employee ordinarily spends in each place, the level of business activity conducted in each place, and the significance of the income earned in each place.
- E. **Commuting Expenses.** The costs of taking public transportation or driving a car between an employee's home and his/her main or regular place of work are commuting expenses. If an employee receives a work assignment located away from the employee's regular or main place of work, and the assignment is indefinite (expected to last longer than one year), the cost of taking public transportation or driving a car between where the employee resides during the term of the assignment (apartment, hotel, employee's home, etc.) and the location of said work assignment are considered commuting expenses.
- F. **Personal Travel Expenses.** Travel expenses that the IRS deems to be nondeductible are personal travel expenses. For example, if an employee is on an indefinite work assignment (as defined above), the costs of travel from the indefinite work assignment to the employee's permanent home residence are considered to be personal travel expenses. If personal travel expenses are reimbursed or paid by the employer, the reimbursements or payments are taxable as compensation to the employee.
- G. **Living Expenses.** For purposes of this document, living expenses include rent, mortgage payments, real estate taxes, utilities, cable, food, household cleaning and maintenance supplies, etc.
- H. **Accountable Plan.** An accountable plan is a business expense reimbursement or allowance arrangement in which employees must meet all three of the following rules:
1. They must have paid or incurred deductible expenses while performing services as an employee.
  2. They must substantiate these expenses to the employer within a reasonable period of time.
  3. They must return any amounts in excess of substantiated expenses within a reasonable period of time.

Amounts paid under an accountable plan are not wages. Amounts paid that do not meet all three of the above rules are subject to federal income, social security, and Medicare taxes. (IRS Publication 15.)

### III. IRS Regulations

- A. **Relocating for temporary work assignments.** If an employee is given a temporary work assignment away from his or her regular place of work, certain travel expenses reimbursed or paid directly by the employer in accordance with an accountable plan may be excludable from the employee's wages. If the employee's new work assignment is indefinite, any living expenses reimbursed or paid by the employer (other than qualified

moving expenses) must be included in the employee's wages as compensation. For the travel expenses to be excludable:

1. the new work location must be outside of the city limits and suburbs that are considered part of the metropolitan area of the employee's regular work place;
2. the travel expenses must otherwise qualify as deductible by the employee; and
3. the expenses must be for the period during which the employee is at the temporary work location.

If the employer reimburses or pays any personal expense of an employee during his/her temporary work assignment, such as expenses for home leave for family members, these amounts must be included in the employee's wages. (IRS Publication 15-A.)

- B. Reimbursement for personal expenses.** If an employer reimburses an employee for nondeductible personal expenses, the employer must report the reimbursements as wage income in box 1 of the employee's Form W-2. (IRS Publication 463.)
- C. Commuting expenses.** The cost of taking public transportation or driving a car between an employee's home and his/her main or regular place of work, no matter how far, are commuting expenses. The cost of taking public transportation or driving a car between an employee's home, or temporary residence during an indefinite work assignment, and the main place of work for an indefinite work assignment, are commuting expenses, no matter how far. If the employer reimburses an employee for commuting expenses, the employer must report the reimbursements as wage income in box 1 of the employee's Form W-2.
- D. Temporary vs. indefinite travel assignments.** Reimbursements of commuting and living expenses for "temporary" assignments away from the tax home generally are not taxable to the employee. Reimbursements of commuting and living expenses for "indefinite" assignments generally are taxable. An assignment generally is considered temporary if it is realistically expected to be, and does in fact last, one year or less. An assignment generally is considered indefinite if it is realistically expected to last, and does in fact last, for more than one year. The employer must determine whether an assignment is realistically expected to last less than one year when the assignment begins. (IRS Publication 5137)
- E. Temporary travel assignment becomes indefinite.** If an assignment away from home at a single location is, initially, realistically expected to last one year or less, and then later it is realistically expected to last longer than one year, the assignment is considered temporary until the date the expectations change. At that time, the travel is considered indefinite and any commuting and living reimbursements from that date on are taxable. (IRS Publication 5137)
- F. Reimbursements for travel expenses.** In order for reimbursements for ordinary and necessary business expenses incurred while traveling away from the employee's home overnight to be excludable from taxable wages, the reimbursements must be made under an accountable plan. An accountable plan requires that expenses must have a business connection, documentation of the expenses, and a timely return of excess

reimbursements. An accountable plan may include a per diem allowance method. (IRS Publication 5137.)

#### **IV. State System Procedures**

- A. University human resources offices will give employees who receive temporary work assignments an appointment letter that specifies:
  - 1. how long the appointment is expected to last;
  - 2. the details of what reimbursements, if any, the employee will receive for travel, living expenses, and any other expenses related to the temporary assignment;
  - 3. the information that will be required from the employee to document expenses, such as itemized receipts that demonstrate payment; and
  - 4. whether or not reimbursements will or may be taxable as compensation to the employee.
- B. If an employee is on a temporary work assignment, and the length of the temporary assignment changes or is expected to change from temporary (less than one year) to indefinite (more than one year), the university human resources office will issue a new appointment letter to the employee letter that specifies:
  - 1. how long the appointment is expected to last or that the length of the appointment is indefinite;
  - 2. the details of what reimbursements, if any, the employee will receive for travel, living expenses, and any other expenses related to the temporary assignment;
  - 3. the information that will be required from the employee to document expenses, such as itemized receipts that demonstrate payment;
  - 4. which reimbursements will or may be taxed as compensation to the employee; and
  - 5. the date that the reimbursements become taxable to the employee. (See section III.E., above, that the date reimbursements for applicable travel and living expenses become taxable is the date that expectations of the length of the appointment change from temporary to indefinite.)
- C. Reimbursements for vehicle expenses and travel expenses between the employee's home and a temporary assignment, as well as reimbursements for living expenses such as meals and lodging at the temporary work location, will be paid through the university's accounts payable office and will not be taxable to the employee when:
  - 1. the employee's assignment is not expected to last, and does not last, longer than a year; and
  - 2. the expenses are reimbursed or paid under an accountable plan.
- D. Reimbursements for vehicle expenses and travel expenses between the employee's home and a temporary assignment, as well as reimbursements for living expenses such

as meals and lodging incurred at the temporary work location, **must be paid through the university's payroll office** and will be taxable to the employee as compensation when:

1. the employee's assignment is expected to last longer than one year;
  2. the expected length of the assignment is not specified in the employee's appointment letter; or
  3. the expenses are not reimbursed or paid under an accountable plan.
- E. If an employee's temporary work assignment becomes a **permanent transfer** from one university or State System location to another university or State System location, or if a permanent transfer occurs for any other reason, eligible employees may be authorized to receive reimbursement or payment of moving expenses in accordance with [Board of Governors' Policy 1984-14-A: Terms and Conditions of Employment of Senior Policy Executives](#). Reimbursement of travel and living expenses generally is not authorized but sometimes occurs under extraordinary circumstances.
1. Any reimbursements of vehicle expenses or travel expenses between the employee's residence, the new work assignment, and/or the employee's new residence, if applicable, will be taxable as compensation to the employee.
  2. Any reimbursements of living expenses, such as meals and lodging, incurred at the new work location, even if paid for a temporary period of time, will be taxable as compensation to the employee as of the effective date of the transfer.
  3. Reimbursement of **nondeductible** moving expenses, as defined by IRS Publication 521, *Moving Expenses*, will be taxable to the employee as compensation.
  4. Reimbursement of **deductible** moving expenses, as defined by IRS Publication 521, *Moving Expenses*, will not be taxable to the employee.
  5. The gaining university's human resources office will document reimbursement terms, if applicable, in the employee's appointment letter, specifying:
    - a. the details of what reimbursements, if any, the employee will receive for travel, living expenses, moving expenses, and any other expenses related to the new assignment;
    - b. the information required from the employee to document expenses, such as itemized receipts that demonstrate payment; and
    - c. whether or not reimbursements will or may be taxable as compensation to the employee.
  6. The taxable reimbursements in sections IV.E.1., E.2., and E.3., above, **must be paid by the gaining university via payroll**. (Universities will reimburse each other for costs as applicable and appropriate.)

- F. **Temporary Employees.** Sections IV.A. through IV.E. of this document address State System active-status employees who are on work assignments away from their usual or previous State System work location. If, however, a university hires a person, who is not otherwise currently employed by the State System, on a temporary basis or short-term contract, any reimbursements to or direct payments on behalf of the temporary employee for commuting or living expenses are taxable as compensation, even if the person usually works for a different employer and no matter how far the person must travel. For example, if a university hires a person who is not otherwise employed by the State System to teach only summer classes, any reimbursements to this temporary employee for commuting and living expenses are taxable as compensation to the employee (whether or not the employee is hired every summer to teach the class).
- G. Taxable reimbursements and payments will be reported on the employee's IRS Form W-2 in box 1, *Wages, tips, other compensation*, subject to withholding for federal income, social security, Medicare, state, and local taxes.
- H. Reimbursements reported as taxable compensation are not eligible for retirement or other benefits.
- I. In all circumstances, reimbursements to employees for expenses incurred while traveling on official State System business are not taxable to the employee when incurred and reimbursed in accordance with [Board of Governors' Policy 1986-07-A: Travel Expense Regulations](#). Note that commuting expenses, as defined in section III.C., above, are not considered expenses incurred on official State System business.