

Pastor and Treasurer's Tip – Cell Phone Reimbursement

Many churches provide cell phones for their pastors and staff. While this is not improper, it is essential that proper reporting of the taxable portion occurs. Cell phones are considered "listed property" by the IRS which means they require special substantiation of usage. In other words, there must be substantiation proving how much of the cell phone bill covered business calls and how much covered personal calls. The amount paid for the personal calls portion must be reported as taxable income on Form W-2 Box 1 of the person assigned the phone.

Treasury Regulation 1.2745T specifies that no business expense deduction is allowed for listed property unless the taxpayer provides the following substantiation:

- 1) *Amount. The amount of each separate expenditure for an item of listed property, such as the purchase cost, and "the amount of each business use...based on the appropriate measure (i.e., time for listed property)...and the total use of the listed property for the taxable period."*
- 2) *Time. The date of the expenditure or use with respect to an item of listed property.*
- 3) *Business purpose. The business purpose of each expense or use associated with any listed property. This means that the business purpose of every cell phone call must be established with adequate records.*

The substantiation must be written. Treasury Regulation 1.2745T defines adequate substantiation as:

An account book, diary, log, statement of expense, trip sheets, or similar record...and documentary evidence...which, in combination, are sufficient to establish each element of an expenditure or use...An account book, diary, log, statement of expense, trip sheet, or similar record must be prepared or maintained in such manner that each recording of an element of an expenditure or use is made at or near the time of the expenditure or use...In order to constitute an adequate record...which substantiates business use of listed property the record must contain sufficient information as to each element of business use.

Easiest way to create an adequate substantiation record of cell phone use is to review all cell phone bills and mark each call as to whether it was business or personal use. This can be time consuming but it can also prevent the pastor or staff member from

paying unnecessary additional tax dollars and it keeps the reimbursement in line with the definition of an accountable reimbursement system.

Remember all personal use must be reported as taxable income.