



## Per Diem Payments

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**1. What is per diem?**

Per diem is an allowance paid to your employees for lodging, meals, and incidental expenses incurred when travelling. This allowance is in lieu of paying their actual travel expenses.

**2. What is the federal per diem rate for my area?**

[Publication 1542](#), Per Diem Rates provides the rates for all continental U.S. areas.

**3. What does per diem cover?**

There is a per diem rate for combined lodging and meal costs, and a per diem rate for meal costs alone. An employer may use either per diem method for reimbursing employee travel expenses. A self-employed person can only use per diem for the meal costs.

**4. Do I include per diem payments in my employee's wages?**

Per diem payments are not part of the employee's wages if the payment is equal to or less than the federal per diem rate **and** the employer receives an expense report from the employee.

**5. What does an expense report need to include?**

The report must include:

- The business purpose of the trip,
- The date and place of the trip, and
- Receipts for lodging (if using the meals-only per diem rate).

The employee must file the expense report with the employer within a reasonable period of time (60 days). If any of these requirements are not met, the payment is taxable to the employee.

**6. When are per diem payments taxable?**

Payments will be taxable to the employee when any of these situations are true:

- No expense report is filed with the employer,
- The expense report filed does not include the date, time, place, amount and business purpose of the expense,
- A flat amount is given to the employee and no expense report is required, or

- Per diem is paid in excess of the allowable standard federal rate.

These per diem payments listed above would be treated as wages and employment taxes are due from the employer. See [Example](#).

### **7. Do I have to pay the federal per diem rate?**

You can pay more or less than the federal per diem rate. However, if you pay more than the federal per diem rate, the excess will be taxable to the employee.

### **8. What records should I keep if I pay per diem?**

You should keep the expense reports that show the time, place, and business purpose of your employees' travel. The self-employed individual should keep the same type of records.

### **9. What are Meal & Incidental Expenses (M & IE)?**

The per diem rate for M&IE includes the following items:

- All meals,
- Room service,
- Laundry, dry cleaning, and pressing of clothing, and
- Fees and tips for persons who provide services, such as food servers and luggage handlers.

### **10. Do I pay the same rate each day the employee is travelling?**

The rates vary for different locations. Use the rate for the area where the employee spends the night. You only pay  $\frac{3}{4}$  of the standard rate for the first and last day of employee's travel. See [Example](#)

### **11. Is there a per diem rate for lodging?**

There is not a per diem rate for lodging.

### **12. Can I pay a combined rate for Lodging, Meals, and Incidental Expenses?**

A per diem rate can be used for the combined costs of Lodging and M&IE. However, the rates vary depending on location. Use the rate for the area where your employee spends the night. The rates for the different cities are available in IRS [Publication 1542](#).

### 13. What if the combined rate I pay my employees is less than the federal per diem rate?

There are two ways for the employer to handle these payments. Choose one method and be consistent.

- The payment, less the standard M&IE rate, is treated as payment for lodging, or
- Forty (40%) percent of the payment is treated as payment for meals and 60% as payment for lodging.

#### [Example](#)

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