

IRS TAX GROSS UP FORMULA

Under the IRS one-year rule, travel expense reimbursements for assignments that exceed one year must be treated as taxable income. Thus, to compensate for additional federal and state income and applicable employment taxes owed by an employee, the reimbursement rate may be increased up to 150% of the applicable federal per diem rate authorized for the location of travel (see Section VIII.A).

Following are two examples of the gross up procedure for a trip of more than one year to X. In both examples, the \$91 daily reimbursement rate is based on 55% of the CONUS Maximum Per Diem rate of \$166 for the X area.

Example #1: Salary Subject to Social Security Tax

This example is based on the following assumptions:

- 15% Federal income tax rate plus 5.1% California income tax rate [6% less 15% Federal tax benefit]
- 1.45% Medicare rate
- 6.2% Social Security rate

The Gross Up Formula is applied to the \$91 daily reimbursement rate as follows:

W = Gross Up Amount

$$W = \frac{\text{daily reimbursement rate}}{1 - \text{applicable tax rates}}$$

$$W = \frac{\$91}{1 - .15 - .0510 - .0765}$$

$$W = \frac{\$91}{.7225}$$

W = \$ 125.96 or 138% of the daily reimbursement rate

Example #2: Salary Exceeds Social Security Wage Base

This example is based on the following assumptions:

- 28% Federal income tax rate plus 6.7% California income tax rate [9.3% less 28% Federal tax benefit]
- 1.45% Medicare rate

The Gross Up Formula is applied to the \$91 daily reimbursement rate as follows:

W = Gross Up Amount

$$W = \frac{\text{daily reimbursement rate}}{1 - \text{applicable tax rates}}$$

$$W = \frac{\$91}{1 - .28 - .0670 - .0145}$$

$$W = \frac{\$91}{.6385}$$

W = \$ 142.53 or 157% of the daily reimbursement rate¹

¹ The maximum amount reimbursable in this situation would be \$136.50 (150%), unless the Chancellor grants an exception to the policy.