

may be eligible to report the amount as nontaxable income when a direct transfer from trustee to trustee occurs and/or the when the entire distribution from the original IRA account (including taxes withheld) is paid into the new IRA account within 60 days of the date of the distribution. In such cases, input the same amount in Column F as reported in Column E. If the distribution is not a direct transfer from trustee to trustee, or the entire distribution is not paid into the new IRA account as a result of the conversion of the original IRA account, the distribution must be reported as two separate distributions on PA Schedule W-2S. The distributions will be reported on separate lines of Column E with the net amount converted into the new IRA (gross distribution from Box 1 of the Form 1099-R less amounts not repaid into the new IRA account) being reported as the first distribution and amounts not repaid into the new IRA account reported as the second distribution. The amount reported in Column E for the first distribution will not be taxable (input the same amount in Column F as reported in Column E). The amount reported in Column E for the second distribution may be taxable since Column F will reflect the cost or adjusted basis of the IRA.

4. A taxpayer with distributions from an annuity purchased from a commercial insurance or mutual company, an endowment contract or a charitable gift annuity having a distribution Code 7 or 7D in Box 7 of the 1099-R must record the distributions on PA Schedule W-2S and also report the amount of income taxable for federal income tax purposes as PA-taxable interest income. When recording the distribution on PA Schedule W-2S, input the same amount in Column F as reported in Column E. Report the federal taxable amount of any annuities or endowments on Line 3 of PA Schedule A. Report the federal taxable amount of any charitable gift annuities on Line 4 of PA Schedule A.
5. A taxpayer with a distribution from an employee stock ownership plan (ESOP) should enter the amount of the distribution in Column G if the stock in the ESOP has not been allocated to the participants. Use payment type M in Column B and the description "Non-Allocated ESOP Stock Dividend" in the space to describe the payment. If the distribution is a non-allocated ESOP stock dividend, the full amount of the distribution is taxable as compensation. If the stock has been allocated to the participants, input the same amount in Column F as reported in Column E and enter payment type M in Column B and the description "Allocated ESOP Stock Dividend" to describe the payment. Allocated ESOP stock dividends are taxable as dividend income for PA purposes. Enter the amount of the distribution on Line 8 of PA Schedule B with "Allocated ESOP Stock Dividend" as the description.
6. A taxpayer with distributions of excess contributions and earnings on the excess contributions (distribution Codes 8 and/or P in Box 7 of the 1099-R) must determine if the contributions being returned are from taxpayer contributions/deferrals or employer contributions. In cases where the excess contributions being returned are taxpayer contributions/deferrals, only the amount of excess contributions should be entered in Column F. Earnings on the excess contributions should not be included in the adjusted basis of previously taxed contributions. In cases where the excess contributions and earnings being returned are employer contributions, no entry should be made in Column F. In either case, a letter from the employer/plan administrator is required to provide whether or not the contributions being returned are taxpayer contributions/deferrals and a breakdown between the excess contributions and the earnings on the excess contributions when the excess contributions and earnings are from employee contributions/deferrals.

7. A taxpayer with a distribution Code 4 on Form(s) 1099-R should also include the amount in Box 1 in eligibility income for Schedule SP, Special Tax Forgiveness purposes. The amount should be included in Part C, Eligibility Income, of Schedule SP on Line 4, Insurance proceeds and inheritances.
8. A taxpayer who received retirement benefits as the beneficiary from a qualified joint survivor annuity reporting the distributions to the taxpayer using Code 7 instead of Code 4 in Box 7 of federal Form 1099-R should also include the amount in Box 1 as eligibility income for Schedule SP, Special Tax Forgiveness purposes. The amount should be included in Part C, Eligibility Income, of Schedule SP on Line 4, Insurance proceeds and inheritances.
9. Taxpayers with military pay for active duty outside PA should complete PA Schedule W-2S and include the W-2 in Part A of PA Schedule W-2S. If any income is earned by a PA resident while on active duty status within PA, that income should be included in the "PA compensation from Box 16" column. Do not include compensation earned while on active duty outside PA or if a nonresident on active duty within PA. If any PA income tax is withheld from the military pay, include the amount of tax withheld in the "PA income tax withheld from Box 17" column. See the Military Pay – Members of the Armed Forces instructions on Page 38 for more information.
10. A taxpayer with a distribution from an ESOP within a 401(k) (also known as a KSOP) should use payment type I in Column B and enter the total amount of the distribution in Column E. If the federal Form 1099-R includes a distribution Code 7 in Box 7, enter the total amount of the distribution in Column F. If the federal Form 1099-R includes a distribution Code 1 in Box 7, use the cost recovery method to determine the taxable amount of the distribution. The taxpayer's basis in any stock distributions from a KSOP with distribution Code 7 on federal Form 1099-R is the total distribution less any cash and/or tax paid included with the distribution. The taxpayer's basis in any stock distributions from a KSOP with distribution Code 1 on federal Form 1099-R is the ratio of the current value of the stock included in the distribution to the total distribution times the adjusted basis determined using the cost recovery method.

Enter the total amounts from Part A and Part B for PA compensation and PA tax withheld on the PA-40 Lines 1a and 13, respectively.

PA SCHEDULE UE (LINE 1b)

Allowable employee business expenses for PA purposes are similar to, but not the same as, expenses for federal purposes. PA law only permits expenses required to perform the duties of a job or profession.

Allowable Pennsylvania Employee Business Expenses Must Be:

1. Ordinary, customary, and accepted in the industry or occupation in which you work;
2. Actually paid while performing the duties of your employment;
3. Reasonable in amount and not excessive;
4. Necessary to enable you to properly perform the duties of your employment; and
5. Directly related to performing the duties of your occupation or employment.



IMPORTANT: You may deduct 100 percent of your PA-allowable unreimbursed employee business expenses.

PA law does not have federal expense and percentage accounting limitations and thresholds.

CAUTION: You may not deduct expenses based upon federal per-diem allowances. You may only deduct those expenses actually paid while performing the duties of your employment.

You did not incur an allowable business expense during the year if you:

- Received a fixed-mileage allowance or a per-diem allowance for the allowable business expense and your employer did not include the allowance in your compensation; or
- Accounted for your allowable expenses to your employer and your employer reimbursed you in the exact amount of your expenses.

Do not include such reimbursements in gross compensation. Do not claim such expenses on a PA Schedule UE.

EXAMPLE: James is regional manager for a chain of retail stores and is required by his employer to drive his personal vehicle and visit each retail location within his region at least one time per month. James' employer reimburses him at a rate of \$0.40 per mile and provides a lunch per diem of \$8.00 per travel day. James is not permitted to deduct a mileage expense on his PA Schedule UE for the difference between the federal allowance and his employer's reimbursement or an expense for meals while traveling to visit the retail locations within his region unless his employer includes the reimbursements in his PA compensation.

If your employer does not reimburse you, you may reduce your compensation by your allowable expenses. If your reimbursement is more than your allowable expenses, you must report the excess as taxable compensation on Line 1a.

EXAMPLE: Dave earned compensation of \$30,000. He incurred allowable vehicle and travel employee business expenses of \$3,000, and was reimbursed \$3,500. He must complete a PA Schedule UE. He includes the excess \$500 as compensation. His total net taxable compensation is \$30,500.

Sole proprietors, partners, shareholders, or other self-employed individuals should not use PA Schedule UE to claim expenses.

CAUTION: Nonresidents must use PA Schedule NRH to apportion expenses for PA personal income tax purposes. A copy of PA Schedule NRH may be obtained by using one of the Forms Ordering Services listed on Page 2. Part-year residents may only claim 100 percent of unreimbursed business expenses if the expenses were incurred only while providing services in Pennsylvania or while a PA resident. Include a statement indicating the method used to determine the expenses for the period of residency (PA Schedule NRH may also be used for this purpose).

Pennsylvania Does Not Allow The Following Business Expenses, Even If Allowed for Federal Purposes:

- Personal, living, or family expenses
- Dues to fraternal organizations, professional societies, Chambers of Commerce, or recreational club memberships
- Dues and subscriptions to publications, including trade and professional publications
- Political candidate or campaign contributions
- Charitable contributions
- Commuting expenses – driving to and from work
- Cost of meals while working late, unless while traveling away from home overnight on business

- Childcare or elderly care expenses
- Life, disability income and health insurance premiums
- Contributions to deferred compensation plans or other pension plans
- Legal fees (except to recover back wages), fines, penalties and bad debts
- Bribes, kickbacks, or other illegal payments
- Job hunting or other pursuit of employment expenses
- Malpractice insurance premiums, except when allowed in Part A
- Moving expenses, except when allowed in Part E
- Educational expenses, except as allowed in Part F
- Capital expenditures
- Expenses calculated at federal per-diem rates.



FILING TIP: You must file a separate PA Schedule UE for each employer. Spouses may not report joint expenses on a PA Schedule UE, even if filing jointly. An incomplete schedule may result in delays in the processing of your return and/or denial of the expenses.

General Instructions

Enter the name of the taxpayer claiming the expenses and the SSN shown first on the return. Enter all the employer information, and briefly describe the job or position for which you incurred the expenses you are claiming. Enter only the expenses incurred for the employer listed on this schedule.

Keep Your Records

The department has the legal authority to require evidence that the expenses you claim on a PA Schedule UE are allowable for PA purposes. Keep your necessary documents, receipts, vouchers and other records for at least four years.

PA Schedule UE - Side 1

Side 1 of this schedule is for the most common expenses claimed on PA income tax returns.

Part A. Direct Employee Business Expenses

You pay these expenses directly or through a withholding arrangement with your employer. These expenses are necessary to perform or maintain your job. Itemize the nature and amount of the expenses you are claiming in Part A.

1. **Union Dues.** Union dues, assessments, and initiation fees are allowable business expenses if:
 - Such payments are a condition of continued membership in the union, and membership is related directly to your present job; or
 - Such payments are a required wage deduction under an agency shop agreement.
2. **Work Clothes and Uniforms.** The costs of purchasing and maintaining uniforms and work clothing to protect you from bodily injury are allowable business expenses if the uniforms and clothing are both:
 - Of a type specifically required by the employer to be purchased as a condition of continued employment; and
 - Not adaptable to general usage.
3. **Small Tools and Supplies.** Expenditures for small tools and supplies that your employer does not provide, but you must have to perform the duties of your job, are allowable business expenses. Depreciation is the annual deduction you must take

to recover the cost of business property having a useful life beyond the taxable year. If any of these tools or supplies has a useful life of more than one year, you depreciate the cost in Part G. See the Depreciation – PA Limitations instructions on Page 9 for more information.

4. **Professional License Fees, Malpractice Insurance, and Fidelity Bond Premiums.** Trade, professional, or occupational licenses or fees required as a condition of employment are allowable business expenses. Include malpractice insurance and fidelity bond premiums where required by law or by your employer.

5. **Total Direct Employee Business Expenses.** Add Lines 1 through 4.

Part B. Business Travel Expenses

6. **Vehicle Expenses: Standard Mileage Rate.** Enter the amount from your federal Form 2106 or federal Form 2106-EZ. Otherwise, enter your total business miles and multiply by the federal mileage allowance to calculate your allowable business mileage expense.

CAUTION: You may not claim depreciation on any vehicle on which you are using the standard mileage rate method.

Commuting Expenses. You cannot deduct the costs of public transportation or driving a car between your home and your main place of work. These are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is from your regular place of work. Commuting costs between different jobs for different employers are also not allowable. For tradesmen, commuting costs also include mileage for any job 35 miles or fewer from the closer of the union hall or personal residence to the jobsite.

Vehicle Expenses - Actual. Pennsylvania does not follow the federal floor limitations on allowable expenses. You may always claim your allowable actual expenses for PA purposes. Start with your federal form and adjust for PA purposes.


7. Enter your actual expenses from your federal Form 2106.
8. Add back the "Inclusion Amount" since this rule does not apply for PA purposes.
9. **Depreciation.** You may use any generally accepted depreciation method except either of the bonus depreciation elections enacted for federal purposes in 2002 and 2003. See DIFFERENCES BETWEEN PA PIT AND IRS on Page 9. If using a different method for PA purposes, enter the method you used and the adjusted expense here.

10. **Actual Travel and Mileage Expenses.** Add Lines 7, 8, and 9.

Other Business Travel Expenses

Enter the actual amount of these expenses that you incurred.

11. **Parking fees, tolls, and transportation.** Enter the amount of parking fees, tolls and transportation expenses incurred while in an overnight or business travel status.
12. **Travel expenses while away from home overnight.** Enter the amount of hotel or motel accommodation expenses incurred while in an overnight travel status.
13. **Meals and entertainment expenses.** Enter only the actual expenses incurred for meals and entertainment expenses.

 **IMPORTANT:** Meals and entertainment expenses are 100 percent allowable. However, meals while not in overnight traveling status (e.g. meals while working late) and federal per-diem

rates for meals and incidental expenses are not allowable. See the PA PIT Guide for additional information.

14. **Total Business Travel Expenses.** Add Lines 6 or 10, and Lines 11, 12, and 13.

Part C. Miscellaneous Expenses

Include the PA-allowable expenses that you incurred in the space provided. If you have more than two miscellaneous expenses, you must include a separate statement that itemizes and describes in detail these expenses. Additional examples of expenses that you may claim include:

- Breakage fees or cash shortages you must pay to your employer;
- Fees or income included in your PA-taxable compensation on your Form W-2 that you are required to pay to your employer as a condition of employment;
- Costs incurred by blind employees to pay readers who assist them in performing their job duties;
- Business gifts must be ordinary, necessary, reasonable, and actually incurred for business purposes. Pennsylvania does not follow federal percentage limits on such expenses.

CAUTION: You may be a statutory employee for federal purposes. However, PA law does not have a similar provision. As a statutory employee, you may have to claim your income as compensation and your expenses on PA Schedule UE. For more information on statutory employees see Chapter 7 of the PA PIT Guide found on the department's website. As an employee, you must claim your expenses on PA Schedule UE. If you are self-employed, you must report your business activity on Line 4 of your PA-40 and enclose the necessary PA Schedule C.

15. **Total Miscellaneous Expenses.** Enter the total of the miscellaneous expenses you listed.



FILING TIP: If you do not have expenses for your office or work area (Part D), moving (Part E), education (Part F), or depreciation (Part G), complete Side 1, and include your allowable unreimbursed employee business expenses on Line 1b of your PA-40.

Total Allowable PA Employee Business Expenses

Lines A through G. Enter the amounts of your allowable expenses from each part of PA Schedule UE that you completed.

- Line H. Total Expenses.** Add the expenses you are claiming from each Part of PA Schedule UE.

CAUTION: If you are a nonresident or part-year resident who earned income and incurred expenses within and outside Pennsylvania, you must complete PA Schedule NRH.

- Line I. Reimbursements.** If your employer included your reimbursement in PA-taxable compensation on your Form W-2, do not enter that reimbursement here. If your employer did not include your reimbursement on your Form W-2, enter the amount you received from your employer.

- Line J. Net Expense or Reimbursement.**

- If Line H is more than Line I, include your unreimbursed expenses on Line 1b of your PA-40.
- If Line I is more than Line H, include your excess reimbursements on Line 1a of your PA-40.

PA Schedule UE - Side 2

CAUTION: Certain utilities, which are not subject to sales and use tax when purchased exclusively for residential use, become subject

to sales and use tax when used for commercial purposes. If you are including electricity, natural gas, fuel oil, or kerosene in your calculation of home office expense, you should report use tax due on the prorated expense amount on Line 25 of the PA-40.

Part D. Office or Work Area Expenses

You may claim these expenses when your employer does not provide you with a suitable work area and you can answer YES to each of these questions:

- D1. Does your employer require you, as a condition of employment, to maintain a suitable work area away from the employer's premises?
- D2. Is this work area the principal place where you perform the duties of your employment?
- D3. Do you use this work area regularly to perform the duties of your employment?

If your employer provides a suitable work area, or you answer one or more of the above questions NO, you cannot claim any office or work area expenses.

CAUTION: The department does not permit the use of the federal safe harbor deduction for a home office or work area. Actual expenses must be used to determine the amount of the deduction.

Actual Office or Work Area Expenses.

- Lines a to h. Enter the actual expenses you incurred if you are claiming office or work area expenses on this schedule. Include statements detailing property maintenance and other apportionable expenses from Lines f and g.
- Line i. Add Lines a through h.
- Line j. Calculate the percentage of your property that you use for business.
- Line k. **Apportioned Expenses.** Multiply Line i by Line j.
- Line l. **Total Office Supplies.** Enter the actual cost of supplies that you use exclusively for business purposes.

16. **Total Office or Work Area Expenses.** Add Lines k and l.

Part E. Moving Expenses

You may deduct moving expenses incurred to retain employment. You may also deduct moving expenses to report to a new location after obtaining employment. However, you must meet the Distance Test described at the top of the next column.

You may deduct allowable expenses you incur in moving yourself, your immediate family, your household goods, and your personal belongings, including the cost of transportation to your new home, using your actual out-of-pocket costs or the federal mileage allowance. You may deduct expenses for storing household goods, for meals and lodging on the way, including such costs on the day you arrive, and parking fees and tolls.

You may not deduct expenses for:

- selling or purchasing a house;
- breaking a lease; house hunting;
- securing lodging prior to moving;
- seeking new employment;
- moving for your own convenience;
- relocating to a new job or workplace less than 35 miles farther than your old commute to work; or
- moving anywhere other than within or into Pennsylvania.

Distance Test. Your new workplace must be at least 35 miles farther from your old residence than your old workplace was.

EXAMPLE: If your old workplace was three miles from your old residence, your new workplace must be at least 38 miles from your old residence. Measure the distance using the shortest of the most commonly traveled routes. To determine if you meet this test, complete Lines E1, E2, and E3.



IMPORTANT: If you are in the military, you do not have to meet the distance test if your move is a permanent change of duty station. If you, your spouse and dependents are moving to the new duty station from different locations, you may claim all the allowable expenses.

17. Enter your actual allowable transportation expenses as previously described.
18. Enter your actual qualifying expenses for travel, meals, and lodging, as previously described.
19. **Total Moving Expenses.** Add Lines 17 and 18.

Part F. Education Expenses

The federal and PA rules for educational expenses are similar, but not exactly the same. For PA purposes, costs for education expenses that you pay or incur are allowable only if:

- The education is specifically required by law or by your employer to retain an established employment status or rate of compensation; and
- The education is not part of a program that would qualify you for a new occupation, trade, or business, even if you do not intend to enter that new occupation, trade, or business.

Unlike federal rules, you may not deduct education expenses that you incur to maintain or improve your skills.

EXAMPLE: Anthony is a licensed professional in a position that, by law, requires a specific number of continuing education credits every other year. If Anthony fails to obtain these credits, he will lose his license. Anthony also takes courses in using a computer to improve his job performance. Anthony may claim the cost of his continuing education courses. He may not claim the computer courses.

You must answer question F1. If you answer YES, continue. If you answer NO, you may not claim any education expenses. You must answer questions F2 and F3. If you answer NO to both questions, continue. If you answer YES to either question, you may not claim any education expenses.

Enter the name of the college, university, or educational institution you attend, and your specific course of study. Your education must meet the requirements described above.

20. Enter the amount of tuition or fees you actually paid.
21. Enter the costs of your books and other materials required for your courses.
22. Enter the cost of travel. Pennsylvania follows the federal rules for travel expenses for education.

CAUTION: You may not deduct costs of travel as educational expenses by claiming that the travel itself constitutes a form of education.

23. **Total Education Expenses.** Add Lines 20, 21, and 22.

Part G. Depreciation Expenses

Depreciation is the amount you can claim over the useful life of property you use in performing the duties of your employment. A depreciation expense is allowable if the property:

- Has a useful life exceeding one year; and
- Is required to be regularly and predominantly used to perform the duties of employment; and
- Is required and not provided or supplied by your employer.

PA law allows generally accepted depreciation methods and current expensing. PA law does not allow federal bonus depreciation. PA law limits IRC Section 179 expensing. See DIFFERENCES BETWEEN PA PIT AND IRS on Page 9. The department accepts most generally accepted methods of calculating depreciation used for federal purposes.

Once you have elected a depreciation method, you must consistently use it and may not change it without permission from the PA Department of Revenue. For each asset, enter the depreciation method elected and the expense.



FILING TIP: Do not use Part G to report all depreciation.

Use Part B for vehicles, and Part D for office or work area depreciation. Fair market value of property is not an acceptable other basis.

24. Total Depreciation Expenses. Enter the total of columns E and F.

PA SCHEDULE A (LINE 2)

If your total PA-taxable interest income (taxpayer, spouse and/or joint) is equal to the amount reported on your federal return and you have no amounts for Lines 2 through 15 (not including subtotal Lines 4 and 10) of PA Schedule A, you must report your income on Line 2 of the PA-40, but you do not have to submit PA Schedule A. If there are any amounts (taxpayer, spouse and/or joint) for any of the Lines 2 through 15 (not including subtotal Lines 4 and 10) of PA Schedule A, you must complete and submit PA Schedule A with your PA-40. A taxpayer and spouse must complete and submit separate schedules to report their income if any amounts are reported on Lines 2 through 15 (not including subtotal Lines 4 and 10). However, if all the income is earned on a joint basis, one schedule may be completed. Complete the oval to indicate whether the income included on the schedule is from the taxpayer, spouse or joint. When reporting the interest income on a separate PA Schedule A, a taxpayer and spouse must show their separate share of the interest income from jointly owned accounts on each PA Schedule A.

PA-taxable income includes interest from:

- Savings and loan associations;
- Credit unions, even if reported as dividends on your statement;
- Bank deposits;
- Bonds (except as exempted later on this page);
- Certificates of deposit;
- Interest-bearing personal checking accounts;
- State, federal, local and foreign tax refunds;
- Other deposits, investments, and obligations;
- GNMA and FNMA certificates and other obligations that are guaranteed by the U.S. government, but not direct obligations of the U.S. government;
- Obligations of other states or countries; and
- Mutual savings banks and cooperative banks, even if reported as dividends.



IMPORTANT: Also report on PA Schedule A:

- Income on life insurance contracts, annuities, or endowments if reported for federal income tax purposes;
- Income from charitable gift annuities included in federal gross taxable income as ordinary or capital gain income;
- Any amount paid out of an Archer Medical Savings Account or Health Savings Account that is includable in the gross income of an account beneficiary for federal income tax purposes. Included in this category are distributions used for any purpose other than to pay qualified medical expenses, any amount considered to be excess contribution distributions not previously included in income, or any amount of the account's income attributable to excess contributions; and
- Taxable amounts distributed from IRC Section 529 Qualified Tuition Programs for non-educational purposes. Please check our website at www.revenue.pa.gov for more information on how to determine the taxable portion of any distributions for non-educational purposes.

PA-taxable income does not include interest from:

- Direct obligations of the U.S. government (U.S. Treasury Bonds, Notes, Bills, Certificates, and Savings Bonds)
- Direct obligations of the Commonwealth of Pennsylvania
- Direct obligations of political subdivisions of Pennsylvania
- Pennsylvania 529 College Savings accounts when earned or used to pay for Qualified Higher Education Expenses as defined in IRC Section 529 (e)(3)(A).

For a list of exempt obligations, request Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes (Form REV-1643).

NOTE: You must include PA tax-exempt interest in Eligibility Income for Tax Forgiveness purposes.

Form Instructions

Complete each line as necessary:

1. Enter the amount of interest income you reported on Line 8a of your federal Form 1040, or Form 1040A, or Line 2 of your federal Form 1040EZ.
2. Enter the total amount of tax-exempt interest income included in Line 8b of your federal Form 1040, or Form 1040A.

CAUTION: Do not include exempt-interest dividends in this amount.

3. Enter any other adjustments for items that increase PA-taxable interest income and provide a description of the amounts. Examples of deductions from federal interest income that must be added back include, but are not limited to: self-charged interest; amortization of bond premium; nominee interest; or expenses incurred to realize interest income.



IMPORTANT: If you are not required to file a federal return, enter on this line the amount of any interest income reported to you in Box 1 of all federal Forms 1099-INT, Interest Income, as well as all other federally taxable interest income received, including, but not limited to, U.S. government interest or interest from federal Schedule K-1s.

5. Enter the total amount of interest income included in the amounts reported in Line 1 of federal Schedule B from federal Schedule(s) K-1.
6. Enter the amount of your tax-exempt interest from direct obligations of the Commonwealth of Pennsylvania and/or direct obligations of political subdivisions of Pennsylvania. Include on this line any interest income from obligations issued by the commonwealth, a public authority, commission, board or other agency created by the commonwealth or political subdivision of the commonwealth.



pennsylvania

DEPARTMENT OF REVENUE

BUREAU OF INDIVIDUAL TAXES

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HARRISBURG PA 17128-0605

TIPS FOR SUCCESSFULLY FILING PA SCHEDULE UE

A. Include detailed documentation for each line item (including copies and a summary page) at the time the return is filed. Examples of proper documentation, supporting specific line items, can be found at: www.revenue.pa.gov.

B. Documentation should clarify unreimbursed expense responsibilities.

Letters from employers should identify:

- Whether or not an employee is required to incur the expenses to perform the duties of the position;
- If there is any reimbursement of the expenses; and
- The method by which the reimbursement is determined.

In lieu of a letter from the employer, the department will accept a copy of the employer's employee expenses reimbursement policy or a signed affidavit. Templates for the employer letter and the affidavit will be available, during filing season, at www.revenue.pa.gov.

C. If mileage is reimbursed by an employer, even at a rate less than the federal rate, it should not be claimed as UE.

The amount of the expense determined at the federal rate less the amount reimbursed is not a deductible expense. The expense should not be reported on a taxpayer's PA Schedule UE.

D. Reminder: PA does not follow IRS rules for per-diem expenses.

If a taxpayer receives a reimbursement for any expenses where the reimbursement is based upon a per-diem rate or fixed dollar amount, the expense is not allowable and should not be included on PA Schedule UE.

E. Commuting expenses are not deductible in PA.

Commuting expenses, including mileage to and from work and parking expenses, are not allowable. For tradesmen, commuting expenses includes the mileage expense to and from any job site not more than 35 miles from the closer of the union hall or the taxpayer's home to the jobsite. Travel to a second job is considered commuting.

F. Review REV-637 for a listing of common unallowable expenses.

There is an extensive list of non-allowable business expenses detailed in REV-637, the department's brochure on UE expenses. The most common errors include:

- Claiming dues and subscriptions for professional organizations or magazines; and
- Cable or internet costs (Unless there are separate cable or internet bills for a home office).

G. Cell phones may be claimed, but, only for business purposes.

Cell phone expenses claimed should be limited to calls made for business purposes when required by an employer. The employee should maintain the type of cell phone coverage that is reasonably related to the needs of the employer's business, and the unreimbursed expense amount claimed must be reasonably calculated so as to not exceed expenses the employee actually incurred in maintaining the cell phone. Monthly phone bills may be requested. Costs for family plans, bundles, or for additional lines are not reimbursable.

H. Include breakdowns of all miscellaneous expenses.

Many software vendor programs are not supplying a breakdown of the miscellaneous expenses if there are more than two items of expense. If software supports pdf attachments, please include the breakdown via that method. If software doesn't support pdf attachments, fax the information to the department using the DEX-93, Bureau of Individual Taxes Fax Cover Sheet.

I. A separate PA Schedule UE is necessary for each taxpayer.

Taxpayer and spouse cannot file and report their expenses on a single PA Schedule UE. Taxpayers working for multiple employers – and not working out of a union hall, the only exception to this rule – must also provide separate PA Schedules UE to report expenses. Excess expenses for one employer are not deductible against the income received from a second employer.

BONUS: Department Expands Review of Personal Income Tax Deductions

For tax year 2015, the Department of Revenue will expand its systemic review of personal income tax expense deductions to include examination of PA-40 Schedule C expenses. This is in addition to the unreimbursed employee business expenses and incorrectly reported wages or withholding from W-2s that were the primary focus of enhanced review last tax year.

In cases where the department believes expenses may have been erroneously reported or claimed, it will contact taxpayers to request additional supporting information before tax examiners make any adjustments. Taxpayers and practitioners may see an increase in correspondence from the department related to these expense claims.