

TIPS for reporting common expenses (Schedule C)

The Pennsylvania Department of Revenue has been conducting reviews of the PA Schedule C expenses and deductions. Only business expenses are allowable and the expenses must be ordinary, necessary, reasonable and directly related to the production and marketing of the taxpayer's products, goods and services. The department may contact taxpayers to request an explanation or supporting information for any amount reported on the PA-40, Schedule C. The department makes requests for additional information with the expectation that the taxpayer can substantiate the information that they previously provided on their return.

Important: *Since taxpayers have different bookkeeping methods, the department will accept various different documentation to support the expenses claimed. Some examples include general ledgers, excel spreadsheets, a sample of a monthly statement, receipts, invoices, travel logs and an explanation of how these expenses are directly related to the operation of the business. Notification will be sent out once the correspondence has been reviewed by the department. If additional information is required to substantiate the expenses claimed, the department will advise you of what specific information is required to process your return.*

General Tips

- The amount reported on Line 2, Cost of Goods Sold, should be the same for Pennsylvania and federal purposes. If the amount reported is different for Pennsylvania, an explanation must be submitted. Itemized spreadsheets or general ledgers outlining the expenses claimed are typically acceptable; however, the department may require actual receipts or invoices to support the amount claimed.
- You may deduct advertising and marketing expenses. Pennsylvania does not allow charitable deductions claimed for federal income tax purposes to be deducted as marketing and advertising expenses. Itemized spreadsheets or general ledgers outlining the expenses claimed are typically acceptable to support the advertisement expense claimed on Line 6, Advertising.
- You may deduct 100 percent of your actual vehicle expenses or you may use the federal standard mileage rate. If your vehicle is used for both business and personal travel, you may only deduct the business portion. Itemized spreadsheets, travel log books, and/or other ledgers outlining the expenses claimed are typically acceptable to support the expenses claimed on Line 10, Car and Truck Expenses.
- Pennsylvania allows 100 percent of customary and reasonable amounts expensed on business meals, entertainment and travel as opposed to the federal limit of 50 percent. Itemized spreadsheets, credit card statements with notation of the business purposes and travel logs are typically acceptable to support the expenses claimed on Line 31, Travel and Entertainment.
- Pennsylvania allows the deduction of monthly utility bills. If the utilities include both business and personal use, you may only deduct the business portion. The department may require copies of monthly bills for all utility expenses claimed on Line 32, Utilities.
- You may deduct any other costs of doing business or providing professional services that do not fall under the other lines on the PA Schedule C. These expenses must be itemized on Line 37, Other Expenses. The department may require the itemized breakdown and additional documentation to support the amount claimed.
- If you are including income reported on a 1099-MISC as gross receipts or sales on the PA Schedule C, Line 1a, do not list the same information on the form W2-S.

Submitting Documentation

When submitting the documentation being requested, it is important to remember that organizing it in a logical format will help to speed up processing.

- Grouping documentation for a particular line item will help the department review the information quickly.
- Circling the exact line item claimed as a business expense on a document will help avoid additional questions.
- Use page separators to differentiate between the expenses for each line item. If submitting a large file electronically send each line in a separate transmission. Files cannot exceed 15MB.
- Include detailed breakdowns of your calculation when prorating or amortizing expenses.

To prevent delays in processing a tax return, the supporting PA Schedule C documentation may be submitted as a .pdf attachment when the return is electronically filed.

If unable to attach the documentation to the electronically filed return, it may be sent to:

Fax: 717-772-4193
E-mail: ra-bitpitelfcorfaxes@pa.gov
PA Department of Revenue
Electronic Filing Section
P.O. BOX 280507
Harrisburg, PA 17128-0507

If the department requests the supporting documentation, please send the information to:

Fax: 717-783-5823
Email: ra-bitpitholdcorfaxe@pa.gov
PA Department of Revenue
Bureau of Individual Taxes
P.O. BOX 280501
Harrisburg, PA 17128-0501

When faxing or emailing documentation to the department, it is important to use either the DEX-93 Personal Income Tax Correspondence Sheet or a copy of the notice you received as the first page of the correspondence. This will allow us to quickly and accurately index the documents to the account.

For additional information regarding the PA Schedule C, go to the department's website at www.revenue.pa.gov.