

GENERAL INFORMATION

Although Pennsylvania permits allowable employee business expenses for personal income tax purposes, the rules for the expenses are similar to, but not the same as, the rules for federal income tax purposes. Specifically, Pennsylvania does not allow the use of federal per diem rates for determining expenses and does not permit some expenses that are allowable for federal purposes. Pennsylvania only permits expenses which are required to perform the duties of a job or profession.

PURPOSE

The Pennsylvania Department of Revenue routinely conducts systemic reviews of PA-40 Schedule UE expenses and deductions. Only unreimbursed expenses are allowable and the expenses must be ordinary, necessary, reasonable, actually incurred and directly related to the employee's job. This document is intended for filers of PA-40 Schedule UE, Unreimbursed Business Employee Business Expenses, as a supplement to the instructions and to help taxpayers when responding to department notices requesting an explanation or supporting information for any amount reported on the PA-40, Schedule UE. The department makes requests for additional information with the expectation that the taxpayer can substantiate the information that they previously provided on their return.

GENERAL TIPS

A. Determine if the expense is an unreimbursed business expense.

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

B. Provide the documentation when the return is filed to avoid refund delays.

If a taxpayer's expenses included on a PA-40 Schedule UE are routinely examined by the department, taxpayers or their preparers may wish to include detailed documentation for each line item (including copies and summary page) at the time the return is filed. Examples of proper documentation supporting specific line items can be found on the department's website under Online Services in the Frequently Asked Questions section.

C. To prevent delays in processing, submit the documentation in the proper format.

Submit the documentation as a .pdf file attachment

when the return is electronically filed. If unable to attach the information, it may be submitted via these alternative methods:

Fax: 717-772-4193

Email: **RA-BITPITELFCORFAXES@PA.GOV** (must be in .pdf format and cannot exceed 15MB)

Mail: **PA DEPARTMENT OF REVENUE
ELECTRONIC FILING SECTION
PO BOX 280507
HARRISBURG PA 17128-0507**

D. Employer letter documentation should clarify unreimbursed expense responsibilities.

Letters from employers should identify:

- Whether or not an employee is required to incur the expense(s) 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 expense reimbursement policy or a signed affidavit. Employees may provide the REV-757, Employer Letter Template, to their employer or use the REV-775, Personal Income Tax Employee Business Expense Affidavit, in lieu of a letter from their employer.

E. A separate PA-40, Schedule UE, is necessary for each taxpayer and each employer.

A taxpayer and spouse cannot file and report their expenses on a single PA-40 Schedule UE. Taxpayers working for multiple employers – except those working out of a union hall – must also provide separate PA-40 Schedules UE to report expenses. Excess expenses for one employer may not offset the wages or compensation of any other employer.

SPECIFIC EXPENSE TIPS

A. Mileage expenses determined at the federal rate in excess of the employer reimbursement rate are not deductible.

If an employer reimburses an employee for mileage at a rate less than the federal mileage rate, the difference between the two rates is not a deductible expense. The expense should not be reported on PA-40 Schedule UE.

B. 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.

C. Cell phone expenses 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. Cell phone expenses not supported by a log or business and personal calls and usage will be denied unless a separate cell phone is maintained for personal use.

D. Miscellaneous expenses claimed on PA Schedule UE must be broken down by expense type.

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 or email the information to the department using the DEX-93, Personal Income Tax Correspondence Sheet.

 **NOTE:** For additional information about allowable employee business expenses, see the PA Personal Income Tax Guide – Gross Compensation section for additional information.

RESPONDING TO DEPARTMENT NOTICES TIPS

A. Submit the documentation to the department using an electronic method.

To expedite processing of responses to department notices, submit your response via myPATH at myPATH.pa.gov. Correspondence submitted through myPATH will post to the taxpayer's account immediately. If submitted via fax or mail, please use the DEX-93, Personal Income Tax Correspondence Sheet, and one of the following formats for more efficient processing by the department:

Response to Request for Information –

Fax: 717-783-5823

Email: RA-BITPITHOLDCORFAXE@PA.GOV (must be in .pdf format and cannot exceed 15MB)

Response to Billing Notice –

Fax: 717-705-6236

Email: RA-BITPITBILLCORFAXES@PA.GOV (must be in .pdf format and cannot exceed 15MB)

 **IMPORTANT:** If the documentation the department requests is voluminous, the taxpayer may submit a detailed summary. A detailed summary should include the amount of expenses claimed on a monthly basis with a further breakdown of the expenses for two of the months being provided on a daily basis. The department will review the summary and request specific items if further information is needed. Examples of proper documentation supporting specific line items can be found on the department's website under Online Services in the Frequently Asked Questions section.

B. If not able to submit the information electronically, mail the information to:

**PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280501
HARRISBURG PA 17128-0501**

C. Submit the documentation in an organized and logical format.

Submitting documentation using these tips will help the department review the information more efficiently and effectively.

- Provide a summary document listing individual amounts along with totals by expense amounts claimed.
- Circle the exact line item amount claimed as a business expense to avoid additional questions.
- Group documentation by expense type when providing support for particular line items. If submitting a large file electronically, send each line in a separate transmission if an email attachment is more than 15MB.
- Use page separators to differentiate documentation between expenses.
- Include detailed calculations when allocating or prorating expenses.