

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

- \* Received a fixed mileage allowance or a per diem expense allowance, and neither you nor your employer included the allowance in your compensation; or
- \* Accounted for your expenses to your employer, and your employer reimbursed you in the exact amount of your expenses. Do not include such reimbursements in gross compensation or claim them as expenses on a PA Schedule UE.

Business expenses that Pennsylvania **does not** allow are:

- 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

## CONTACT INFORMATION

Online Customer Service Center  
[www.revenue.pa.gov](http://www.revenue.pa.gov)

Taxpayer Service & Information Center  
Personal Taxes: 717-787-8201  
Business Taxes: 717-787-1064  
e-Business Center: 717-783-6377

1-888-PATAXES (728-2937)

Touch-tone service is required for this automated 24-hour toll-free line. Call to order forms or check the status of a refund. When calling, be prepared with your Social Security number and the amount of the refund you expect.

Forms Ordering Message Service  
1-800-362-2050

Service for Taxpayers with Special Hearing  
and/or Speaking Needs  
1-800-447-3020

Call or visit your local  
Department of Revenue district office, listed in the  
government pages of local telephone directories.

[www.revenue.pa.gov](http://www.revenue.pa.gov)

## UNREIMBURSED ALLOWABLE EMPLOYEE BUSINESS EXPENSES FOR PA PERSONAL INCOME TAX PURPOSES



 **pennsylvania**  
DEPARTMENT OF REVENUE

REV-637 (02-15)

### **What are unreimbursed business expenses?**

A taxpayer may use PA Schedule UE, Allowable Employee Business Expenses, to report allowable unreimbursed business expenses, which can be excluded from compensation on Line 1A of the PA-40 Personal Income Tax Return. For an expense to be allowable, it must meet the following conditions, and supporting documentation is required:

1. The **actual** amount paid must be reported. Expenses may not be estimated or guessed.
2. The expenses must be **reasonable**. The amount of expense should not be excessive in relation to income, type of expenditure or purpose of expense.
3. The expenses must be **necessary** for the employee to do the duties of the job. Costs must be a condition of the employment and may not be incurred to make the job more convenient for the employee or to make the job more productive.
4. Only **ordinary** expenses are allowable. The expenses must be similar to those incurred by other employees in the same trade or profession.
5. The expenses must be **directly related** to the employee's present trade, business or profession. Expenses from a previous job or incurred for a future occupation may not be taken as unreimbursed expenses.
6. The expenses **must be unreimbursed**. Only expenses for which the employee receives no reimbursement or is only partially reimbursed may be reported on PA Schedule UE.

State and federal rules for allowable business expenses differ. In some instances, federal limitations won't apply to the amount of meals and entertainment expenses. In other instances, federal rules for accounting for the expenses don't apply. Per diem rates allowable for federal purposes are not allowable for PA personal income tax purposes as the amount of the deductible expense; only expenses actually incurred are deductible. Since Pennsylvania does not have federal tax accounting limitations and thresholds, 100 percent of actual unreimbursed PA allowable employee business expenses may be deducted from income for Pennsylvania personal income tax purposes.

A separate PA-40 Schedules UE must be completed for each taxpayer and for each employer and occupation, meaning a separate Schedule UE must be filed for each federal Form W-2 received by the taxpayer. The total amount of unreimbursed expenses from all Schedules UE must be entered on the PA-40.

**NOTE:** The department may request a detailed breakdown of all expenses claimed, dated receipts and a letter from each employer. A letter from the taxpayer or the tax practitioner is not sufficient proof of the expenses claimed.

An employee cannot deduct expenses if he or she was reimbursed by the employer for the exact amount of the expenses, including a fixed mileage allowance or per diem living expense that the employer did not include in PA taxable compensation in Block 16 of federal Form W-2. However, if the employer did include reimbursements for the employee's expenses in PA taxable compensation on the W-2, the employee may complete the PA-40 Schedule UE to deduct his or her allowable PA business expenses.

In addition, the evaluation of depreciation and the depreciation method chosen for federal tax purposes may also be considered in determining PA allowable employee business expenses. Pennsylvania allows generally accepted depreciation methods and current expensing but does not allow federal bonus depreciation and limits IRC Section 179 expensing.

### **What are acceptable deductions on a PA Schedule UE?**

The following is a list of deductions that may be claimed on the PA Schedule UE:

1. Union dues, agency fees or initiation fees
2. Work clothes not suitable for street wear that are required to be purchased. This includes cleaning, altering and repairs of such clothing
3. Small tools and supplies
4. Professional license fees, malpractice insurance and fidelity bond premiums where required by law.
5. Travel and mileage
6. Moving expenses into PA, provided the transfer is from one permanent duty station to another and the difference in mileage between the residence and the old duty station and the original residence and the new duty station is 35 miles or more (the 35 mile rule is waived for military residence and their families). The expenses must be limited to those incurred in moving family, self and household goods from point of departure to point of arrival including lodging the night of arrival. Moving expenses are not allowed when moving out of PA, nor are they allowed for non-residents.
7. Educational expenses, if required by law or employer to maintain or improve skills in present job
8. Office work area expenses
9. Miscellaneous expenses such as breakage fees, cash shortages, costs incurred to pay readers for blind employee, business gifts and W-2 fees that must be paid back to the employer such as jury duty where an employer continues full wages and requires repayment of monies received for jury duty
10. Reimbursements received that are not on a W-2 must be deducted from expenses claimed on the PA Schedule UE.