

March 24, 2021 (REVISED)

Advisory Notice – Employee Business Expenses Update

Will the City of Philadelphia conform with changes to the deductibility of employee business expenses under the federal Tax Cuts and Jobs Act?

Answer: No

- In calculating the amount of employee compensation subject to the Philadelphia Income Tax (City Wage Tax), Philadelphia allows a deduction for expenses directly connected with and incurred in the actual performance of an employee's services.¹ Philadelphia will not conform with the federal changes and will continue to allow a deduction for expenses directly connected with employment that are ordinary, necessary, and reasonable.
- Philadelphia will also allow a deduction for unreimbursed expenses of moving to a new home that are incurred to retain employment. Expenses of moving to a new home may also be deducted if the expenses are related to reporting to a new workplace location after obtaining employment. If an employee is reimbursed for a portion of these moving expenses, the reimbursed amount will be included in compensation subject to the City Wage Tax. Allowable expenses may not be deducted for moving anywhere other than within or into Philadelphia.
- Taxpayers should use Pennsylvania Schedule UE to report deductions for the applicable employee business expenses, allowable under Income Tax Regulation Section 204, and allowable moving expenses. Mark the schedule: "Philadelphia – Deductions for Expenses Directly Connected With Employment." Please refer to the Pennsylvania Department of Revenue's guidance regarding the deductibility of home office expenses during the COVID-19 pandemic (3/9/2021):
www.revenue.pa.gov/PATaxTalk/Pages/Article.aspx?post=32

Federal Changes:

- For years 2018 through 2025, the federal Tax Cuts and Jobs Act (TCJA) eliminates most miscellaneous itemized deductions for individuals, including deductions for employee business expenses. Miscellaneous itemized deductions were previously deductible to the extent they exceeded 2% of adjusted gross income.
- Moving expenses are no longer deductible for federal income tax purposes. The deduction has been suspended for most individual taxpayers for tax years beginning after December 31, 2017 through January 1, 2026.

¹ Philadelphia Income Tax Regulations – Section 204