

Income Items Taxable as Pennsylvania Compensation Based on Facts and Circumstances

Type of Compensation	Taxable Description	Non-Taxable Description
Sick pay, sick leave	Sick pay and sick leave are taxable compensation when representing regular wages. The employer must include them as compensation and withhold Pennsylvania tax. Request <i>REV-634, Employee Fringe Benefits and Wage/Salary Supplements</i> .	<p>Payments, not representing regular wages, including payments made by third party insurers for sickness or disability, are not taxable income for Pennsylvania purposes.</p> <p>Your employer should not include periodic payments for sickness or disability in Box 16 of your federal Form W-2.</p> <p>If your employer includes this income and withholds Pennsylvania tax, you must obtain and submit a corrected federal Form W-2 or a statement from your employer explaining the error.</p>
Disability benefit payments, including payments made by third party insurers for sickness or disability	Taxable if paid by employer.	Nontaxable if paid by third-party insurer.
A premature withdrawal from a regular IRA or Roth IRA	A premature withdrawal from a regular IRA or Roth IRA is taxable compensation to the extent that the taxpayer receives an amount that exceeds his or her previously taxed contributions. The cost-recovery method of accounting must be used to determine the taxable portion unless timely rolled over into an eligible Pennsylvania retirement plan. Please consult your summary plan description or plan administrator.	
Payments received under worker's compensation acts, occupational disease acts, or similar legislation, including payments for injuries you received while working, and damages received, whether by suit or otherwise, for personal injuries (unless one is required to pay these monies back to the employer and receives regular salary in return)	Taxable when the employee must turn over the worker's compensation payments to the employer in order to receive his or her regular salary in return. The employee does not report the worker's compensation payments, but does report the full amount of his or her regular salary.	<p>All other payments received under workers compensation acts is not taxable compensation.</p> <p>Occupational disease acts are not taxable.</p>

Scholarships or fellowships and stipends	The recipient is required to apply the skill and training to advance research, creative work or some other project or activity.	Made on the basis of need or academic achievement, is not taxable if awarded to encourage or allow the recipient to further his or her academic achievement is not taxable compensation.
Employer-provided fringe benefits	<p>Non-excludible fringes</p> <p>Refer to Pennsylvania Taxation of Fringe Benefits for a list of non-excludable fringes including an option to receive cash or reimbursement.</p>	<p>Excludible fringes (e.g. personal use of an employer's owned or leased property and/or services, at no cost or at a reduced cost, and using your employer's dependent care facilities) is not taxable compensation.</p> <p>Refer to Pennsylvania Taxation of Fringe Benefits.</p>
Damage awards - Delayed damages received in connection with a court judgment or settlement	Delay damages received in connection with a court judgment or settlement is taxable compensation.	
Federal-taxable punitive damages awarded and settlements from personal injury		Federal-taxable punitive damages received for personal physical injury or physical sickness, whether received by suit or by settlement is not taxable compensation.
Damages, awards, and settlements from personal injury or sickness		<p>Damage awards and settlements from personal injury or sickness if pain and suffering, emotional distress, or another non-economic element was or would have been a significant evidentiary factor in determining the amount of the taxpayer's damages is not taxable compensation.</p> <p>Refer to Damage Awards.</p>
All other damage awards	Other damage awards that are also taxable e.g. damage awards and settlements to the extent that the payments represent back wages or other uncollected entitlement to Pennsylvania-taxable incomes, damage awards for lost profits, etc.) is taxable compensation. Report on PA-40 Schedule W-2S, Wage Statement Summary.	

<p>Television Show winnings</p>	<p>A prize awarded to a participant in a game or “reality” show is considered non-employee compensation for Pennsylvania personal income tax purposes.</p> <p>The value of the prize should be reported on PA-40 Schedule W-2S, Wage Statement Summary.</p> <p>If the prize is taxed in another state, then the taxpayer can use PA-40 Schedule G–L to claim a resident credit for taxes paid to other states.</p>	
<p>Awards</p>	<p>Awards given in recognition for past or future service are taxable compensation.</p>	<p>All awards not given in recognition for past or future service are not taxable compensation.</p>
<p>Gifts</p>	<p>Taxable if gift is a transfer of cash or property in payment for past or present services or as an inducement to perform future services.</p>	<p>Gifts made from detached or disinterested generosity is not taxable compensation.</p>
<p>Tuition assistance or educational benefits unless the training or education is either:</p> <ul style="list-style-type: none"> • Required by law or regulation; or • Required of the employee by the employer in order for the employee to retain the skills necessary for his or her present position. If the course, degree program, or training is designed to enable the employee to enter a new field or profession or to obtain a promotion, the reimbursement is taxable. 	<p>If employer reimburses employees for education cost, then the reimbursement is fully taxable and the employee may deduct only those amounts directly related to business expenses allowed on PA-40 Schedule UE, Allowable Employee Business Expenses, to determine taxable compensation.</p>	<p>Employees of an institution of higher learning that receive free or low-cost education receive the tuition assistance tax free for Pennsylvania personal income tax purposes unless they receive cash grants (for themselves or their children) as reimbursements for the tuition paid at their institution of employment or any other institution of higher learning.</p> <p>Since Pennsylvania personal income tax has no distinction regarding taxability with respect to the amount of the benefits received for highly compensated employees, these benefits would also be considered tax free for Pennsylvania personal income tax purposes unless a cash grant is received.</p>
<p>Employer contributions to eligible Pennsylvania retirement plans and non-qualifying deferred compensation plans</p>		<p>Not taxable compensation</p>
<p>Employee contributions to non-qualifying deferred compensation plans</p>	<p>Refer to PA PIT Bulletin 2005–03 - Deferred Compensation Under Nonqualified Plans.</p>	<p>Refer to PA PIT Bulletin 2005–03 - Deferred Compensation Under Nonqualified Plans.</p>

<p>Distributions from eligible Pennsylvania retirement plans and non-qualifying deferred compensation plans</p> <p>Refer to PA PIT Bulletin 2005–03 - Deferred Compensation Under Nonqualified Plans and PA PIT Bulletin 2005-05 - Qualified Employer Plans.</p>	<p>Act 2005–40 established the general rule that distributions from plans described in IRC §409A(d)(1) attributable to an elective deferral of income or the income on any elective deferral of income are taxable.</p>	<p>Contributions previously taxed using the cost recovery method are not taxable.</p>
<p>Federal or state active-duty pay inside Pennsylvania for armed forces personnel</p>	<p>If related to active duty at a base located in Pennsylvania by Pennsylvania resident military personnel or for non-emergency active-duty pay by Pennsylvania National Guard reservists</p>	<p>Active duty pay for nonresident taxpayers Emergency active-duty pay under 35 Pa. C.S. §§ 7601-7604.</p>
<p>Federal active duty pay for commissioned corps of the U.S. Public Health Service or the National Oceanic and Atmospheric Administration</p>	<p>Pennsylvania resident taxpayers are subject to tax on their active duty pay regardless of where earned</p>	<p>Active duty pay for nonresident taxpayers</p>

Costs, Expenses, and Deductions Against Gross Compensation

- No Deduction Against Gross Compensation**
For individuals, Pennsylvania law does not exempt or exclude from income, or allow a deduction for, any personal expenses, federal itemized deductions, or federal standard deductions. Pennsylvania only allows direct unreimbursed employee business expenses and other direct costs to earn, receive, or realize income.
- Exception - Unreimbursed Employee Expenses**
Allowable employee business expenses for Pennsylvania purposes are similar to, but not exactly the same as, expenses for federal purposes. Refer to the section below for guidance regarding unreimbursed employee business expenses. Pennsylvania does not allow amounts of business expenses over and above the amount reimbursed by an employer if the employer provides a fixed-mileage allowance, daily, weekly, monthly or yearly reimbursement unless the reimbursement is included in compensation (W-2 wages). These expenses should not be reported on PA Schedule UE and reimbursements should not be included in compensation or on the reimbursement line of PA Schedule UE by the taxpayer.

In addition, business expenses are not to be reported if a taxpayer accounts for allowable business expenses to an employer and the employer reimburses the business expenses in the exact amount of the expenses.

Pennsylvania Resident Compensation

A Pennsylvania resident is taxed on all compensation received regardless of the source.

Nonresident Pennsylvania Compensation

A nonresident of Pennsylvania is taxed on Pennsylvania-sourced compensation.

PENNSYLVANIA COMPENSATION – GENERAL RULES

Pennsylvania Statutes, Regulations and Other Guidance

The sections of the Tax Reform Code of 1971 relating to compensation can be found at 72 P.S. §§ 7301(d),