

Policy Update – Decoupling from Federal Depreciation  
Business Privilege Tax / Net Profits Tax  
Tax Year 2008

For taxpayers claiming the special first year depreciation allowance on certain property placed in service after December 31, 2007 and before January 1, 2009 pursuant to the Federal *Economic Stimulus Act of 2008 (U.S.P.L. 110-185)*

**Pennsylvania’s Act 89 of 2002** (signed by Governor Mark Schweiker on June 29, 2002) provides that the taxable net income subject to the Philadelphia Business Privilege Tax (“BPT”) shall include the amount of the 50% special allowance deduction for depreciation of qualified property claimed and allowed under section 168(k) of the Internal Revenue Code. That is, the Federal special allowance depreciation is **not allowed** as a deduction in determining taxable net income for BPT purposes.

With respect to the decoupling from IRC § 168(k), Section 31.1 of Act 89 links the Philadelphia Business Privilege Tax (“BPT”) net income add-back adjustment to that made in arriving at taxable net income for Pennsylvania Corporate Net Income Tax (“CNI”) purposes. **For corporate BPT filers using Federal net income (i.e. Method II), the decoupling adjustment made for Pennsylvania CNI purposes will also be made for BPT net income purposes.** (*Note – Taxpayers reporting net income in accordance with their accounting system (i.e. Method I) must use the depreciation method(s) consistent with the elected accounting system. Under no circumstance can that accounting system avail itself of the Federal bonus depreciation provided under IRC § 168(k).*) Since Section 31.1 of Act 89 does not distinguish a different Philadelphia BPT decoupling treatment for unincorporated taxpayers, the same adjustment will still need to be made (despite a CNI return not being filed). The required two - step adjustment as provided by Act 89 is as follows:

1. The amount of any IRC § 168(k) bonus depreciation for the qualified property must be added back to net income.
2. After the amount of the IRC § 168(k) bonus depreciation is added back, an additional deduction for depreciation is allowed for the qualified property. The additional deduction is equal to 3/7 of the Federal deduction allowed for depreciation of the qualified property (net of the bonus depreciation of IRC § 168(k) for the tax year). In effect, the **non-**bonus portion of the allowed Federal depreciation is multiplied by 3/7 to arrive at the additional CNI/BPT depreciation.

