

Decoupling Federal Bonus Depreciation

Policy Update - Jobs & Growth Reconciliation Act of 2003

The Federal ***Jobs and Growth Reconciliation Act of 2003*** increased the Federal additional first-year bonus depreciation allowance to fifty percent (50%) from thirty (30%) for property acquired after May 5, 2003 and placed in service before January 1, 2005. The Department of Revenue has received several inquiries concerning what effect the Federal change will have on the calculation of the City of Philadelphia's Business Privilege Tax (BPT) and Net Profits Tax (NPT).

Pennsylvania's Act 89 of 2002 legislatively ties Philadelphia's decoupling methodology to that used by the Commonwealth of Pennsylvania for Corporation Net Income Tax (CNI) purposes. Therefore, the City of Philadelphia will require the following two (2) step adjustment for BPT/NPT purposes:

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/NPT depreciation.

While Act 89 will normally permit the recovery of the entire amount of the 30% bonus depreciation by the time the property is fully depreciated for Federal tax purposes, an amount of the 50% bonus depreciation will not be recovered. To achieve the full recovery of the entire bonus depreciation, Act 89 permits the continued deduction of any remaining un-recovered bonus depreciation until the total amount has been claimed. The Commonwealth of Pennsylvania has stated that ***"taxpayers will be allowed to deduct any remaining unrecovered amount in the last taxable year that the property is depreciated for federal tax purposes"***. In cases where the asset is disposed of prior to the taxpayer recovering the full amount of the disallowed bonus depreciation, the taxpayer may deduct the remaining disallowed bonus depreciation in the year of disposition. ***(Refer to the Pennsylvania DOR policy at www.revenue.pa.us/revenue).***

Example for Decoupling Federal Bonus Depreciation

A calendar year taxpayer acquires a MACRS five (5) year property with an original cost basis of \$100,000 on October 1, 2003. The allowable ***Federal*** depreciation on the asset (assuming the 200% declining-balance method and the mid-quarter convention) for calendar tax year 2003 is as follows:

Bonus Depreciation (\$100,000 x .50)	\$50,000
Annual Depreciation (\$100,000 - 50,000) x 40% x 12.5%	\$2,500
(A) Total Federal Depreciation	\$52,500

Required BPT/NPT Adjustment to Taxable Net Income

Step 1 - Add back the Bonus Depreciation taken	\$50,000
Step 2 - Calculate the BPT/NPT additional depreciation (Total Federal Depreciation - Bonus Depreciation) x 3/7 (\$52,500 - 50,000) x 3/7 =	<\$1,071>
(B) Add back to Federal Taxable Income	\$48,929
(C) Philadelphia BPT/NPT Depreciation (Line (A) - Line (B))	\$3,571

2003 Business Privilege Tax / 2003 Net Profits Tax Bonus Depreciation Adjustment Worksheet

1. Net Income as properly reported to the Internal Revenue Service on Form #1120, 1120S, 1065 or Schedule C (Method II) or in accordance with your Accounting System (Method I), whichever is applicable.....	1.		
2. Add back the Federal Bonus Depreciation taken.....	2.		
3. Calculate the BPT/NPT additional depreciation (Total Federal Depreciation - Bonus Depreciation) x 3/7.....	3.		
4. Line 1 plus Line 2 minus Line 3. This is the Adjusted Net Income to be reported on the 2003 Business Privilege Tax return, Page 2, Lines 1 or 2, or Page 4, Line 1, or Page 7, Line 1 and the 2003 Net Profits Tax, Page 2, Worksheet A and/or Worksheet B, Line 1.....	4.		