

## Decoupling Federal Bonus Depreciation

### Long Production Period Property & Certain Aircraft IRC §§ 168(k)(2)(B) & 168(k)(2)(C) Property

Generally, qualified property had to be placed in service before January 1, 2005 in order to claim the Federal additional first year depreciation provided by IRC § 168(k). However, as an exception, Long-production-period property [described at IRC§168(k)(2)(B)] and certain aircraft [described at IRC § 168(k)(2)(C)] can be placed in service by January 1, 2006 and still claim the Federal additional first year depreciation. Therefore, taxpayers claiming additional first-year depreciation on their Federal tax return under these IRC provisions will need to decouple for purposes of their 2005 Philadelphia Business Privilege and Net Profits Tax returns.

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 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. 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.