

Philadelphia guidance on business tax treatment of amendments to IRC Section 174

Philadelphia will conform to the federal income tax treatment of R&E expenses paid/incurred in tax years beginning after December 31, 2021

Amendments to IRC Section 174

The federal Tax Cuts and Jobs Act (TCJA) amended IRC Sec. 174 to require that certain research and experimental (R&E) expenses paid/incurred in tax years beginning after December 31, 2021, be capitalized and amortized over a period of five years (domestic research), or 15 years (foreign research) for federal income tax purposes.

Philadelphia Business Tax Treatment

- **Business Income and Receipts Tax (BIRT) Method II and Net Profits Tax (NPT)**
For BIRT Method II taxpayers, Philadelphia will conform to the federal income tax treatment of R&E expenses paid/incurred in tax years beginning after December 31, 2021. For ease of tax administration and compliance, Philadelphia will allow BIRT Method II taxpayers to use the new federal capitalization and amortization rules for the Net Profits Tax.
- **Business Income and Receipts Tax (BIRT) Method I and Net Profits Tax (NPT)**
If a BIRT Method I taxpayer uses an accounting method which allows R&E expenditures to be expensed in the same year they are spent (as opposed to capitalization and amortization), Philadelphia will allow a full deduction of these expenses for BIRT and NPT.