CITY OF PHILADELPHIA
DEPARTMENT OF REVENUE

September 17, 2026

Advisory notice: Philadelphia joins Pennsylvania in decoupling from certain federal tax provisions in the One Big Beautiful Bill Act

PA Act 21 of 2026 requires the City of Philadelphia to conform to Pennsylvania's rules to determine net income for Business Income and Receipts Tax

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The City of Philadelphia Department of Revenue issues the following guidance regarding the treatment of certain federal tax provisions enacted under the One Big Beautiful Bill Act ("OBBBA") for purposes of the Business Income and Receipts Tax ("BIRT").

This guidance addresses the following provisions of the Internal Revenue Code ("IRC") resulting from OBBBA:

1) **Research and Experimental Expenditures** — Any expenditures for research and experimental activities subject to the provisions of 26 U.S.C. §§ 59(e) (relating to other definitions and special rules), 174 (relating to the amortization of research and experimental expenditures), 174A (relating to domestic research or experimental expenditures), or 481 (relating to adjustments required by changes in accounting methods).

2) **Qualified Production Property Expenses** — Any expenses attributable to qualified production property pursuant to 26 U.S.C. § 168(n) (relating to the accelerated cost recovery system).

3) **Interest Deduction Limitations** — Any interest deductions subject to the limitations and requirements set forth under 26 U.S.C. § 163(j) (relating to interest expense deductions).

On July 12, 2026, Governor Shapiro signed PA Act 21 of 2026 into law. Act 21 requires the City of Philadelphia to conform to Sections 216 and 217 from PA Act 45 of 2025 in determining net income for BIRT Method II filers. As a result, the City of Philadelphia is decoupled from the above-referenced federal tax provisions established under OBBBA.

Act 21 of 2026 applies to taxable years beginning after December 31, 2024, and therefore is effective for Tax Year 2025 and all subsequent tax years.

Decoupling Provisions

Research and Experimental Expenditures

Pursuant to Act 21 of 2026, the City of Philadelphia will follow the treatment of research and experimental ("R&E") expenditures prescribed under PA Act 45 of 2025.

Taxpayers must add back to taxable income any federal deductions claimed for domestic or foreign R&E expenditure under the applicable provisions of Internal Revenue Code. Taxpayers may subsequently deduct those expenditures for City tax purposes at a rate of 20% of the original expenditure per taxable year until the full amount has been recovered.

This recovery method for R&E expenditure applies to all taxpayers, including small businesses (as defined under Federal law) Taxpayers should review their R&E expenditure reporting and consult with their tax preparers to ensure compliance with the updated Philadelphia requirements.

Qualified Production Property

Act 21 of 2026 further requires the City of Philadelphia to conform to Pennsylvania's treatment of qualified production property ("QPP") established under PA Act 45 of 2025.

As such, taxpayers must add back to taxable income any federal deductions claimed under IRC § 168(n) for qualified production property. Taxpayers shall instead recover the cost of such property through depreciation deductions computed under the general depreciation provisions of IRC §§ 167 and 168, excluding the special depreciation rules contained under IRC § 168(n).

Interest Expense Limitation

Finally, Act 21 of 2026 also requires the City of Philadelphia to apply Pennsylvania's treatment of the business interest expense limitation.

For purposes of determining taxable income, taxpayers shall calculate the allowable interest expense deduction as though IRC § 163(j) remained in effect as of December 31, 2024, consistent with Section 401(3) of the Tax Reform Code of 1971, consistent with Pennsylvania law.

Applicability

BIRT

The guidance set forth in this advisory notice applies to taxpayers subject to the BIRT who have elected to calculate and report net income pursuant to Method II and who are also subject to the above applicable provisions of the Internal Revenue Code, as amended by the OBBBA.

Taxpayers required to make net income adjustments pursuant to the decoupling provisions described above shall prepare and maintain a separate self-prepared workpaper documenting each such adjustment. The workpaper shall show, identify and substantiate all adjustments to federal income necessary to determine the taxable net income reported on the BIRT return.

Taxpayers shall retain the workpapers as part of their books and records in accordance with applicable recordkeeping requirements. Upon request by the Department, taxpayers shall provide such workpapers and any supporting documentation necessary to substantiate the net income adjustments reported on the BIRT return.

The above guidance shall not apply to taxpayers subject to the BIRT that have elected to report net income using Method I. Taxpayers that have elected to report net income under Method I shall continue to compute net income pursuant to Section 19-2601(Net Income)(a)(.1) of the Philadelphia Code as well as Section 403 of the BIRT regulations, in accordance with reasonable accounting principles.

Treatment of affected returns and payments

Taxpayers who have already filed and paid Business Income and Receipts Tax for 2025 using the OBBBA treatment of these expenses should amend their return(s). Taxpayers may need to amend the Net Profits Tax if the amended BIRT return affects any credit the taxpayer took against the NPT. Taxpayers that have a higher 2025 liability because of their amended return, may apply for a waiver of penalty and interest for Tax Year 2025 only.

Taxpayers who have already filed and paid Business Income and Receipts Tax and Net Profits Tax for 2025 following Pennsylvania (i.e. decoupled) treatment of those expenses do not need to do anything.

Taxpayers who paid, but have not yet filed a return, should file their return in accordance with the Philadelphia decoupled requirements described in this guidance and remit any additional tax due. These taxpayers may also apply for a waiver of penalty and interest for Tax Year 2025 only.

The Department will waive penalty and interest for Tax Year 2025 for taxpayers who made their required 2025 payment and 2026 estimated payment by April 15, 2026.

To receive the waiver, taxpayers must complete the Petition for Waiver of Interest and Penalty, available online at
phila.gov/documents/petition-for-waiver-of-interest-and-penalty/

Please email completed forms to **Accounting.Control@phila.gov** and refer to **“Decoupling”** in the subject of the email.

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