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Pennsylvania conforms to federal 100 percent bonus depreciation deduction

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Pennsylvania corporate taxpayers that claim a 100 percent bonus depreciation deduction under I.R.C. Sec. 168(k) in computing federal taxable income are not required to make an addition modification with respect to such deduction in computing state taxable income, the Pennsylvania Department of Revenue stated in a tax bulletin. The bulletin also explains how taxpayers may recover disallowed or unrecovered bonus depreciation claimed with respect to property that is the subject of a consent agreement permitting a change in accounting method. [[Penn. Dept. of Rev., Corporate Income Tax Bulletin # 2011-01, 2/24/11](#)]

2010 bonus depreciation federal legislation

The 2010 Small Business Act (enacted 9/27/10) amends I.R.C. Sec. 168(k) and extends through the end of 2010 the time during which federal taxpayers may claim a 50-percent bonus depreciation deduction for qualifying property. In addition, the 2010 Tax Relief Act (enacted 12/15/10) , added new I.R.C. Sec. 168(k)(5). That section allows federal taxpayers to claim a 100-percent bonus depreciation deduction for property acquired after September 8, 2010, and before January 1, 2012, and put in service before January 1, 2012 (before Jan. 1, 2013 for certain longer-production period property and certain aircraft). In addition, the 2010 Tax Relief Act extends the time during which federal taxpayers may claim a 50-percent bonus depreciation deduction through the end of 2012 (through the end of 2013 for certain longer-production period property and certain aircraft).

Pennsylvania bonus nonconformity

Pennsylvania begins the computation of state taxable income with federal taxable income

before net operating loss deduction and special deductions (e.g., Line 28, Form 1120) and requires certain addition and subtraction modifications. With respect to bonus depreciation, Pennsylvania requires taxpayers to add back the 30 percent and 50 percent bonus deductions in the years the deductions are claimed for federal purposes. Taxpayers may recoup the bonus deductions over time via "additional deduction" modifications until the total amount added back has been claimed. The additional deductions equal three sevenths of the amount of the deduction for depreciation of the qualified property allowable under I.R.C. Sec. 167.

While the three sevenths computation allows full recapture of the 30 percent bonus addback by the time an asset is fully depreciated for federal purposes, the computation does not result in the same matching when taxpayers claim a 50 percent bonus deduction. However, a 2005 department advisory allows taxpayers to claim any unrecovered bonus depreciation amounts in the last year the asset is fully depreciated for federal tax purposes.

100 percent bonus depreciation guidance

In line with existing guidance that allows a taxpayer to recoup the bonus addback in the taxable year qualified property is fully depreciated for federal tax purposes, the bulletin provides that the department will permit full recovery of the disallowed 100 percent bonus depreciation in the year that such depreciation is claimed and allowable for federal tax purposes. The net result is that no adjustment is necessary to Pennsylvania taxable income for 100 percent

bonus depreciation claimed and allowable for federal tax purposes under I.R.C. Sec. 168(k).

The bulletin advises taxpayers that in completing the PA Corporate Tax Report, RCT-101, Line 1 of Section B, Current year federal depreciation of 168(k) property, and Column B of Schedule C-3, Federal Depreciation Section 168(k) Property, not to include the 100 percent bonus depreciation. The 100 percent bonus depreciation is also not included in Column C of Schedule C-3, Current Year Bonus Depreciation.

The bulletin does not change existing policy with respect to the additional deduction modification allowed with respect to the 30 percent and 50 percent bonus deductions. Accordingly, taxpayers must continue to recoup those amounts via additional deductions.

Change in accounting method

Consistent with the above interpretation, the bulletin notes that the department will permit recovery of disallowed and unrecovered 30 percent and 50 percent bonus depreciation in the taxable year that there is a complete write off of the remaining basis of the qualified property for federal tax purposes pursuant to a consent agreement between the Internal Revenue Service and a taxpayer that permits an accounting method change that required the write-off of remaining depreciation pursuant to I.R.C. Sec. 481(a). Taxpayers may claim this additional deduction on Schedule C-4, Adjustment for Disposition of Section 168(k) Property & Recapture of Depreciation on Listed Property.

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