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PASS-THROUGH BUSINESS OFFICE CLARIFIES KEY AREAS WHERE PENNSYLVANIA LAW DIFFERS FROM FEDERAL TAX RULES***Depreciation***

While Pennsylvania personal income tax law recognizes the depreciation deduction established by Section 179 of the Internal Revenue Code (IRC), for Pennsylvania personal income tax purposes the deduction is limited to \$25,000, with an asset acquisition phase out of \$200,000. This limitation is applied at the entity level and again at the owner level, and the \$25,000 threshold is applied on a joint basis for spouses, regardless of filing status.

Additionally, an estate or trust is not eligible to deduct IRC Section 179 depreciation for Pennsylvania income tax purposes. Instead, an estate or trust that receives an RK-1/NRK-1 reporting income or loss in Part II must *add back* the amount of Section 179 expense reported on RK-1 Line 17 or NRK-1 Line 15 in order to determine the correct amount of income or loss to report on its PA-41 Fiduciary Income Tax Return.

Regarding bonus depreciation, Pennsylvania has no provision analogous to IRC Section 168(k). Therefore, any bonus depreciation reported for federal purposes cannot be used in calculating Pennsylvania taxable income. Instead, the depreciation expense must be recalculated for Pennsylvania personal income tax purposes.

Finally, when the federal depreciable basis and the Pennsylvania depreciable basis differ, the depreciation expense for Pennsylvania personal income tax purposes must be calculated using the straight-line method; applying the modified accelerated cost recovery system (MACRS) or any other form of accelerated depreciation is not permitted.

Interest Tracing Rules

Pennsylvania does not follow the federal interest tracing rules. Instead, for Pennsylvania personal income tax purposes, the deductibility of interest expense is determined at the pass-through entity level rather than the owner level.

Pennsylvania has no provision like the federal one permitting separately stated items to be passed through to the owner.

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Accordingly, interest on debt incurred by the entity to make a distribution to its owners, regardless of what the owner does with the distribution, is not a deductible expense for Pennsylvania personal income tax purposes. Further, interest on debt incurred by an owner to purchase an interest in an entity is not a deductible expense for Pennsylvania personal income tax purposes, because this is strictly an investment activity on the part of the owner.

IRC Provisions Specifically Not Followed for Pennsylvania Personal Income Tax Purposes

Following are additional IRS provisions that Pennsylvania does not permit in calculating taxable income at the state level:

- *Deferral of gain under IRC Section 1031*: The gain on the transaction must be recognized for Pennsylvania personal income tax purposes and included when calculating Pennsylvania taxable income. Because the gain must be recognized for state tax purposes, there will be different depreciable federal and Pennsylvania bases. Therefore, the depreciation expense on the new asset must be calculated using the straight-line

method for Pennsylvania personal income tax purposes.

- *The election to treat a sale of stock as an asset sale under IRC Section 338(h)(10)*: For state tax purposes, the transaction is treated and reported as a sale of stock by the shareholder. Accordingly, an S corporation must file its PA-20S/PA-65 Information Return excluding the gain recognized on the federal return from the IRC Section 338(h)(10) transaction, and the entity must also prepare and include with its PA-20S/PA-65 a pro forma federal 1120S return excluding the IRC §338(h)(10) transaction.
- *The election to depreciate a step-up in basis under IRC Section 754*: A taxpayer will be permitted to include the purchase price of an interest (or fair market value of an inherited interest) in his/her basis in the entity; however, this step-up amount cannot be allocated to specific assets and recovered over time through depreciation or amortization. Rather, the purchase or increase to basis is attached to the interest itself and is recovered upon disposition of the interest.

TAX PROFESSIONAL E-SERVICES CENTER



Tax professionals are encouraged to use the department's Tax Professional e-Services Center for easy access to clients' tax information.

Visit the department's [Online Customer Service Center](#) or call 717-787-1392.

2015 FALL TAX SEMINAR AGENDA

TIME	TOPIC	PRESENTER
8 - 9:30 A.M.	INTRODUCTION & PERSONAL INCOME TAX UPDATES <ul style="list-style-type: none"> ➤ 2015 Tax Law Changes ➤ PA Forms & Instruction Changes ➤ Miscellaneous Issues 	David A. Braden, CPA or Allen Daugherty <i>Bureau of Individual Taxes or</i> Donald E. Bianchi, CPA <i>Bureau of Taxpayer Services and Information Center</i>
9:30 - 9:45 A.M.	BREAK	
9:45 - 10:15 A.M.	DID YOU KNOW...? <ul style="list-style-type: none"> ➤ Website Redesign ➤ Review of Topic Areas & Quick Links ➤ Review of Tax Professional Self-Help Tools 	David A. Braden, CPA or Allen Daugherty <i>Bureau of Individual Taxes or</i> Donald E. Bianchi, CPA <i>Bureau of Taxpayer Services and Information Center</i>
10:15 - 11:45 A.M.	CORPORATION TAXES UPDATES <ul style="list-style-type: none"> ➤ Current Tax Changes ➤ Completing Report Forms Properly ➤ Claiming Bonus Depreciation ➤ Termination/Dissolution of Business 	Jeffrey A. Creveling, CPA, Valerie Greene or Glenwood Hoskin <i>Bureau of Corporation Taxes</i>
11:45 A.M. - 12:45 P.M.	Lunch	
12:45 - 2 P.M.	PASS THROUGH BUSINESS UPDATES <ul style="list-style-type: none"> ➤ Federal/Pennsylvania Differences ➤ Common Errors ➤ Legislation Updates ➤ What's New 	Jane McCurdy, CPA or Sandra Bruno, CPA <i>Pass Through Business Office</i>
2 - 3 P.M.	SALES TAX <ul style="list-style-type: none"> ➤ Compliance Issues ➤ Sales & Use Tax Bulletins Review ➤ PTBO Desk Program ➤ Classifying Workers Properly 	Jane McCurdy, CPA or Sandra Bruno, CPA <i>Pass Through Business Office and</i> James Foster, Kevin Milligan, or William Hartman, CPA <i>Bureau of Enforcement Planning, Analysis and Discovery</i>
3 - 3:15 P.M.	Break	
3:15 - 4:15 P.M.	BUSINESS USE TAX AND VOLUNTARY COMPLIANCE INITIATIVES <ul style="list-style-type: none"> ➤ Voluntary Compliance Initiatives including Business Use Tax ➤ Discovery Programs Update ➤ Other Compliance Programs and Enforcement Tools 	James Foster, Kevin Milligan, William Hartman, CPA <i>Bureau of Enforcement Planning, Analysis and Discovery</i>

In compliance with the Americans with Disabilities Act, the Department will make every effort to provide an alternative format to persons with disabilities about the content of the seminars.

2015 FALL TAX SEMINAR SCHEDULE

SPONSOR	DAY	DATE	CONTACT PERSON	CONFERENCE LOCATION
Harrisburg PSTAP	Wednesday	09-30-2015	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Radisson Penn Harris Hotel & Convention Center Camp Hill Bypass and U.S. 15 Camp Hill, PA 17011
Central Chapter PSTAP	Tuesday	10-20-2015	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	The Inn at Reading 1040 N. Park Road Wyomissing, PA 19610
Philadelphia Tri-County Chapter PSTAP	Thursday	10-22-2015	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Springfield Country Club 400 W. Sproul Road (Route 320) Springfield, PA 19064
Pittsburgh PSTAP	Tuesday	10-27-2015	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Four Points Sheraton Cranberry Township 910 Sheraton Drive Mars, PA 16046
South Central Chapter PSTAP	Thursday	10-29-2015	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Eisenhower Conference Center 2634 Emmitsburg Road Gettysburg, PA 17325
Wilkes University Continuing Education Dept.	Thursday	11-05-2015	Margaret Petty 570-408-4460 Margaret.Petty@wilkes.edu	The Woodlands Inn and Resort Highway 315 Wilkes-Barre, PA 18766
Neumann University Division of Business & Information Mgt.	Thursday	11-19-2015	Janet Massey 610-558-5588 jmassey@neumann.edu	Neumann University Thomas A. Bruder, Jr. Life Center Bldg. 1 Neumann Drive Aston, PA 19014
Penn State University	Wednesday	12-16-2015	Theresa Bloom 215-881-7402 tmb17@psu.edu	Penn State University Abington Campus 1600 Woodland Road Abington, PA 19001