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.

Continued on Page 2
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.
### 2015 FALL TAX SEMINAR AGENDA

<table>
<thead>
<tr>
<th>TIME</th>
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| 8 - 9:30 A.M. | **INTRODUCTION & PERSONAL INCOME TAX UPDATES**  
  ➤ 2015 Tax Law Changes  
  ➤ PA Forms & Instruction Changes  
  ➤ Miscellaneous Issues | David A. Braden, CPA or Allen Daugherty  
  Bureau of Individual Taxes or  
  Donald E. Bianchi, CPA  
  Bureau of Taxpayer Services and Information Center |
| 9:30 – 9:45 A.M. | **BREAK** | |
| 9:45 – 10:15 A.M. | **DID YOU KNOW...?**  
  ➤ Website Redesign  
  ➤ Review of Topic Areas & Quick Links  
  ➤ Review of Tax Professional Self-Help Tools | David A. Braden, CPA or Allen Daugherty  
  Bureau of Individual Taxes or  
  Donald E. Bianchi, CPA  
  Bureau of Taxpayer Services and Information Center |
| 10:15 – 11:45 A.M. | **CORPORATION TAXES UPDATES**  
  ➤ Current Tax Changes  
  ➤ Completing Report Forms Properly  
  ➤ Claiming Bonus Depreciation  
  ➤ Termination/Dissolution of Business | Jeffrey A. Creveling, CPA, Valerie Greene or Glenwood Hoskin  
  Bureau of Corporation Taxes |
| 11:45 A.M. – 12:45 P.M. | **Lunch** | |
| 12:45 - 2 P.M. | **PASS THROUGH BUSINESS UPDATES**  
  ➤ Federal/Pennsylvania Differences  
  ➤ Common Errors  
  ➤ Legislation Updates  
  ➤ What’s New | Jane McCurdy, CPA or Sandra Bruno, CPA  
  Pass Through Business Office |
| 2 - 3 P.M. | **SALES TAX**  
  ➤ Compliance Issues  
  ➤ Sales & Use Tax Bulletins Review  
  ➤ PTBO Desk Program  
  ➤ Classifying Workers Properly | Jane McCurdy, CPA or Sandra Bruno, CPA  
  Pass Through Business Office and  
  James Foster, Kevin Milligan, or William Hartman, CPA  
  Bureau of Enforcement Planning, Analysis and Discovery |
| 3 - 3:15 P.M. | **Break** | |
| 3:15 - 4:15 P.M. | **BUSINESS USE TAX AND VOLUNTARY COMPLIANCE INITIATIVES**  
  ➤ Voluntary Compliance Initiatives including Business Use Tax  
  ➤ Discovery Programs Update  
  ➤ Other Compliance Programs and Enforcement Tools | James Foster, Kevin Milligan, William Hartman, CPA  
  Bureau of Enforcement Planning, Analysis and Discovery |

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

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<tr>
<th>SPONSOR</th>
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<tr>
<td>Harrisburg PSTAP</td>
<td>Wednesday</td>
<td>09-30-2015</td>
<td>Sherry DeAgostino</td>
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<td>Thursday</td>
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<td>Margaret Petty</td>
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<td>570-408-4460</td>
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<td>Janet Massey</td>
<td>Neumann University</td>
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<td><a href="mailto:jmassey@neumann.edu">jmassey@neumann.edu</a></td>
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<td>Theresa Bloom</td>
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