

ACQUISITION & DEPRECIATION OF 168k PROPERTY

ABC Tugboats, Inc. began operation on 01/01/02. ABC immediately placed into service \$50,000 worth of computers, \$75,000 worth of furniture and equipment and a tugboat at a cost of \$1,500,000. All property was deemed as 168k property and ABC claimed 30% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/02.

Computers (5 year, 1/2 year convention)		
Cost	50,000	
Bonus	15,000	
Basis	35,000	
Year	MACRS %	MACRS \$
2002	20	7,000
2003	32	11,200
2004	19.5	6,720
2005	11.52	4,032
2006	11.52	4,032
2007	5.76	2,016

Furniture/Equip (7 year, 1/2 year convention)		
Cost	75,000	
Bonus	22,500	
Basis	52,500	
Year	MACRS %	MACRS \$
2002	14.29	7,502
2003	24.49	12,857
2004	17.49	9,182
2005	12.49	6,557
2006	8.93	4,688
2007	8.92	4,683
2008	8.93	4,688
2009	4.46	2,342

Tugboat (10 year, 1/2 year convention)		
Cost	1,500,000	
Bonus	450,000	
Basis	1,050,000	
Year	MACRS %	MACRS \$
2002	10.00	105,000
2003	18.00	189,000
2004	14.40	151,200
2005	11.52	120,960
2006	9.22	96,810
2007	7.37	38,693*

*The tugboat will be sold on 12/31/07 when ABC, Inc. places 2 new tugboats into service on 01/01/08. The 2007 MACRS is calculated as $(1,050,000 \times .0737 \times 50\%) = 38,693$.

On 06/12/03, ABC Tugboats, Inc. purchases and places into service \$100,000 worth of equipment. The equipment was deemed as 168k property and ABC claimed 50% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/03.

Equipment (7 year, 1/2 year convention)		
Cost	100,000	
Bonus	50,000	
Basis	50,000	
Year	MACRS %	MACRS \$
2003	14.29	7,145
2004	24.49	12,245
2005	17.49	8,745
2006	12.49	6,245
2007	8.93	4,465
2008	8.92	4,460
2009	8.93	4,465
2010	4.46	2,230

On 01/01/08, ABC Tugboats, Inc. purchases and places into service 2 new identical tugboats for \$2,000,000 each or a total of \$4,000,000. The tugboats were deemed as 168k property and ABC claimed 50% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/08.

2 Tugboats (10 year, 1/2 year convention)		
Cost	4,000,000	
Bonus	2,000,000	
Basis	2,000,000	
Year	MACRS %	MACRS \$
2008	10.00	200,000
2009	18.00	360,000
2010	14.40	288,000
2011	11.52	230,400
2012	9.22	184,400
2013	7.37	147,400
2014	6.55	131,000
2015	6.55	131,000
2016	6.56	131,200
2017	6.55	131,000
2018	3.28	65,600

On 05/14/10, ABC Tugboats, Inc. purchases and places into service \$50,000 worth of equipment. The equipment was deemed as 168k property and ABC claimed 50% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/10.

Equipment (7 year, ½ year convention)		
Cost	50,000	
Bonus	25,000	
Basis	25,000	
Year	MACRS %	MACRS \$
2010	14.29	3,573
2011	24.49	6,123
2012	17.49	4,373
2013	12.49	3,123
2014	8.93	2,232
2015	8.92	2,230
2016	8.93	2,232
2017	4.46	1,114

On 10/15/10, ABC Tugboats, Inc. purchases and places into service 1 new tugboat for \$5,000,000. The tugboat was deemed as 168k property and ABC claimed 100% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/10.

1 Tugboat (10 year, ½ year convention)	
Cost	5,000,000
Bonus	5,000,000
Basis	0

The taxpayer is not required to make any PA adjustments to federal taxable income in arriving at PA taxable income for 100% 168k property purchased and placed into service after 09/08/10. The taxpayer is to report 100% 168k property on the REV-799 in the appropriate area between schedules C3/C4. The taxpayer is not to include any adjustments for 100% 168K property in schedules C3, C4 or on Section C of the RCT-101, See Corporation Tax Bulletin 2011-01.

On 06/15/11, ABC Tugboats, Inc. purchases and places into service \$100,000 worth of new computers. The computers were deemed 168k property and ABC claimed 100% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/11.

Computers (5 year, ½ year convention)	
Cost	100,000
Bonus	100,000
Basis	0

The taxpayer is not required to make any PA adjustments to federal taxable income in arriving at PA taxable income for 100% 168k property purchased and placed into service during 2011. The taxpayer is to report 100% 168k property on the REV-799 in the appropriate area between schedules C3/C4. The taxpayer is not to include any adjustments for 100% 168K property in schedules C3, C4 or on Section C of the RCT-101, See Corporation Tax Bulletin 2011-01.

On 07/03/11, ABC Tugboats, Inc. purchases and places into service a new tugboat for \$4,000,000. The tugboat is deemed 168k property and ABC claimed 50% of the cost as bonus depreciation on corporation's tax report for tax period ending 12/31/11.

Tugboat (10 year, ½ year convention)		
Cost	4,000,000	
Bonus	2,000,000	
Basis	2,000,000	
Year	MACRS %	MACRS \$
2011	10.00	200,000
2012	18.00	360,000
2013	14.40	288,000
2014	11.52	230,400
2015	9.22	184,400
2016	7.37	147,400
2017	6.55	131,000
2018	6.55	131,000
2019	6.56	131,200
2020	6.55	131,000
2021	3.28	65,600

YEAR BY YEAR ADJUSTMENTS

2002

168k Bonus Depreciation (PA Addition)

The 168k bonus is a PA Addition to Federal Taxable Income in arriving at PA Taxable Income. The total 168k bonus expensed in the 2002 tax period is as follows:

Computers	(50,000 x .30) = 15,000
Furniture/Equipment	(75,000 x .30) = 22,500
Tugboat	(1,500,000 x .30) = <u>450,000</u>

Total = 487,500

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(7,000 x .3/7) = 3,000
Furniture/Equipment	(7,502 x 3/7) = 3,215
Tugboat	(105,000 x .3/7) = <u>45,000</u>

Total = 51,215

2003

168k Bonus Depreciation (PA Addition)

The 168k bonus is a PA Addition to Federal Taxable Income in arriving at PA Taxable Income. The total 168k bonus expensed in the 2003 tax period is as follows:

Equipment	(100,000 x .50) = <u>50,000</u>
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Total = 50,000

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(11,200 x 3/7) = 4,800
Furniture/Equipment	(12,857 x 3/7) = 5,510
Tugboat	(189,000 x 3/7) = 81,000
Equipment	(7,145 x 3/7) = <u>3,062</u>

Total = 94,372

2004

168k Bonus Depreciation (PA Addition)

No 168k property was added during the 2004 tax period.

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(6,720 x 3/7) = 2,880
Furniture/Equipment	(9,182 x 3/7) = 3,935
Tugboat	(151,200 x 3/7) = 64,800
Equipment	(12,245 x 3/7) = <u>5,248</u>

Total = 76,863

2005

168k Bonus Depreciation (PA Addition)

No 168k property was added during the 2005 tax period.

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(4,032 x 3/7) = 1,728
Furniture/Equipment	(6,557 x 3/7) = 2,810
Tugboat	(120,960 x 3/7) = 51,840
Equipment	(8,745 x 3/7) = <u>3,748</u>
Total =	60,126

2006

168k Bonus Depreciation (PA Addition)

No 168k property was added during the 2006 tax period.

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(4,032 x 3/7) = 1,728
Furniture/Equipment	(4,688 x 3/7) = 2,009
Tugboat	(96,810 x 3/7) = 41,490
Equipment	(6,245 x 3/7) = <u>2,677</u>
Total =	47,904

2007

168k Bonus Depreciation (PA Addition)

No 168k property was added during the 2007 tax period.

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
Computers	(2,016 x .3/7) = 864
Furniture/Equipment	(4,683 x 3/7) = 2,007
Tugboat	(38,693 x .3/7) = 16,583
Equipment	(4,465 x 3/7) = <u>1,913</u>
Total =	21,367

168k Bonus Depreciation Recovered for property sold or otherwise disposed of.

The tugboat purchased in 2002 is being sold on 12/31/07. The taxpayer is permitted to recover the un-recovered 168k balance in the tax period in which the property is sold or disposed. The un-recovered balance is calculated as follows:

168k Bonus Depreciation originally added back (in 2002) = 450,000.

The yearly MACRS and PA Reduction on the tugboat was as follows:

<u>Year</u>	<u>MACRS</u> x 3/7	<u>= PA Reduction</u>
2002	105,000	45,000
2003	189,000	81,000
2004	151,200	64,800
2005	120,960	51,840
2006	96,810	41,490
2007	<u>38,693</u>	<u>16,583</u>
Total	701,663	300,713

The un-recovered balance is the difference between the 168k Bonus Depreciation that was added back less the accumulated PA Reductions from the point the property was added to the point of disposition.

Therefore, the un-recovered 168k balance to be recovered in the 2007 tax period is calculated as;

450,000 (Bonus) – 300,713 (accumulated PA Reductions) = 149,287(Un-recovered Balance)

The calculation for the un-recovered balance is claimed by completing REV-799, schedule C-4. The un-recovered balance calculated in Column F of the C-4 is carried into REV-799, schedule C-3 column G for 2007.

The Federal Accumulated Depreciation is the sum of the 168k Bonus Depreciation that was claimed plus the accumulated MACRS (Sect. 167 depreciation) from the point the property was added to the point of disposition.

The taxpayer is permitted to recover the un-recovered 168k balance in the last year of the property's depreciable life. The un-recovered balance is calculated as follows:

168k Bonus Depreciation originally added back (in 2003) = 50,000.

The yearly MACRS and PA Reduction on the equipment was as follows:

<u>Year</u>	<u>MACRS x 3/7 =</u>	<u>PA Reduction</u>
2003	7,145	3,062
2004	12,245	5,248
2005	8,745	3,748
2006	6,245	2,676
2007	4,465	1,914
2008	4,460	1,911
2009	4,465	1,914
2010	<u>2,230</u>	<u>956</u>
Total	50,000	21,429

The un-recovered balance is the difference between the 168k Bonus Depreciation that was added back less the accumulated PA Reductions.

Therefore, the un-recovered 168k balance to be recovered in the 2010 tax period is calculated as;

50,000 (Bonus) – 21,429 (accumulated PA Reductions) = 28,571(un-recovered Balance)

The calculation for the un-recovered balance is claimed by completing REV-799, schedule C-4. The un-recovered balance calculated in Column F of the C-4 is carried into REV-799, schedule C-3 column G for 2010.

The Federal Accumulated Depreciation is the sum of the 168k Bonus Depreciation that was claimed plus the accumulated MACRS (Sect. 167 depreciation).

2011

168k Bonus Depreciation (PA Addition)

The 50% 168k bonus on the tugboat is a PA Addition to Federal Taxable Income in arriving at PA Taxable Income. The total 168k bonus expensed on the 50% bonus depreciation property in the 2011 tax period is as follows:

Tugboat	(4,000,000 x .50) = <u>2,000,000</u>
Total =	2,000,000

The 100% 168k bonus on the computers is not a PA Addition to Federal Taxable Income in arriving at PA Taxable Income. The taxpayer is to report 100% 168k property on the REV-799 in the appropriate area between schedules C3/C4. The taxpayer is not to include any adjustments for 100% 168K property on schedules C3, C4 or on Section C of the RCT-101, See Corporation Tax Bulletin 2011-01.

168k Depreciation (PA Reduction)

The 168k bonus depreciation is recovered by multiplying 3/7 to the MACRS (Sect. 167) depreciation taken on the 168k property over its depreciable life. If the property is sold or disposed of, the remaining un-recovered balance may be claimed in the tax period.

The 168k bonus depreciation is recovered as follows:

	<u>MACRS x 3/7</u>
2 Tugboats (2008)	(230,400 x 3/7) = 98,743
Equipment (2010)	(6,123 x 3/7) = 2,624
Tugboat (2011)	(200,000 x 3/7) = 85,714
Total =	(436,523 x 3/7) =187,081

There was no 168k property sold or otherwise disposed of during this tax period.

Balance

The unrecovered 168k balance (column H) is calculated as the unrecovered 168k balance out of prior year plus current year 168k bonus (column C) less current year additional PA adjustment plus adjustment for sale/disposition (column H) = 1,660,042 + 2,000,000 – 187,081=,3,472,961.

Corporation Name: ABC Tugboats, Inc.

Corp. Tax Account ID# 1111-111

Schedule C-3 Adjustment for Bonus Depreciation

This schedule must be updated each year and submitted with the RCT-101

A	B	C	D	E	F	G	H	I
Year	Fed Depr. Section 168(k) Property	Current Year Bonus Depreciation	Col. B – Col. C	Additional PA Depr.	Other Adj. Sect. 168k Property	Adj. for Disposition of Sect. 168k property	Additional PA Depr. plus Adj. for Disp.	Balance
2001	0	0	0	0	0	0	0	0
2002	607,002	487,500	119,502	51,215	0	0	51,215	436,285
2003	270,202	50,000	220,202	94,372	0	0	94,372	391,913
2004	179,347	0	179,347	76,863	0	0	76,863	315,050
2005	140,294	0	140,294	60,126	0	0	60,126	254,924
2006	111,715	0	111,715	47,904	0	0	47,904	207,020
2007	49,857	0	49,857	21,367	0	149,287	170,654	36,366
2008	2,209,148	2,000,000	209,148	89,635	0	0	89,635	1,946,731
2009	366,807	0	366,807	157,203	0	0	157,203	1,789,528
2010	318,803	25,000	293,803	125,915	0	28,571	154,486	1,660,042
2011	2,436,523	2,000,000	436,523	187,081	0	0	187,081	3,472,961

Amount of 100% Bonus Depreciation Taken in Current Year

Schedule C-4 Adjustment for Disposition of Section 168(k) Property & Recapture of Depreciation on Listed Property

A	B	C	D	E	F
Year of Purchase	Federal Accumulated Depreciation	Disallowed Bonus Depreciation	Col. B – Col. C	Additional PA Depreciation	Adjustment for Disposition
Total					