



CORPORATION TAX BULLETIN 2018-03

Issued: July 6, 2018

This bulletin supersedes Corporation Tax Bulletin 2017-02

Bonus Depreciation Before Act 72 of 2018

Before Act 72 of 2018, section 401(3)1.(q) of the Pennsylvania Tax Reform Code (TRC) disallowed bonus depreciation in the year in which assets were placed in service, but allowed corporations to deduct the federal bonus depreciation over several tax years after the assets were placed in service. Specifically section 401(3)1.(r) of the TRC provides for the recovery of the disallowed depreciation of qualified property that was claimed and allowable under section 168(k) of the IRC by providing for an additional deduction in certain circumstances. The additional deduction is equal to three-sevenths of the remaining depreciation amount, not including the depreciation claimed under IRC 168(k). Additionally, upon the disposition, sale, or transfer of the asset subject to bonus depreciation, the law allows a corporation to deduct the unused bonus depreciation.

Bonus Depreciation After Act 72 of 2018

Act 72-2018 continues the disallowance of bonus depreciation for all qualified property.

Deductions For Property Placed In Service Before September 28, 2017

The Department of Revenue will continue to allow depreciation deductions under Corporation Tax Bulletin 2011-01 for property placed in service prior to September 28, 2017. The addition of 401(3)1.(s)(1) permits taxpayers to take an additional deduction in the earlier of the taxable year in which the property is fully depreciated for federal income tax purposes, or is sold or otherwise disposed of and the depreciation has not been fully recovered.

Deductions For Property Placed In Service On Or After September 28, 2017

An additional deduction for depreciation of qualified property placed in service after September 27, 2017 is permitted under Act 72-2018. That additional deduction is limited to the depreciation amounts under the Modified Accelerated Depreciation System (MACRS). In the tax year in which the corporation sells or disposes of the assets subject to bonus depreciation, the corporation may deduct any unused bonus depreciation.

Treatment of Taxpayers Who Have Filed Tax Returns

The Department of Revenue recognizes that some taxpayers may have already filed Corporate Net Income Tax returns for the 2017 taxable year and those tax returns might include assets subject to Act 72 of 2018 — assets placed in service on or after September 28, 2017 that were subject to bonus depreciation. Those taxpayers may amend their income tax returns to disallow bonus depreciation on assets placed in service on or after September 28, 2017 and to claim an additional deduction for the amount allowed under MACRS. Such an amended tax return may result in an extension of the statute of limitations for the department's authority to adjust the taxpayer's liability as provided by section 406.1 of the TRC.