

## **CORPORATION TAX BULLETIN 2011-01**

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### **Disallowance and Recovery of 100 Percent Bonus Depreciation**

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 increased the bonus depreciation deduction to 100 percent for depreciation claimed and allowable under section 168(k) of the Internal Revenue Code ("IRC") for qualified property acquired after September 8, 2010 and before January 1, 2012, and which property is placed in service before January 1, 2012. In accordance with section 401(3)1.(q) of the Tax Reform Code of 1971 ("TRC") such deduction is disallowed for purposes of computing Pennsylvania taxable income for Pennsylvania corporate net income tax purposes.

Section 401(3)1.(r) of the TRC provides for the recovery of bonus depreciation of qualified property that was claimed and allowable under section 168(k) of the IRC and that was disallowed for Pennsylvania corporate net income tax purposes. The Department's interpretation of this section is to permit recovery of any disallowed and unrecovered bonus depreciation claimed and allowable under section 168(k) of the IRC in the taxable year such qualified property is fully depreciated for federal tax purposes. Consistent with that interpretation, the Department will permit full recovery of disallowed 100% 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% bonus depreciation of qualified property claimed and allowable for federal tax purposes under section 168(k) of the IRC.

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, will not include the 100% bonus depreciation. The 100% bonus depreciation is also not included in Column C of Schedule C-3, Current Year Bonus Depreciation.

### **Recovery of previously disallowed bonus depreciation-accounting method change**

Consistent with the above interpretation the Department also will permit recovery of disallowed and unrecovered 30% and 50% bonus depreciation of qualified property that was claimed and allowable under section 168(k) of the IRC in the taxable year that there is a complete write off of the remaining basis of the qualified property in question for federal tax purposes pursuant to a Consent Agreement entered into between the Internal Revenue Service and a taxpayer that permitted an accounting method change with respect to the type of qualified property in question and required the write-off in question pursuant to section 481(a) of the IRC.

This additional deduction is to be reported on Schedule C-4, Adjustment for Disposition of Section 168(k) Property & Recapture of Depreciation on Listed Property.