

Tax Cuts and Jobs Act 2017 – What does it mean for Pennsylvania Taxpayers?

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act of 2017. This table compares the federal treatment to the Pennsylvania treatment of many common tax issues.

Business-Related Provisions

	Federal Treatment	Pennsylvania Treatment	
		Personal Income Tax	Corporate Net Income Tax
Code Sec. 179 §179(b)	Increase Section 179 expensing to \$1 million with a phaseout beginning at \$2.5 million and expand definition of qualified property.	No effect. The expensing limitation remains at \$25,000 with a phaseout beginning at \$200,000. Neither of these figures is indexed for inflation. Also, the definition of qualified property is not expanded.	Follows federal law.
Bonus Depreciation §168(k)	Extension, expansion, and phase down of bonus depreciation (sunset 12/31/26)	N/A Bonus depreciation is not allowed in calculating taxable income.	Act 72-2018 requires companies to calculate depreciation under the modified accelerated cost recovery system. See Corporation Tax Bulletin 2018-03 .

<p>Limitation of Net Interest Deduction to 30% of Adjusted Income</p> <p>§163(j)</p>	<p>Disallows a deduction for net business interest expense in excess of 30% of a business's adjusted taxable income plus floor plan financing interest.</p>	<p>No effect – the limitation does not apply to Personal Income Tax. Valid business interest will be fully deductible in calculating taxable income.</p>	<p>Follows federal law. See Corporate Tax Bulletin 2019-03 for more details.</p>
<p>Small Business Accounting and Modification Accounting Methods</p> <p>§448(c) §471(c) §263A(i) §460(e) §451(b)</p>	<p>Cash method of accounting/inventories/inventory cost/long-term contracts.</p> <p>The inclusion rules cause an acceleration in the recognition of income for many taxpayers.</p>	<p>Generally will follow. Taxpayers may use the cash or accrual method of accounting so long as the method is acceptable by standards of the accounting profession, is not inconsistent with the regulations of the department, and clearly reflects income.</p>	<p>Follows federal law.</p>
<p>Repeal like-kind exchanges except for real property</p> <p>§1031</p>	<p>Code section 1031 allows like-kind exchanges only of real property.</p>	<p>No effect – PA Personal Income Tax rules do not allow the deferral of gain on any like-kind exchanges.</p>	<p>Follows federal law.</p>
<p>Applicable recovery period for real property</p> <p>§168(e) §168(g)</p>	<p>Replaces the separate definitions of “qualified leasehold improvement property,” “qualified restaurant property,” and “qualified retail improvement property” with “qualified improvement property.” Recovery life of “qualified improvement property” is 39 years.</p>	<p>Generally will follow. PA Personal Income Tax does not have specific rules regarding asset lives.</p>	<p>Follows federal law.</p>
<p>Note: per Congressional conference reports, Congress intended to include “qualified improvement property” in the definition of 15 year property. However, the actual statutory language of the Tax Cuts and Jobs Act of 2017 omitted the property from IRC 168(e)(3)(E) (the code section that defines 15 year property). Until technical corrections are made to the statute, the property will be treated as 39 year property.</p>			

<p>Repeal deduction for income attributable to domestic production activities</p> <p>§199</p>	<p>Deduction under Section 199 is repealed for tax years beginning in 2018 and after.</p>	<p>No effect - PA Personal Income Tax does not allow a Section 199 deduction in calculating taxable income.</p>	<p>Follows federal law.</p>
<p>Limitation on deduction by employers of expenses for fringe benefits</p> <p>§274</p>	<p>Repeals deductions for entertainment, amusement, and recreation if directly related to the operation of a taxpayer's trade or business; generally would retain the 50% deduction for food and beverage expenses. Disallows deduction for employee transportation fringe benefits.</p>	<p>No effect – PA Personal Income Tax rules with regard to business expenses has not changed. Expenses, including entertainment, etc., are 100% deductible as long as they meet the PA definition of a valid business expense.</p>	<p>Follows federal law.</p>
<p>Repeal of advance refunding bonds</p> <p>§149(d)</p>	<p>Would subject to tax the interest on bonds used to pay principal, interest, or redemption price on a prior bond issue.</p>	<p>No effect – Interest income is taxable for PA Personal Income Tax unless it is from direct obligations of the U.S. government, or the Commonwealth of Pennsylvania and/or its municipalities. See REV-1643, Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes</p>	<p>Follows federal law.</p>
<p>Creation of Qualified Opportunity Zones (QOZ)</p> <p>§1016(b)(38) §1400Z-1 §1400Z-2</p>	<p>Temporary deferral of capital gains reinvested in a QOZ until the date the investment is exchanged/sold or 12/31/2026, whichever is earlier. It also provides for the permanent exclusion of capital gains from the sale or exchange of an investment held for 10 years or more in a QOF.</p>	<p>Under Act 13-2019 net gains or income, net losses, and dividends which are excluded from federal income in a Federal Opportunity Zone are also excluded from PA personal income tax for tax years beginning after December 31, 2019. This income is taxable for years beginning prior to January 1, 2020.</p>	<p>Follows federal law.</p>

<p>Repatriation Transition Tax §965</p>	<p>One-time tax to be imposed on U.S. shareholders that own 10 percent or more of the shares of foreign corporations.</p>	<p>See Corporation and Personal Income Tax Informational Notice 2018-01</p>	<p>See Corporation and Personal Income Tax Informational Notice 2018-01</p>
<p>Global Intangible Low-Taxed Income (GILTI) §951A §250</p>	<p>Code section 951A would require a U.S. shareholder of a CFC to include GILTI in its income.</p>	<p>See Corporation Tax Bulletin 2019-02.</p>	<p>See Corporation Tax Bulletin 2019-02.</p>
<p>Foreign Derived Intangible Income §250</p>	<p>Allows deduction equal to a percentage of its "foreign-derived intangible income" ("FDII"). Percentage varies by tax year.</p>	<p>See Corporation Tax Bulletin 2019-02.</p>	<p>See Corporation Tax Bulletin 2019-02.</p>