# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

**BILL NO.** Senate Bill 1056

**PRINTER NO.** 1657

**AMOUNT**

FY 2017-18: ($8,200,000)
FY 2018-19: ($19,300,000)

**FUND**

General Fund
General Fund

**DATE INTRODUCED**

February 22, 2018

**PRIME SPONSOR**

Senator Brooks

**DESCRIPTION AND PURPOSE OF BILL**

Senate Bill 1056 amends the Tax Reform Code of 1971 by further defining taxable income as it relates to the corporate net income tax (CNIT) and with regard to the amount of the deduction for depreciation of property in determining taxable income.

Senate Bill 1056, as amended in the Senate Finance Committee, decouples Pennsylvania's CNIT from federal bonus depreciation provisions included in the Federal Tax Cuts and Jobs Act of 2017. Specifically, the legislation provides that the amount of the depreciation deduction claimed and allowable in calculating a taxpayer's federal taxable income under Internal Revenue Code § 168(k), commonly known as bonus depreciation, which is included in the calculation of Pennsylvania's taxable income shall be disallowed. Senate Bill 1056 provides that an additional deduction for depreciation equal to the depreciation determined in accordance with Internal Revenue Code §§ 167 and 168 shall be allowed.

The effect of Senate Bill 1056 is that bonus depreciation deducted by a CNIT taxpayer is disallowed, but a deduction consistent with normal federal depreciation rules is allowable. The legislation substantially alters the Pennsylvania Department of Revenue's *Corporation Tax Bulletin 2017-2*, which requires that the amount of a 100% bonus depreciation deduction under Internal Revenue Code § 168(k) be added back to Pennsylvania taxable income and provides no additional mechanism for cost recovery with respect to the qualified property. Essentially, *Corporation Tax Bulletin 2017-2* disallows all depreciation deductions with regard to property for which a taxpayer claims bonus depreciation on its federal tax return until the property is sold or otherwise disposed of, which could be indefinitely.

The legislation includes technical language with regard to additional deductions for property that is either fully depreciated for federal income tax purposes or is sold or otherwise disposed of by a taxpayer. These changes ensure that property can be fully depreciated for purposes of the CNIT over its useful life regardless of whether there are timing differences between state and federal depreciation deductions.

# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

Senate Bill 1056 applies to tax years beginning on or after January 1, 2017 and shall take effect immediately. The change is effective for property placed in service after September 27, 2017, which corresponds with the depreciation deduction provisions included in the Federal Tax Cuts and Jobs Act of 2017.

**FISCAL IMPACT:**

Senate Bill 1056 will reduce Pennsylvania's corporate net income tax revenues by approximately $8.2 million in FY 2017-18 and $19.3 million in FY 2018-19. These revenue reductions result from timing differences compared to the current CNIT rules regarding federal bonus depreciation of less than 100%, which were in place prior to the enactment of the Federal Tax Cuts and Jobs Act of 2017. The timing differences of these depreciation deductions are temporary, so Senate Bill 1056 is revenue neutral over the life of the depreciated property in this regard.

The Independent Fiscal Office (IFO) released its Mid-Year Revenue Update January 29, 2018, which is available at http://www.ifo.state.pa.us/releases.cfm?id=177. Page 12 of the Mid-Year Revenue Update relating to Corporate Net Income Tax Detail indicates that *Corporation Tax Bulletin 2017-2* decoupled Pennsylvania from federal 100% bonus depreciation and denied these deductions from the calculation of Pennsylvania taxable income. Because of the decoupling, the IFO estimates that CNIT revenues will increase by $50 million in FY 2017-18 and $160 million in FY 2018-19.

According to information provided by the Department of Revenue (department), Senate Bill 1056 will reduce Pennsylvania's corporate net income tax revenues by approximately $26.4 million in FY 2017-18 and $121.2 million in FY 2018-19. These revenue reductions result from reversing *Corporation Tax Bulletin 2017-2*, which was issued by the department in response to the Federal Tax Cuts and Jobs Act of 2017. Neither the Official General Fund Revenue Estimate for FY 2017-18 nor the preliminary revenue estimates for FY 2018-19 were adjusted to include the effects of the federal tax changes related to depreciation. As a result, the net effect of both the revenue increases resulting from *Corporation Tax Bulletin 2017-2* and the revenue reductions resulting from enactment of Senate Bill 1056 are considered revenue neutral. The differences are attributed to varying estimating methodology.