

Income/Franchise:

Pennsylvania: City of Philadelphia DOR Says it Will Conform to Federal Tax Treatment under IRC §174

Philadelphia guidance on business tax treatment of amendments to IRC Section 174, City of Philadelphia, Pa. (6/22/23). The City of Philadelphia, Pennsylvania (City) Department of Revenue (Department) issued guidance explaining that the City will conform to the federal income tax treatment of research and experimental (R&E) expenses paid/incurred in tax years beginning after December 31, 2021, for purposes of the City's business income and receipts tax (BIRT) and net profits tax (NPT) – thus conforming to Internal Revenue Code section 174, as amended by the federal Tax Cuts and Jobs Act of 2017. Specifically, the Department explains that for BIRT "Method II" taxpayers, the City will conform to the federal income tax treatment of R&E expenses paid/incurred in tax years beginning after December 31, 2021, and that "for ease of tax administration and compliance," the City will allow BIRT Method II taxpayers to use the new federal capitalization and amortization rules for the NPT. Furthermore, the Department explains that if a BIRT "Method I" taxpayer uses an accounting method which allows R&E expenditures to be expensed in the same year they are spent (as opposed to capitalization and amortization), the City will allow a full deduction of these expenses for BIRT and NPT purposes. Please contact us with any questions.

URL: <https://www.phila.gov/media/20230626100950/Guidance-on-IRC-Sec-174-BIRT-NPT.pdf>

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