Deloitte.

Deloitte Tax LLP | December 10, 2025

MULTISTATE INCOME/FRANCHISE TAX

Pennsylvania enacts tax changes in response to OBBBA

Tax Alert

Overview

On November 12, 2025, Pennsylvania enacted House Bill 416 as Act 45 of 2025 ("Act 45"). Act 45 makes several changes to the Commonwealth's corporate net income tax ("CNIT") conformity to federal Public Law 119-21, commonly known as the One, Big, Beautiful Bill Act ("OBBBA"), which was enacted on July 4, 2025. The new Pennsylvania law decouples from certain federal tax changes made in the OBBBA pertaining to research and experimental ("R&E") expenses, depreciation deductions for qualified production property, and business interest expenses. These provisions of Act 45 are effective for tax years beginning after December 31, 2024.

This Tax Alert summarizes some of the relevant CNIT provisions of Act 45.

IRC conformity

Pennsylvania generally conforms to the Internal Revenue Code ("IRC") for CNIT purposes and requires taxpayers to use the IRC applicable to the tax year in computing taxable income, subject to specific decoupling provisions. Effective for tax years beginning after December 31, 2024, Pennsylvania decouples its CNIT calculations from certain provisions in the OBBBA, requiring taxpayers to calculate taxable income as if the specific federal provisions discussed below were not in effect.

Sections 174, 59(e), 174A, 481 – R&E expenditures

For CNIT purposes, taxable income includes (i.e., adds back) the amount of R&E expenditures deducted under sections 174, 59(e), and 174A. Taxpayers must amortize the remaining unamortized domestic and foreign R&E expenditures over a period of five years. In addition, taxable income includes the amount of any deduction claimed under section 481 related to the deduction under section 174A for previously capitalized unamortized domestic R&E expenditures incurred after December 31, 2021, and before January 1, 2025. The remaining unamortized previously capitalized R&E expenditures are also amortized over a period of five years.

Section 163(j) – Limitation on business interest deductions

Pennsylvania's limitation on business interest deductions continues to reference IRC section 163(j) as in effect immediately prior to adoption of the OBBBA. Thus, Adjusted Taxable Income for CNIT purposes will continue to be based on earnings before interest and taxes ("EBIT") rather than EBIT plus depreciation and amortization ("EBITDA").

See Corporation Tax Bulletin 2019-03 for guidance on Pennsylvania's CNIT treatment of section 163(j), including application to federal consolidated filers.

Section 168(n) – Special depreciation for qualified production property

Pennsylvania decouples from the newly enacted IRC section 168(n) special depreciation provisions for the 100% special depreciation allowance for certain qualified production property. For CNIT purposes, taxable income must be calculated as if section 168(n) was not in effect. Taxpayers are required to add back any federal special depreciation claimed under this provision, which can be recovered through additional depreciation determined under the federal depreciation provisions of sections 167 and 168 without regard to section 168(n), to the extent of amounts previously added back. For qualified production property which is sold or otherwise disposed, an additional deduction is allowed for CNIT purposes to the extent the amounts added back have not been fully recovered.

Get in Touch

Kenn Stoops
Drew VandenBrul
Aaron Leroy
Bob Kovach
Stacy Ip-Mo