



Monday, March 12, 2018

Dear Honorable Members of the PA House of Representatives:

The CompetePA Coalition writes to encourage your support for House Bill 2017, sponsored by Representative Francis X. Ryan, which addresses a serious business tax competitiveness issue in our Commonwealth.

As a reminder, CompetePA is a statewide coalition of over 130 members – including nearly all of the statewide and regional business groups, small businesses and Fortune 500 companies. The coalition was formed in 2005 to help create a business climate that *encourages* job growth and business expansion in our Commonwealth. However, a bulletin that was issued by the Pennsylvania Department of Revenue (2017-02) on December 22, 2017, addressing “Disallowance and Recovery of 100% Depreciation”, will profoundly *discourage* job growth and business expansion in the Commonwealth.

In short, the Department’s December ruling recognizes that Pennsylvania law currently decouples from IRC Sec. 168 including the recent federal tax change to 100% bonus depreciation. Pennsylvania law will not allow a business to take a deduction on their qualified property 100% expensed under new federal law until that property is disposed of or sold, which may never occur. While other states including Pennsylvania have decoupled from federal bonus depreciation provisions before, no state has ever denied a depreciation expense until such time as an asset is disposed of or sold. The very financial principle of depreciation is to allocate the cost of an asset over its *useful* life. Denying a deduction until an asset is disposed of or sold, is not only out of alignment with every other state, but out of alignment with the accounting principle of depreciation.

While the federal government made tax changes that essentially broadened the tax base but lowered the overall rate for businesses, the Bulletin highlights the cost to businesses of this change without any other reductions or adjustments to current Pennsylvania law. Coupled with the highest non-graduated corporate tax rate in the nation (at 9.99%), and as one of only a few states in the nation that caps Net Operating Loss (NOL) Carryforwards, this drastic move strongly encourages businesses to NOT do business in Pennsylvania.

Representative Ryan’s HB 2017 will resolve the issue articulated in Bulletin 2017-02. This bill incentivizes capital investment by allowing depreciation ratably over the useful life of the asset, but does not incentivize capital investment as much as federal tax reform does by still disallowing 100% bonus depreciation. HB 2017 is proposing PA depreciation treatment that is the same as current PA Law for taxpayers who do not choose to avail themselves of Federal Bonus Depreciation under 168(k). This legislation is fair, equitable and fiscally responsible, and we strongly encourage your support.

In order for Pennsylvania to be nationally and globally competitive, we must have a tax climate that attracts new companies to locate here and encourages those already here to expand their operations. HB 2017 will help us do that.

CompetePA remains committed to working with lawmakers to enact responsible policies that will help make Pennsylvania a leader in job growth and economic opportunity. We stand ready to talk or meet with you to discuss this issue or any other business tax issue.

Thank you in advance, and we again urge your support of HB 2017.

Sincerely,

The CompetePA Coalition