



This Week in State Tax (TWIST)

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Pennsylvania: DoR Issues Guidance on New Election Allowed for Related Party Transactions

The Pennsylvania Department of Revenue (Department) issued guidance on the new statutory election for related party transactions that applies beginning with tax year 2023. Pennsylvania law requires a taxpayer to add back to its net income intangible or interest expenses paid to a related party and permits the recipient party to take a credit based on the tax paid by the related party on the income it recognizes on the transaction. In lieu of the credit, [Act 56 of 2024](#) permits the recipient entity to make an election to deduct the related party intangible expenses or related interest expense added back by the payor. This election must be made by the taxpayer on its original return. The provision was intended to prevent the same income from being taxed twice.

The Department's guidance indicates that the statute is clear that the election must be made on an original return. Therefore, if a taxpayer has already filed its 2023 return and no election was made, the return may not be amended, and the provisions of prior law must be followed. If the taxpayer feels the existing credit does not make the taxpayer whole, it may appeal to the Board of Appeals which will review the matter on a case-by-case basis. The guidance also provides line-by-line instructions for making the election for taxpayers who have not yet filed their tax year 2023 return. Please contact [Mark Achord](#) for more information on the Department's [new guidance](#).

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