



This Week in State Tax (TWIST)

November 17, 2025



Pennsylvania: Assembly passes bill to decouple from certain OB3 changes

With the signing of HB 416 by Governor Shapiro on November 12, Pennsylvania becomes the most recent state to decouple from certain One Big Beautiful Bill Act (P.L. 119-21) (OB3) corporate tax provisions. Recall, Pennsylvania conforms to the IRC on a rolling basis, so any changes made to the IRC automatically become Pennsylvania law unless the state takes action to the contrary.

Under HB 416, the Commonwealth will decouple from the OB3 amendments to IRC § 163(j) (business interest limitation), thus continuing to adopt the version of IRC § 163(j) in effect on Dec. 31, 2024. Pennsylvania will also decouple from IRC § 168(n) (bonus depreciation for qualified production property) by adopting a state addition modification for amounts deducted under IRC § 168(n) on the federal return and a subtraction modification equal to the depreciation deduction that would have been allowed under IRC §§ 167 and 168 without IRC § 168(n). Finally, Pennsylvania will not adopt the OB3 version of IRC § 174/174A (deductions related Research & Experimental expenditures). Pennsylvania will require that the deductions made under IRC § 174/174A be added back to taxable income. Pennsylvania then provides a 20 percent deduction for all R&E expenses, including foreign R&E. For taxpayers that elect under the IRC § 174A transitional rule to accelerate unamortized domestic R&E expenses from tax years 2022 through 2024, Pennsylvania will require an addback of any deduction claimed under IRC § 481 relating to those R&E expenses. The corporate tax modifications appear to go into effect for taxable years beginning after December 31, 2024, apart from the modifications related to IRC § 168(n), which went into effect upon enactment of House Bill 416.

HB 416 also creates a new Working Pennsylvanians Tax Credit (WPTC), a refundable tax credit linked to the federal Earned Income Tax Credit (EITC). The WPTC will be available to taxpayers who qualify for the federal and will allow qualifying taxpayers to claim up to 10 percent of the federal EITC amount against their Pennsylvania personal income tax due. The WPTC is available to individual taxpayers beginning in tax year 2025. Please contact [Mark Achord](#) with questions on [H.B 416](#).

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