HOW TO MAXIMIZE YOUR TAX DEDUCTIONS UNDER THE NEW TANGIBLE PROPERTY REGULATIONS

By: Hal S. Feldbaum, CPA, Tax Director, Friedman LLP November 7, 2014

After a nearly ten-year project, the IRS and Treasury recently issued final tangible property regulations that will affect a majority of taxpayers. These final regulations attempt to bring clarity to a complicated area of tax law, addressing what can be written off currently and what needs to be capitalized.

The prior tax regulations dealing with capitalization of costs for tangible assets (other than inventory) were very general (4 pages). This left much room for interpretation as to which expenditures were deducted and which were capitalized. The new regulations, which replace the old law, are generally effective for tax years beginning on or after January 1, 2014.

THE NEW REGULATIONS ARE EXTENSIVE, WITH OVER 200 PAGES OF GUIDANCE AND OVER 170 EXAMPLES. THE REGULATIONS INCLUDE GUIDANCE IN THE FOLLOWING AREAS:

1. Materials and supplies
2. De minimis safe harbor
3. Definition of unit of property
4. Amounts paid to acquire or produce tangible property
5. Amounts paid to improve tangible property
6. Improvements to leased property
7. Dispositions of property
8. Routine Maintenance safe harbor
9. Small Business Taxpayer safe harbor

THE NEW REGULATIONS WILL ALLOW TAXPAYERS TO:

1. Deduct immediately costs that were capitalized in the past
2. Deduct current costs that are now considered repairs and maintenance
3. Deduct current costs that meet the de minimis safe harbor rules
4. Write off partial asset dispositions (i.e., write off old roof included in building costs when a new roof is installed)
5. Correct depreciation

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In order to qualify for these deductions and write-offs, various elections and tax filings, including Form 3115 and the corresponding Sec. 481(a) adjustments, must be calculated and filed with the 2014 tax returns. Also, if a company is planning to use the de minimis safe harbor rules in 2014, it should have documented its book capitalization policy by January 1, 2014.

If these elections, tax filings and policies are not timely filed and documented, **the deductions and write-offs may be disallowed by the IRS.**

FOR MORE INFORMATION, PLEASE CONTACT:

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