WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

# CLIENT ALERT

## How to Treat Amounts Paid for Tangible Property:

### Final IRS regulations are released as other new rules are proposed

**February 2014**

In September 2013, the IRS released the final regulations on expenditures for tangible property. At the same time, it proposed new regulations on the disposition of building assets. This pair of regulations instructs businesses how to classify tangible property expenditures, whether for materials and supplies, repairs and maintenance, or assets requiring capitalization. For expenditures previously capitalized, the proposed regulations allow businesses to claim deductions for partial building dispositions (for example, the un-depreciated cost of an old roof may be deducted after it has been replaced).

**The new regulations will impact almost every business:** corporations, partnerships, sole proprietorships, and individual landlords and farmers.

**Compliance is mandatory in 2014, but is not automatic.** Almost all businesses will file new forms with the IRS and some may need to implement new accounting policies as a result of the new rules.

**The new rules are technical, complex, and mandatory.** The new rules create issues businesses need to address proactively. We have dedicated significant resources to analyze the new rules and their impact on our business clients. This past August, our members and associates participated in two days of extensive training on this topic. In addition, we have organized an internal team, including Leslie "Trae" Lorts, CPA, CVA, Mark E. Gingrich, CPA, J.D., Tory N. Brondel, CPA, Jessica M. Lehmen, CPA, Jason A. Pax, CPA and J. Chris Schneider, CPA, CVA, to further educate our associates and clients. We have developed educational resources available on our website. We encourage you to contact your Williams-Keepers LLC advisor to help you navigate these challenging rule changes.

**Final tangible property regulations**

Before the new regulations, businesses relied on court cases and subjective evaluations of whether expenditures should be deducted or capitalized. The new rules provide more clear guidance to help businesses distinguish capital expenditures from materials, supplies, repairs, maintenance, and other deductible expenditures.

The regulations feature several safe harbors. For many businesses, the most important safe harbor will allow a "de minimis" threshold, under which businesses may generally establish a threshold (adopted for financial reporting purposes and consistently applied) and deduct expenditures below the threshold.

Other highlights include:

- Deduction authorized for removal costs related to an asset's disposition;
- New safe harbors to help businesses determine what expenditures are deductible as "routine maintenance";
- Deduction, as "materials and supplies," property with a cost of up to $200 (increased from $100 in previous guidance);

MEMBERS
PKF North America
Missouri Society of Certified Public Accountants
American Institute of Certified Public Accountants

COLUMBIA
2005 West Broadway
Suite 100
Columbia, MO 65203
PH (573) 442-6171
FAX (573) 777-7800

JEFFERSON CITY
3220 West Edgewood
Suite E
Jefferson City, MO 65109
PH (573) 635-6196
FAX (573) 644-7240

www.williamskeepers.com

- Refinement of the rules for improvements made by a lessee; and
- Clarification of the types of capital expenditures that constitute "betterments" to property.

Nearly all businesses must adopt the new regulations for 2014. Adoption will generally require businesses to file with the IRS Form 3115, Change in Method of Accounting.

**Proposed tangible property regulations**

Concurrent with the final regulations, the IRS issued new proposed regulations related to asset dispositions. Under these new proposed regulations, businesses will have the option to deduct "retired" building assets. The proposed regulations also create a new "partial disposition" election for most situations where a structural component of a building is replaced, such as a roof replacement. If this election is made, then a business may recognize a loss on the retirement of the old structural component. This is a significant change in the law and provides businesses the opportunity to accelerate deductions. Although the new "partial disposition election" is an annual election, businesses cannot employ it until they formally adopt the new regulations by filing with the IRS.

The IRS will allow businesses to rely on the proposed regulations for tax years beginning on or after January 1, 2012. We expect the proposed rules will become final, effective 2014.

**Conclusion**

Almost all businesses should consider the impact of these new rules. For some, the impact will be slight; for others, significant. Many businesses will need to do the following:

- Understand the rules.
- Modify internal processes. Accounting policies for financial and tax accounting need to be reviewed, especially those related to repairs and maintenance expenditures.
- File the required forms.

We are happy to answer any questions you have about the new tangible property provisions and help you to implement these rules for your business. Please contact your Williams-Keepers LLC advisor at your earliest convenience at (573) 442-6171 or (573) 635-6196.

Sincerely,

Williams-Keepers LLC

Williams-Keepers LLC