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Capitalization of Tangible Assets

New IRS "Repair Regulations" Affect Nearly All Businesses

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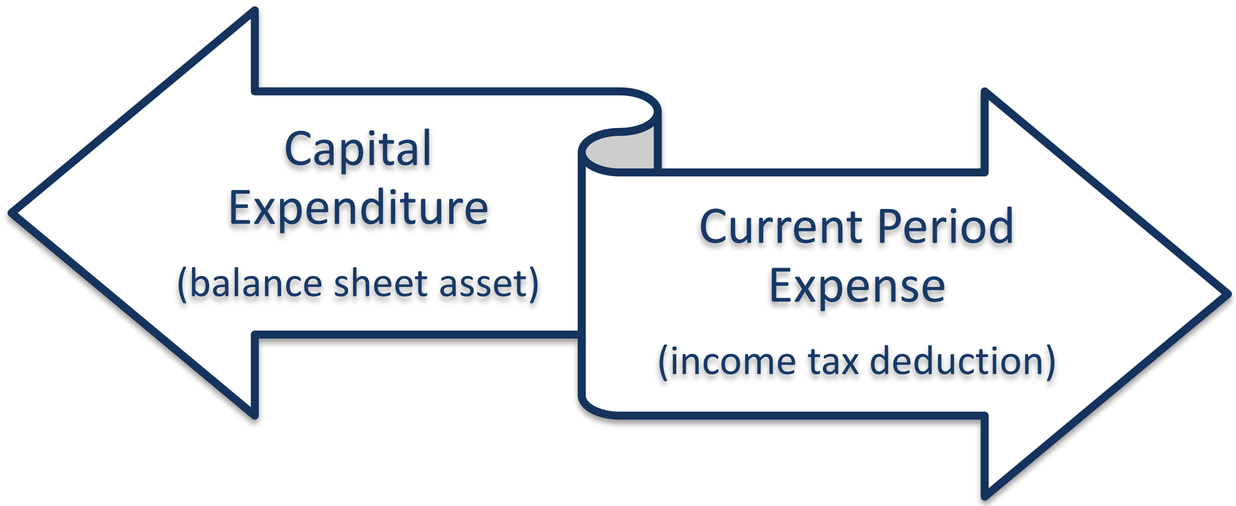
What's this all about?



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The rules have changed!

- New 2013 IRS "repair regulations"
  - Drastic changes to how we account for expenditures and dispositions
  - Compliance is mandatory in 2014
- Key changes
  - New distinctions now exist between
    - Capital expenditures; and
    - Current period expense
  - New opportunities exist for some taxpayers
    - To deduct prior and future asset dispositions
    - To "clean up" depreciation schedules
- Impacts all businesses that make capital expenditures

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Why are there new rules?

- 20th Century
  - Courts defined the distinction between capital expenditures and current period expenses
  - Typically, courts rejected IRS positions
- New regulations from the IRS
  - Attempt to align the IRS with the courts' opinions
  - Attempt to relieve uncertainty
    - The new rules contain some "bright line" guidance to relieve risk
  - However, complexity remains
    - The new regulations exceed 200 pages

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Impact of the new rules

- The new regulations impact how businesses account for the following expenditures:
  - Repairs and maintenance
  - Materials and supplies
  - Improvements to property
  - Acquisitions of property
- Compliance is mandatory, but relief for small taxpayers was granted on February 13, 2015
  - Businesses may file forms with the IRS to adopt the new rules
  - The IRS has invested 7 years into the new repair regulations and has stated the regulations are mandatory for 2014 and future tax years

- The new rules provide a framework for distinguishing capital expenditures from deductible supplies, repairs and maintenance costs
- To implement the rules (which they are required to do)…

  …Businesses must understand the rules (and understanding is not easy)
- Affected “businesses” include individuals with rental, farming, and similar operations

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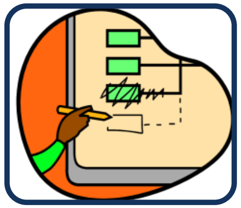
What does your business need to do?

Understand the rules and the risks of noncompliance



Modify internal processes*

- "Book" expensing policy
- New book-tax differences
- Process for fixed asset accounting

"Clean up" tax depreciation schedules*

- Identify and eliminate depreciation errors or oversights
- Update records for changes in the definition of a "unit of property"
- Accelerate deductions for items previously capitalized "incorrectly" (according to the new rules)

File to adopt the new rules

- Compliance is mandatory
- Most businesses will be required to file multiple Forms 3115 to adopt the new rules
- Some Form 3115 filings may accelerate tax deductions

* The extent to which these considerations need to be addressed will vary among businesses. Your WK Advisor is happy to discuss how the new regulations affect your business and to consider what steps your business should take to comply.

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Conclusion

If you have any questions regarding the new tangible property regulations in general, please do not hesitate to call your WK representative.

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