WILLIAMS KEEPERS LLC
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Dear Valued Client:

In September 2013, the IRS released final and proposed rules dealing with how expenditures for tangible property are treated for tax purposes. These "tangible property regulations" ("TPRs") represent a dramatic change in tax law.

Historically, the IRS has not provided regulations allowing a business to establish a dollar threshold, below which expenditures will be "expensed" rather than capitalized. The TPRs change that and permit businesses to adopt a "de minimis" threshold, used consistently for financial and tax reporting purposes. To qualify, the business needs to formally adopt an accounting policy, used consistently.

What follows is a sample accounting policy. Unfortunately, there is not a one-size-fits-all policy. Please consult us to help you adopt the appropriate policy for your business and to identify all implications of the TPRs on your business.

Sincerely,

Williams-Keepers LLC

WILLIAMS-KEEPERS LLC

[Note: Consult Williams-Keepers LLC for advice before implementing a policy.]

Company Name:

ACCOUNTING POLICY:
CAPITALIZATION OF EXPENDITURES FOR TANGIBLE PROPERTY

Items not subject to this Accounting Policy. Special rules apply to the certain types of tangible property. This Accounting Policy does not apply to expenditures to acquire or improve the following classes of tangible property:

- Items of inventory or items intended to be included in inventory;
- Land; or
- Rotable, temporary, and standby emergency parts (if a tax election will be filed under Treas. Reg. § 1.162-3(d) to cause these parts to be capitalized).

Items subject to this Accounting Policy. All other expenditures to acquire or improve tangible property (including but not limited to machinery, furniture, or buildings) will be subject to this Accounting Policy's general rules unless an exception, described below, applies.

General rules. Expenditures for the acquisition or improvement of tangible property reasonably expected to be used for more than 12 months will be capitalized. Items consumed in day-to-day operations or items reasonably expected to be consumed within 12 months should be recorded as current period expense (and not capitalized) when used.

Exceptions for routine maintenance. If an expenditure is incurred as routine maintenance to keep property in its ordinary efficient operating condition, then the following exceptions will apply.

- For tangible personal property (i.e., non-real estate), if the maintenance activity is reasonably expected to occur more than once during the asset's § 168 class life under the alternative depreciation tax rules, then the expenditure will be recorded as a current period expense (and not capitalized).
- For building structures or building systems, if the maintenance activity is reasonably expected to occur more than once during the 10-year period beginning when the building structure or building system is placed in service, then the expenditure will be recorded as a current period expense (and not capitalized).

  [Note: The exceptions for routine maintenance are available for income tax purposes even if they are inconsistent with financial reporting. As a result, your company may consider removing the preceding routing maintenance provisions and updating your accounting system to separately track expenditures capitalized for financial reporting purposes but deductible for tax purposes.]

De minimis exception. Due to the administrative burden of tracking tangible property (including materials and supplies) and the inconsequential effect de minimis items have on financial statements, management establishes the de minimis exception to the general rules, described above.

The threshold for this de minimis policy is $500 (the “dollar threshold”).

> [Note: If your company issues an applicable financial statement, the IRS permits the dollar threshold to be any amount less than or equal to $5,000. You should consult Williams-Keepers LLC to help determine the appropriate threshold for your company.]

Management adopts the following guidelines to allow an expenditure to be recorded as a current period expense, even if it may reasonably be expected to be used for more than 12 months:

- If (a) an invoice is less than the dollar threshold; and (b) the invoice represents the entire cost of an item, then the expenditure should be recorded as current period expense (and not capitalized).
- If (a) an invoice is less than the dollar threshold but the invoice represents partial payment for an item; and (b) total cost of the item is expected to be less than the dollar threshold, then that item should be recorded as a current period expense (and not capitalized).
- If (a) invoice exceeds the dollar threshold; and (b) the total expenditure can be separated into separate items, then each separate item less than the dollar threshold should be recorded as a current period expense (and not capitalized).

This policy is effective as of January 1, 2014. [Note: The date should be 1st day of the tax year the policy will be adopted]

______________________	______________________	12/31/2013
Signature	Title	Date

[Note: The signed date should precede the effective date.]