

Repair Regulations: Capitalize vs. Expense

July 14, 2014



The IRS has recently released final rules on the tax treatment of tangible personal property. An important component of these new rules deal with when and how to deduct or capitalize certain expenditures. Does an outlay constitute a currently deductible repair or should it be capitalized and depreciated over a number of years?

While hundreds of pages of rules and regulations have already been issued, the IRS has informed us that more guidance is forthcoming this year. These new rules are effective for 2014.

We would expect that many businesses and even some individuals will need to address these rules in some manner. In certain cases these rules need to be applied retroactively. Current company policies and procedures should be reviewed and may need to be updated to conform to the new standards. Current as well as prior year information will need to be gathered and analyzed to determine the effect on taxable income. If changes are required, disclosures will need to be made on the 2014 income tax returns and in most cases will require the filing of an Application for Change in Accounting Method, Form 3115. The effect of filing an application for change in accounting method can result in either additional current (2014) deductions or additional income which will have to be reported over a 4 year period.

This application does not require IRS approval, and therefore when filed, the change is automatically accepted by the IRS. However the IRS always has the right to audit any changes to income or expenses.

Given the sweeping nature of these changes and the potential difficulty in gathering the required information to properly address them, we suggest that you begin to address these issues now, instead of next year when we are preparing your returns. Anchin will be available to assist you and your personnel in this regard and to guide you in adopting these rules. Anchin has a team of experts in this area to be of assistance to you.

To further discuss this topic and how it may affect you and your company, contact your Anchin Relationship Partner at 212.840.3456.