

Tangible Asset Regulations: Overall Impact for the Taxpayer



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This week concludes our six-part email series on the new tangible asset regulations which are generally effective for tax years beginning after 1/1/14 and impacts any taxpayer with capitalized assets or supplies. The following is a summary of the five areas we previously discussed which may impact you.

De minimis Safe Harbor Rule

The de minimis safe harbor rule allows taxpayers to annually elect to expense certain expenditures, if a written policy is in place at the beginning of the tax year, when you spend less than a certain dollar amount on tangible property.

Materials & Supplies

Through the materials and supplies rules, incidental items meeting certain criteria may accelerate deductions by expensing items in the current year, rather than maintaining an inventory and deducting when used. Non-incidental (inventoried) items are required to be capitalized and deducted when used or consumed, not necessarily in the year acquired.

Unit of Property: Building Systems

The new rules for building systems places the building components into nine different units of property to determine whether an expenditure is a capitalized improvement or a deductible expense. These components include HVAC, electrical systems, plumbing, escalators, elevators, fire protection & alarm, security, gas distributions or other structural components.

Unit of Property: Non-Building

To determine whether property is subject to capitalization or expense, you must look at the Unit of Property rules. For non-building property, you must determine if the components are functionally interdependent, and placing one component in service is reliant on placing other components in service.

Repairs vs. Improvements: 3 Tests

The new regulations implement three new tests to determine whether expenditures related to a unit of property should be capitalized or expensed. The three tests are the betterment test, the restoration test, and the adaptation test. If the expenditure meets any of the tests, the cost should be capitalized as an improvement to the unit of property. All three tests must be done in succession before determining that expensing the cost is appropriate.

Additional guidance was also released that allows for a late partial disposition election in 2014 to claim a loss on the cost of the component that was replaced, removed or disposed of in prior years.

As the new regulations are complex, we highly recommend that you address these required changes prior to year end and assess any planning opportunities available.

If you would like additional information or have questions, please contact Allison Carter at alcarter@deandorton.com or Faith Crump at fcump@deandorton.com or by calling 502-589-6050.

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