

Tangible Asset Regulations: Building Systems



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Question:

If you renovate a building used in your business this year, then is the expenditure a capitalized improvement or an expensed repair?

Answer:

It is important to understand how the “unit of property” concept has changed regarding buildings. Before the new rules, only the building in its entirety was considered one unit of property. Now, as many as nine building systems can make up one building, and each system is its own unit of property.

The nine systems that can make up a building are as follows:

1. Heating, ventilation and air conditioning (HVAC) systems
2. Plumbing systems (pipes, drains, sinks, toilets, etc.)
3. Electrical systems (wiring, outlets, lighting fixtures, etc.)
4. All escalators
5. All elevators
6. Fire protection and alarm systems (sensing devices, computer controls, sprinkler heads, etc.)
7. Security systems (window and door locks, security cameras, recorder, monitors, motion detectors, etc.)
8. Gas distribution systems
9. Other structural components (roof, walls, floors, etc.)

To follow the new Building Systems rules, you may have to plan more carefully before you renovate and keep detailed records during each project. However, these rules may also provide more certainty that an expenditure appropriately expensed as a repair will pass IRS scrutiny.

Contact your Dean Dorton advisor or Faith Crump at fcrump@deandorton.com or 502.566.1025 if you have any questions.

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