

Tangible Asset Regulations: Materials and Supplies



ARTICLE 04.12.16 DEAN DORTON

Question:

At the end of tax year 2015, you still have \$900 of unused materials and supplies on hand. Can you deduct the full \$900 on your tax return? Or does the IRS require you to capitalize these materials and supplies, deducting them when you use them?

Answer:

Under the Material and Supplies rules, you can expense the cost of qualifying **incidental** items in the current year, rather than capitalizing them.

Of the materials and supplies on hand at year end, only **incidental items – ones not inventoried or tracked** – may be deducted in that year.

If an item appears on an inventory or record of consumption that you maintain, then it is considered non-incidental. Non-incidental items are capitalized and deducted when used or consumed, not necessarily in the year acquired.

In addition to being an item you do not inventory or track, an incidental item must also meet one of the five following criteria to be eligible for deduction in the year of acquisition:

1. A component acquired to maintain, repair, or improve a unit of tangible property that you own, lease, or service;
2. Fuel, lubricants, water, and similar items that you reasonably expect to consume in 12 months or less, beginning when first used in your operations;
3. A unit of property that has an economic useful life of 12 months or less, beginning when first used or consumed in your operations;
4. A unit of property that has an acquisition cost or production cost of \$200 or less; or
5. Identified in published guidance (such as the Federal Register or in the Internal Revenue Bulletin) as materials and supplies.

Of your \$900 of unused materials and supplies on hand, the cost of all qualifying incidental items is eligible for deduction. The rest must be capitalized and deducted when used.

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

[View Faith Crum's Bio](#)