

Tangible Asset Regulations: Repairs vs. Improvements



ARTICLE 04.26.16 DEAN DORTON

Question:

If you spend money to change a capital asset used in your business this year, then is the expenditure a capitalized improvement or an expensed repair?

Answer:

Under the new Tangible Asset Regulations (TARS), you must capitalize all betterment, restoration, and adaptation expenditures as improvements to the unit of property (UOP). The regulations define these three terms as follows:

1. A betterment is an expenditure that:
 - Corrects a material condition or defect that existed prior to acquisition or arose during production of the UOP,
 - Results in a material addition to the UOP, or
 - Results in a material increase in strength, capacity, productivity, efficiency, quality or output of the UOP.
2. A restoration is an expenditure that:
 - Replaces a component of a UOP,
 - Repairs damage to a UOP,
 - Returns UOP to its ordinarily efficient operating condition if it deteriorated to a state of disrepair and is no longer functional for its intended use,
 - Rebuilds UOP to a like-new condition after the end of its ADS class life, or
 - Replaces major component or substantial structural part of UOP.
3. An adaptation is an expenditure that adapts a UOP to a new or different use that is not consistent with the taxpayer's intended ordinary use of the UOP when originally placed in service by the taxpayer.

Otherwise, the expenditure is a repair, and you can expense it in the current year.

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