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Compliance with New Tangible Property Regulations & Its Impact on Your 2014 Tax Returns

In late 2013, the Internal Revenue Service (IRS) released final regulations regarding the **capitalization of costs of acquiring, maintaining and improving tangible property**. These regulations, often referred to as "Repair Regs" or "TPR," are effective for tax years **beginning on or after January 1, 2014**. Compliance with the new rules is **mandatory** for all taxpayers, and in most cases will require companies to address their capitalization policies and make appropriate elections and accounting method changes on their 2014 tax returns. In some cases, retroactive application of the rules is required. *Ignoring the rules or assuming they do not apply to your businesses could prove to be costly – but it is not too late!*

Though we are now well into the first tax return season wherein these regulations must be applied, for calendar year 2014 tax returns that are on extension, there is still an opportunity to address these issues. While planning for implementation of the regulations ideally should have occurred prior to tax season, **there are still opportunities to make sure you take advantage of some of the more taxpayer friendly aspects of the regulations**. Though the burden of compliance with the regulations has proved challenging for taxpayers, additional guidance issued by the IRS in February 2015 has provided some relief to certain taxpayers.

The tax team at **Lindquist von Husen & Joyce LLP** would like to highlight the following areas:

- Companies with Applicable Financial Statements (AFS) are able to align tax capitalization policy with financial accounting books and records policy **up to $5,000 per unit of property**. *An election included with a timely filed tax return is required in order to take advantage of this rule.*

- Companies can align tax treatment of repair and maintenance expense with financial accounting books and records policy for items capitalized on financial statements. *An election included with a timely filed tax return is required in order to take advantage of this rule.*

- Tangible property items that traditionally were required to be capitalized under former tax rules may now be eligible for current expensing even if capitalized on financial statement books and records. *Certain accounting method changes (Form 3115) are likely to be required and included with a timely filed tax return in order to take advantage of this rule.*

- **Revenue Procedure 2015-20**, released by the IRS on February 13, 2015, provides a significant amount of relief and eases the administrative burden of filing Form 3115 for certain small business taxpayers. *Those who qualify may adopt new accounting methods without the filing of a Form 3115.* Small business taxpayers must meet the following test:

    - Total assets of less than $10 million on the first day of the tax year for which the change is effective; or

    - Average annual gross receipts of $10 million or less for the three prior taxable years. exclusively for business. Both can be challenged by the IRS.

Whether you qualify for the simplified accounting method changes or not, method changes nonetheless must be made.

If you have any questions or need assistance with complying with the new rules, please contact: **Steven J. Robertson**, Senior Tax Manager, at *srobertson@lvhj.com* or 415-905-5419.

Click here to read more about Steven J. Robertson.

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