Other Repair Regulations Issues

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Definitions

- Small business taxpayer
- Unit of property
- Economic useful life
- Applicable Financial Statement
- Written Capitalization policy
- Material and Supply

Materials and Supplies
De Minimus Safe Harbor

Unit of Property

- The unit-of-property must be identified before the client can determine whether the expenditure can be deducted or must be capitalized
- Once the unit of property has been determined
  - The client applies the improvement standards under the regulations to determine if the expenditure improves the property and requires capitalization
  - In general, a unit of property includes all components that are “functionally interdependent” (i.e., the placing in service of one component depends upon the placing in service of another component)
- An additional rule provides that if the taxpayer breaks down the unit of property into smaller components with different depreciation lives, then the smaller components are the units of property
- Remember our building rule

Economic Useful Life

- The economic useful life of a unit of property is not necessarily the useful life inherent in the property
  - It is the period over which the property may reasonably be expected to be useful to the taxpayer or,
  - If the taxpayer is engaged in a trade or business or an activity for the production of income, the period over which the property may reasonably be expected to be useful to the taxpayer in its trade or business or for the production of income
Definition of an Applicable Financial Statement

• The taxpayer’s applicable financial statement requirements are, in descending priority—
  – A financial statement required to be filed with the Securities and Exchange Commission (SEC) (the 10-K or the Annual Statement to shareholders)

Definition of an Applicable Financial Statement

• A certified audited financial statement that is accompanied by the report of an independent certified public accountant (or in the case of a foreign entity, by the report of a similarly qualified independent professional), that is used for:
  – (1) Credit purposes
  – (2) Reporting to shareholders, partners, or similar persons or
  – (3) Any other substantial non-tax purpose or
• A financial statement (other than a tax return) required to be provided to the federal or a state government or any federal or state agency (other than the SEC or the Internal Revenue Service)

Qualified Small Business Taxpayer

• The guidance applies to taxpayers with total assets of less;
  – Than $10 million or
  – Average annual gross receipts of $10 million or less for the prior three tax years
• The tests are applied at the trade or business level
• For example, a C corporation holding company with two single-member limited liability companies (LLCs) applies the tests at the single-member LLC level
Three Issues

- "Incidental materials and supplies"
  - Items with a cost of less than $200 that are so small and insignificant, it is impossible to trace when they are consumed by the business = expense
  - "Non-incidental materials and supplies," these are items, again with a value of less than $200, that are a bit more substantial,
  - These can be traced when they are being used for the business
  - The regulations provide that these materials and supplies may only be deducted when they are consumed
- De minimus safe harbor rule
- "Rotable and emergency spare parts,"
  - Much bigger
  - Generally more costly supplies
  - Generally well in excess of $200, that are used to avoid production or business downtime by keeping them on hand and using them to replace a damaged part until the part may be permanently replaced
  - These materials and supplies often go from asset to asset throughout their life; as a result, as a general rule no deduction is permitted until the item is finally disposed of, but there is an exception

Where to start?

- All tangible property that is not inventory must be capitalized and depreciated unless there is an exception

Evaluate: Materials and Supply

- Does the expenditure qualify for treatment under the materials and supplies rule?
  - A UOP with a cost of $200 or less?
  - An economic useful life of 12 months or less?
- Is the expenditure, a fuel, lubricants, water etc. and similar items that generally will be consumed in 12 months or less in clients operation?
- A component to maintain, repair or improve a UOP
1.162-3 Materials and Supplies

- The regulation provides a definition of:
  - Materials and Supplies
  - The proper tax year for deduction
  - What is incidental and non-incidental
  - Allows an election to capitalize the rotatable, temporary and stand-by spare parts
  - Late election is available by filing an amended 2012 and 2013 tax return

Final Regulations

- The final regulations require that the this safe harbor be applied to all eligible materials and supplies
  - Other than rotatable, temporary, and standby emergency spare parts subject to the election to capitalize
  - Or rotatable and temporary spare parts subject to the optional method of accounting for such parts if the taxpayer elects the de minimis safe harbor under §1.263(a)-1(f)
- Taxpayers that do not elect the de minimis safe harbor provided in the final regulations for the taxable year must treat their amounts paid for materials and supplies in accordance with the rules provided in §1.162-3

§ 1.162-3 Materials and Supplies

- (1) Non-incidental materials and supplies
  - Are deductible in the taxable year in which the materials and supplies are first used in the taxpayer’s operations or are consumed in the taxpayer’s operations
- (2) Incidental materials and supplies
  - Amounts paid to acquire or produce incidental materials and supplies that are carried on hand and for which no record of consumption is kept or of which physical inventories at the beginning and end of the taxable year are not taken, are deductible in the taxable year in which these amounts are paid, provided taxable income is clearly reflected
- (3) Use or consumption of rotatable and temporary spare parts
  - Rotable and temporary spare parts are first used in the taxpayer’s operations or are consumed in the taxpayer’s operations in the taxable year in which the taxpayer disposes of the parts
### Property that Cost $200 or Less

- Any item of tangible personal property that is not inventory and that costs $200 or less is currently deductible as materials and supplies
- The cost for Non-Incidental materials and supplies may be deducted in the year the item is used or consumed
- The cost for incidental materials and supplies may be deducted in the tax year on which the amounts are paid – no record of consumption or inventory is kept

### Change in Accounting Method

- If your business was in existence before 2014:
  - You didn’t have a policy in place of currently deducting items that qualify as materials and supplies that exactly matched the requirements of the new IRS regulations (which you likely didn’t)
  - Your adoption of the rule in 2014 and later is considered to be a change in your method of accounting
- Ordinarily, you must obtain IRS permission for such a change by filing IRS Form 3115, Application for Change in Accounting Method

### Change in Accounting Method

- However, the IRS has enacted special optional relief from this requirement for “smaller” taxpayers
- This includes all taxpayers with (1) assets under $10 million (as of the first day of the tax year) or (2) less than $10 million in annual gross receipts for each distinct business they own
- Under IRS Revenue Procedure 2015-20, such taxpayers may elect to apply the materials and supplies deduction in 2014 and later without filing Form 3115 or making any other filing
- You simply treat such expenses as deductible materials and supplies in your books and records
- By electing this relief, a taxpayer does not apply any part of the IRS repair regulations (of which the materials and supplies deduction is a part) to years before 2014
### The Options

- (1) Generally, an item that costs $200 or less or has an economic useful life of 12 months or less qualifies as a material or supply.
- Once qualified as a material or supply, the client can receive more favorable treatment of a current deduction when the item is used or consumed, instead of having to capitalize the cost.
- (2) The regulations provide an election to substitute a taxpayer’s capitalization threshold in certain circumstances for the $200 limit under the de minimis rules.

### Farmers

- Treatment of materials and supplies for FARMERS is guided by Regulations §1.162-12(a):
  - Allows full deductibility for all amount spent carrying on the trade or business of farming.
  - The regulation has always allowed the deduction for non-incidental materials and supplies be limited to those actually consumed during the tax year.
  - The new regulation do not distinguish between non-incidental and incidental materials and supplies.

### Why Would a Business Chose this Option?

- Requires a change in accounting method, for 2014 the Form 3115 requirement was waived.
- Possible §481 adjustment spread over 4 years.
- They already have §179.
- We have the de minimis safe harbor that makes more sense.
- It could be a future safe harbor depending on the business.
Audit Protection

- A small business taxpayer choosing the option of calculating a § 481(a) adjustment that takes into account
  - Amounts paid or incurred
  - Dispositions
  - Taxable years beginning on or after January 1, 2014, does not receive audit protection under section of Rev. Proc. 2015-13 (or any successor) for taxable years beginning prior to January 1, 2014

De Minimus Safe Harbor

- The de minimis safe harbor provided is intended as a new administrative convenience
- Clients are permitted to deduct small dollar expenditures for the acquisition or production of new property or for the improvement of existing property, which otherwise must be capitalized under the Code
- The de minimis safe harbor does not limit a taxpayer’s ability to deduct otherwise deductible repair or maintenance costs that exceed the amount subject to the safe harbor
- The safe harbor merely establishes a minimum threshold below which all qualifying amounts are considered deductible
de minimis Safe Harbor

• Consistent with longstanding law, a client may continue to deduct all otherwise deductible repair or maintenance costs, regardless of amount.
• In addition, the existence of the de minimis safe harbor does not mean that a taxpayer cannot establish a de minimis deduction threshold in excess of the safe harbor amount, provided the taxpayer can demonstrate that a higher threshold clearly reflects the taxpayer’s income.
• In conjunction with section 179, which also allows small business taxpayers to immediately expense certain otherwise capital expenditures, the de minimis safe harbor provides significant tax simplification to small businesses.

Interaction with de Minimis Safe Harbor

• A new de minimis safe harbor permits business owners to deduct tangible personal property that costs no more than $500 for businesses that have no AFS or $5,000 for larger businesses that have AFS.
• If you elect to use the de minimis safe harbor, you must apply it to amounts paid for all materials and supplies that meet the requirements for deduction under the safe harbor.
• Thus, if you use the de minimis safe harbor, you can largely ignore the other materials and supplies deduction.
• This is to your advantage since the $500 de minimis safe harbor for most businesses is larger than the $200 materials and supplies limit.

The Options

• The election is made annually, and the threshold amounts depend upon whether:
  – There is a capitalization policy in place at the beginning of the year (must be reviewed) and
  – Whether the taxpayer has an applicable financial statement (AFS).
  – If a taxpayer has an (AFS), the maximum threshold is $5,000.
  – If the taxpayer does not, the threshold cannot exceed $500.
Coordination with Other Provisions of the Internal Revenue Code

- Remember our coordination with other IRC sections
  - § 1.263(a)-3, requires taxpayers to capitalize amounts paid to improve tangible property
  - § 263A and their regulations require taxpayers to capitalize the direct and allocable indirect costs, including the cost of materials and supplies, of property produced by the taxpayer and property acquired for resale
  - § 1.471-1, requires taxpayers to include in inventory certain materials and supplies

Written Capitalization Policy
The $500/$5,000 issue

- In order to take advantage of certain provisions in the final regulations, taxpayers will need to adopt or update a written capitalization policy for non-tax purposes
- This capitalization policy needs to be in effect for the first taxable year beginning on or after January 1, 2014
  - Assuming the capitalization policy is properly in place by January 1, the safe harbor election is then made annually at the time the taxpayer files its tax return for the year

Written Capitalization Policy
The $500/$5,000 issue

- To qualify for the safe harbor election, an organization must have a written accounting policy in place on the first day of the tax year calling for:
  - The expensing amounts paid for property less than a specified amount, and/or
  - The expensing payments for property with an economic life of 12 months or less
- An organization with an “applicable financial statement” may rely on the final regulations’ safe harbor to expense an item provided the amount paid for tangible property does not exceed $5,000 per item
Written Capitalization Policy

• The safe harbor also applies to a financial accounting policy that expenses amounts paid for property with an economic useful life of 12 months or less, provided the costs don’t exceed the $5,000 threshold
• An organization which does not have an applicable financial statement, but has adopted an accounting procedures based on a specified amount or a useful life of 12 months or less in place at the beginning of the year does not need a written policy and may rely on the de minimis safe harbor as long as the costs do not exceed $500 per item

Written Capitalization Policy

• Organizations that do not have a written capitalization policy in place may still deduct expenditures for tangible property costing $200 or less

$5,000 or Less/ $500 or Less

• Must expense amounts according to the accounting policy
• Includes additional costs (e.g., delivery fees, installation) included in determining cost only if included on the same invoice as item itself
• File annual election statement with timely filed original return including extensions
• Cannot split costs into multiple invoices
• Applies to only tangible property; intangibles are not eligible
$5,000 or Less

• Does not apply to:
  – Land
  – Inventory
  – Rotable, temporary or emergency spare parts that taxpayer has elected to capitalize
  – Rotables and temporary spare parts for which taxpayer uses the optional method
  – If elected, must apply to all items that qualify
  – Amounts over the safe harbor amount may be allowed if it clearly reflects income

Accounting Capitalization Policy for Clients with and without an Applicable Financial Statement
Per Regulation §1.263(a)-1(f)(4)

Keep it Simple
To Comply with Regulations §1.263(a)-1(f)(4)
de minimus Safe Harbor Election

Written Accounting Policy for: ____________________________

EIN # ____________________________

This accounting capitalization policy is effective as of ___________ and treats an expense for non-tax purposes:

- The amount paid for property that does not exceed $_________ per invoice or per item as detailed and substantiated by the invoice;
- The amount paid for property with an economic useful life of 1.7 months or less

Per this policy the amounts detailed above will be treated as an expense on the books and records of the business.

Signature ____________________________

Date ____________________________

Sale or Disposition of Materials and Supplies

• Any asset for which the client makes the election to capitalize and depreciate shall not be treated as a material or supply, and
• The recognition and character of the gain or loss for such depreciable asset are determined under other applicable provisions of the Code
### Example A - Non-Rotable Components

- Arthur owns a fleet of trucks that it operates in his business
- In 2015 Arthur purchases a stock of spare parts, which it uses to maintain and repair the trucks
- He keeps a record of consumption of these spare parts
- In 2016 Arthur uses the spare parts for the repair and maintenance of one of the aircraft
- Each aircraft is a unit of property and the spare parts are not rotatable or temporary spare parts
- The repair and maintenance activities do not improve the aircraft
- These parts are materials and supplies because they are components acquired and used to maintain and repair Arthur’s aircraft
- The amounts that Arthur paid for the spare parts in 2015 are deductible in 2016, the taxable year in which the spare parts are first used to repair and maintain the aircraft

### Example B - Consumable Property

- Edward operates a construction company
- Edward has several storage tanks on its premises, which hold fuel for its machinery
- Assume that once the fuel is placed in the machinery, the fuel is reasonably expected to be consumed within 12 months or less
- On December 31, 2015, Edward purchases a two-year supply of fuel
- In 2016, Edward uses a portion of the fuel purchased on December 31, 2015, to fuel the machinery
- The fuel purchased in 2015 is a material or supply because it is reasonably expected to be consumed within 12 months or less from the time it is placed in the aircraft
- Edward may deduct in 2016 the amounts paid for the portion of fuel used in the construction operation in 2016

### Example C - Unit of Property that Costs $200 or Less

- Frank operates a business that rents out a variety of small individual items to customers (rental items)
- Frank maintains a supply of rental items on hand
- In 2014, Frank purchases a large quantity of rental items to use in the rental business
- Assume that each rental item is a unit of property and costs $200 or less
Example C - Unit of Property that Costs $200 or Less

- In 2015, Frank begins using all the rental items purchased in 2014 by providing them to customers of its rental business
- Frank does not sell or exchange these items on established retail markets at any time after the items are used in the rental business
- The rental items are materials and supplies, and the amounts that Frank paid for the rental items in 2014 are deductible in 2015, the taxable year in which the rental items are first used in Frank's business

Example D - Unit of Property that Costs $200 or Less

- George provides billing services to his customers
- In 2015, George pays amounts to purchase 50 scanners to be used by his employees
- Assume each scanner is a unit of property and costs less than $200
- In 2015, George's employees begin using 35 of the scanners, and George stores the remaining 15 scanners for use in a later taxable year
- The scanners are materials and supplies
- The amounts George paid for 35 of the scanners are deductible in 2015, the taxable year in which he first uses each of the scanners
- The amounts that George paid for each of the remaining 15 scanners are deductible in the taxable year in which each machine is first used in the business

Example E – Part 2

Materials and supplies that cost less than $200: de minimis safe harbor

- George's scanners qualify for the de minimis safe harbor and he properly elects to apply the de minimis safe harbor amounts paid in 2015
- George must apply the de minimis safe harbor under to amounts paid for the scanners, rather than treat these amounts as costs of materials and supplies
- George may deduct the amounts paid for all 50 scanners in the taxable year the amounts are paid
Example F - De minimis Safe Harbor; Client without AFS

• In 2015, Henry purchases 10 printers at $250 each for a total cost of $2,500 as indicated by the invoice
• Each printer is a unit of property
• Henry does not have an AFS
• Henry has accounting procedures in place at the beginning of 2015 to expense amounts paid for property costing $500 or less, and he treats the amounts paid for the printers as an expense on its books and records
• The amounts paid for the printers meet the requirements for the de minimis safe harbor
• If Henry elects to apply the de minimis safe harbor in 2015 he may not capitalize the amounts paid for the 10 printers or any other amounts meeting the criteria for the de minimis safe harbor under
• Henry may deduct these amounts in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary expenses incurred in carrying on a trade or business

Example G - de minimis Safe Harbor; Client with AFS

• Jarod is a member of a consolidated group for Federal income tax purposes
• Jarod’s financial results are reported on the consolidated applicable financial statements for the affiliated group
• The affiliated group has a written accounting policy at the beginning of 2015, to expense amounts paid for property costing $5,000 or less
• In 2015, Jarod pays $6,250,000 to purchase 1,250 computers at $5,000 each

Example G - de minimis Safe Harbor; Client with AFS

• He receives an invoice from its supplier indicating the total amount due ($6,250,000) and the price per item ($5,000)
• Each computer is a unit of property
• The amounts paid for the computers meet the requirements for the de minimis safe harbor
• If Jarod elects to apply the de minimis safe harbor he may not capitalize the amounts paid for the 1,250 computers or any other amounts meeting the criteria for the de minimis safe harbor
• Jarod may deduct these amounts in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary expenses incurred in carrying on a trade or business
Example H - de minimis Safe Harbor

Additional Invoice Costs

- Karen is a member of a consolidated group for Federal income tax purposes
- Karen’s financial results are reported on the consolidated applicable financial statements for the affiliated group
- The affiliated group has a written accounting policy at the beginning of 2015 to expense amounts paid for property costing less than $5,000
- In 2015, Karen pays $45,000 for the purchase and installation of wireless routers in each of its 10 office locations
- Each wireless router is a unit of property

Example H - de minimis Safe Harbor

Additional Invoice Costs

- Karen receives an invoice from its supplier indicating the total amount due ($45,000), including the material price per item ($2,500), and total delivery and installation ($20,000)
- Karen allocates the additional invoice costs to the materials on a pro rata basis, bringing the cost of each router to $4,500 ($2,500 materials + $2,000 labor and overhead)
- The amounts paid for each router, including the allocable additional invoice costs, meet the requirements for the de minimis safe harbor
- If Karen elects to apply the de minimis safe harbor the group may not capitalize the amounts paid for the 10 routers (including the additional invoice costs) or any other amounts meeting the criteria for the de minimis safe harbor
- Instead, Karen may deduct these amounts in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary expenses incurred in carrying on a trade or business

Example I - de minims Safe Harbor

Non- Invoice Additional Costs

- Lisa is a corporation that provides consulting services to its customers
- Lisa does not have an AFS, but has accounting procedures in place at the beginning of 2015 to expense amounts paid for property costing $500 or less
- In 2015, Lisa pays $600 to an interior designer to shop for, evaluate, and make recommendations regarding purchasing new furniture for the businesses conference room
- As a result of the interior designer’s recommendations, Lisa acquires a conference table for $500 and 10 chairs for $300 each
Example I - de minimis Safe Harbor Non-Invoice Additional Costs

- In 2015, Lisa receives an invoice from the interior designer for $600 for his services, and Lisa receives a separate invoice from the furniture supplier indicating a total amount due of $500 for the table and $300 for each chair.
- For 2015, Lisa treats the amount paid for the table and each chair as an expense on its books and records, and elects to use the de minimis safe harbor for amounts paid for tangible property that qualify under the safe harbor.
- The amount paid to the interior designer is a cost of facilitating the acquisition of the table and chairs.

Example I - de minimis Safe Harbor Non-Invoice Additional Costs

- Lisa is not required to include in the cost of tangible property the additional costs of acquiring such property if these costs are not included in the same invoice as the tangible property.
- Thus, Lisa is not required to include a pro rata allocation of the amount paid to the interior designer to determine the application of the de minimis safe harbor to the table and the chairs.
- Accordingly, the amounts paid by Lisa for the table and each chair meet the requirements for the de minimis safe harbor.

Example I - de minimis Safe Harbor Non-Invoice Additional Costs

- She may not capitalize the amounts paid for the table or each chair.
- In addition, Lisa is not required to capitalize the amounts paid to the interior designer as a cost that facilitates the acquisition of tangible property.
- Instead, Lisa will deduct the amounts paid for the table, chairs, and interior designer in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary expenses incurred in carrying on a trade or business.
Example J - de minimis Safe harbor; 12-month Economic Useful Life

- Matthew operates a restaurant
- In 2015, Matthew purchases 10 hand-held point-of-service devices at $300 each for a total cost of $3,000 as indicated by invoice
- Matthew also purchases 3 tablet computers at $500 each for a total cost of $1,500 as indicated by invoice
- Assume each point-of-service device and each tablet computer has an economic useful life of 12 months or less, beginning when they are used in the business
- Each device and each tablet is a unit of property
- Matthew has accounting procedures in place at the beginning of 2015 to expense amounts paid for property with an economic useful life of 12 months or less

Example J - de minimis Safe harbor; 12-month Economic Useful Life

- Thus, Matthew expenses the amounts paid for the hand-held devices on its books and records because each device costs $300
- He also expenses the amounts paid for the tablet computers on its books and records because the computers have an economic useful life of 12 months or less, beginning when they are used
- The amounts paid for the hand-held devices and the tablet computers meet the requirements for the de minimis safe harbor
- If Matthew elects to apply the de minimis safe harbor for 2015 he may not capitalize the amounts paid for the hand-held devices, the tablet computers, or any other amounts meeting the criteria for the de minimis safe harbor
- Instead, he may deduct the amounts paid for the hand-held devices and tablet computers in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary business expenses incurred in carrying on a trade or business

Example K – de minimus Safe Harbor - Limitation

- Nick is a corporation that provides consulting services to its customers
- Nick has an AFS and a written accounting policy at the beginning of the taxable year to expense amounts paid for property costing $5,000 or less
- In 2015, Nick purchases 1,000 computers at $500 each for a total cost of $500,000
- Each computer is a unit of property and is not a material or supply
- In addition, Nick purchases 200 office chairs at $100 each for a total cost of $20,000 and 250 customized briefcases at $80 each for a total cost of $20,000
- Each office chair and each briefcase is a material or supply
**Example N – de minimus Safe Harbor**

- Nick treats the amounts paid for the computers, office chairs, and briefcases as expenses on its AFS.
- The amounts paid for computers, office chairs, and briefcases meet the requirements for the de minimis safe harbor.
- If Nick elects to apply the de minimis safe harbor, he may not capitalize the amounts paid for the 1,000 computers, the 200 office chairs, and the 250 briefcases.
- Nick may deduct the amounts paid for the computers, the office chairs, and the briefcases in the taxable year the amounts are paid provided the amounts otherwise constitute deductible ordinary and necessary expenses incurred in carrying on a trade or business.

**Simplified Procedure**

- Revenue Procedure 2015-20
- The new procedure allows small businesses to change a method of accounting under the final tangible property regulations on a prospective basis for the first taxable year beginning on or after Jan. 1, 2014.
- In addition, for their first taxable year that begins on or after January 1, 2014, small business taxpayers are permitted to make certain tangible property changes without filing a Form 3115.

**If the De minimis safe harbor is used, is the business required to Capitalize all expenses that exceed the $500 or $5,000 limitations?**

- No.
- Amounts paid for the acquisition or production of tangible property that exceed the safe harbor limitations aren’t subject to the De minimis safe harbor election.
- Therefore, the safe harbor doesn’t require you to capitalize all amounts paid for tangible property in excess of the applicable limitation.
- If an amount doesn’t qualify under the de minimis safe harbor, you should treat the amount under the normal rules that apply, i.e., currently deductible if paid for incidental materials and supplies or for repair and maintenance.
- This treatment is proper regardless of whether the amount exceeds the applicable de minimis safe harbor limitation.
Example N - Election to Apply de minimis Safe Harbor

- Nadine provides consulting services to her customers
- In 2015, Nadine pays amounts to purchase 50 laptop computers
- Each laptop computer is a unit of property and costs $400, and has an economic useful life of more than 12 months
- Also in 2015, Nadine purchases 50 office chairs to be used by her employees
- Each office chair is a unit of property that costs $100
- Nadine has an applicable financial statement and has a written accounting policy at the beginning 2015 to expense amounts paid for units of property costing $500 or less
- Nadine treats amounts paid for property costing $500 or less as an expense on its applicable financial statement in 2015

Example N - Election to apply de minimis safe harbor

- The laptop computers are not materials or supplies
- Therefore, the amounts Nadine pays for the computers must generally be capitalized as amounts paid for the acquisition of tangible property
- The office chairs are materials and supplies
- Thus the amounts paid for the office chairs are deductible in the taxable year in which they are first used in the business
- If Nadine properly elects to apply the de minimis safe harbor to amounts paid in 2015, then she must apply the de minimis safe harbor to amounts paid for the computers and the office chairs, rather than treat the office chairs as the costs of materials and supplies
- Under the de minimis safe harbor, Nadine may not capitalize the amounts paid for the computers nor treat the office chairs as materials and supplies
- Instead she may deduct the amounts paid for the computers and the office chairs in the taxable year paid

IRS LB&I 04-0313-001

- This memorandum provides direction to the field in examinations of the repair versus capitalization issue
  - Instructs employees to discontinue audits of costs to maintain, replace or improve tangible property
  - Not to begin examining those issues for tax years beginning on or after December 31, 2012 and before 2014
  - Examinations of tax years beginning on or after January 1, 2014 employees are to apply the regulations in effect and follow normal exam procedures
What Does this Mean?

- IRS directs employees to "stand down" from audit activity for tax years beginning in 2012 and 2013 if the taxpayer did not file a Form 3115, Application for Change of Accounting Method.
- The 2014 year remains untouched and normal exam procedures will apply.
- The 2012 (LB&I-4-0312-004) and 2013 directives apply to the treatment of costs incurred to maintain, replace or improve tangible property, and to correlative issues involving the disposition of property.
- The directives do not apply to audits of issues for which the IRS has provided specific guidance.

Draft of New Form 3115

Draft of New Form 3115

Draft of New Form 3115
Draft of New Form 3115

Schedule B—Change to the Declared Method for Advance Payments (see instructions)

If the applicant is assuming the change to the declared method for advance payments described in section 1.101 of Rev. Proc. 2004-26, 2004-26 I.R.B. 419, which follows the information:

a. By determining the amounts of advance payments made in accordance with the provisions of section 482 of the Code, and the information requested by section 482(b)(2)(A) of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative.

b. The information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

c. Any person claiming the benefit of any exemption under section 443 of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

d. Any person claiming the benefit of any exemption under section 443 of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

e. Any person claiming the benefit of any exemption under section 443 of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

f. Any person claiming the benefit of any exemption under section 443 of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

Schedule C—Change of the LIFO Inventory Method (see instructions)

If the applicant is assuming the change to the LIFO inventory method described in section 1.263A-1(a) of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

Schedule D—Change of the LIFO Inventory Method (see instructions)

If the applicant is assuming the change to the LIFO inventory method described in section 1.263A-1(a) of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.

Schedule E—Change of the LIFO Inventory Method (see instructions)

If the applicant is assuming the change to the LIFO inventory method described in section 1.263A-1(a) of the Code, the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative, and the information may be filed with the Treasury Department or the appropriate Treasury representative.
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Scoop Dates for Post Filing Season

- November 4, 2015
- November 18, 2015
- December 16, 2015
- December 30, 2015

January
Getting Ready for Filing Season Webinars

- Free: Getting Ready for Filing Season – January 12, no CPE offered
- EITC Due Diligence – January 14 - $35.00
- Identity Theft – January 19 - $35.00
- 1 hour each CPE for EITC Due Diligence and Identity Theft
2015 Farm Tax Schools

- November 9, 2015 to December 15, 2015
- 8 Locations in Iowa
- Registration and the Fall Brochure will be out in August
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations.
- The program stresses practical information to facilitate the filing of individual and small business returns, in addition to farm returns.

CALT Website

http://www.calt.iastate.edu/

Tour of the CALT Website
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