Other Repair Regulations Issues

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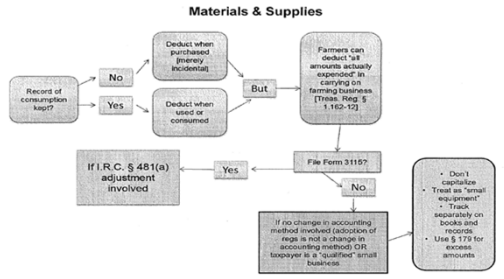
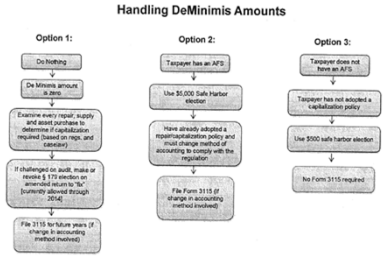
Definitions

- 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 rotable, 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 rotable, temporary, and standby emergency spare parts subject to the election to capitalize
  - Or rotable 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 rotable 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 minimus 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

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de minimis 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 Iissue

- 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 as an expense for non-tax purposes:

The amount paid for property that does not exceed

$_____ per invoice or peer item as detailed and substantiated by the invoice; or

The amount paid for property with an economic useful life of 12 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 rotable 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 it's the 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 minims 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 minims 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 minims 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 costing $300 or less and 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 of 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

IRS LB&I 04-0313-001 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

Form **3115**
(Rev. December 2015)
Department of the Treasury
Internal Revenue Service

Application for Change in Accounting Method

▶ Information about Form 3115 and its separate instructions is at www.irs.gov/form3115.

OMB No. 1545-0152

Name of filer (name of parent corporation if a consolidated group) (see instructions)

Identification number (see instructions)

Principal business activity code number (see instructions)

Number, street, and room or suite no. If a P.O. box, see the instructions.

Tax year of change begins (MM/DD/YYYY)

Tax year of change ends (MM/DD/YYYY)

City or town, state, and ZIP code

Name of contact person (see instructions)

Name of applicant(s) (if different than filer) and identification number(s) (see instructions)

Contact person's telephone number

If the applicant is a member of a consolidated group, check this box. ▶ ☐

If **Form 2848**, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box. ▶ ☐

Check the box to indicate the type of applicant.

☐ Individual
☐ Corporation
☐ Controlled foreign corporation (Sec. 957)
☐ 10/50 corporation (Sec. 904(d)(2)(E))
☐ Qualified personal service corporation (Sec. 448(d)(2))
☐ Exempt organization. Enter Code section ▶
☐ Cooperative (Sec. 1381)
☐ Partnership
☐ S corporation
☐ Insurance co. (Sec. 816(a))
☐ Insurance co. (Sec. 831)
☐ Other (specify) ▶

Check the appropriate box to indicate the type of accounting method change being requested. See instructions.

☐ Depreciation or Amortization
☐ Financial Products and/or Financial Activities of Financial Institutions
☐ Other (specify) ▶

Draft of New Form 3115

Caution: To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes **(1)** all relevant information requested on this Form 3115 (including its instructions), and **(2)** any other relevant information, even if not specifically requested on Form 3115.
The taxpayer must attach all applicable statements requested throughout this form.

Part I Information for Automatic Change Request (Yes / No)

1 Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions.

a (1) DCN: _____ (2) DCN: _____ (3) DCN: _____ (4) DCN: _____ (5) DCN: _____
(6) DCN: _____ (7) DCN: _____ (8) DCN: _____ (9) DCN: _____ (10) DCN: _____

b Other ☐ Description ▶ _____

2 Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation.

3 Has the filer provided all the information and statements required **(a)** on this form and **(b)** by the List of Automatic Changes under which the applicant is requesting a change? See instructions.
Note: Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.

Part II Information for All Requests (Yes / No)

4 During the tax year of change, did or will the applicant **(a)** cease to engage in the trade or business to which the requested change relates, or **(b)** terminate its existence? See instructions.

5 Is the applicant requesting to change to the principal method in the tax year of change under section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)? If "No," go to line 6a.
If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.

Sign Here

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Signature of filer (and spouse, if joint return) | Date | Name and title (print or type)

Draft of New Form 3115

Form 3115 (Rev. 12-2015)

Part II **Information for All Requests** (continued)

		Yes	No
6a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		
b	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions.		
c	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____		
d	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?		
7a	Does audit protection apply to the applicant's requested change in method of accounting? See instructions. If "No," attach an explanation.		
b	If "Yes," check the applicable box and attach the required statement. ☐ Not under exam ☐ 3-month window ☐ 120 day: Date examination ended ▶ ☐ Method not before director ☐ Negative adjustment ☐ CAP: Date member joined group ▶ ☐ Audit protection at end of exam ☐ Other		
8a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 10.		
b	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions. If "Yes," attach an explanation.		
c	If "Yes," enter the name of the (check the box) ☐ Appeals officer and/or ☐ counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____		
d	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?		

Draft of New Form 3115

9	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's **(a)** name, **(b)** identification number, **(c)** address, and **(d)** tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.		
10	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?		
11a	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the five tax years ending with the tax year of change? If "No," go to line 12.		
b	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.		
c	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.		
12	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing **(a)** the name(s) of the taxpayer, **(b)** identification number(s), **(c)** the type of request (private letter ruling, change in method of accounting, or technical advice), and **(d)** the specific issue(s) in the request(s).		
13	Is the applicant requesting to change its **overall** method of accounting? If "Yes," complete Schedule A on page 4 of the form.		

Form **3115** (Rev. 12-2015)

Draft of New Form 3115

Form 3115 (Rev. 12-2015) Page **3**

Part II **Information for All Requests** (continued)

		Yes	No
14	If the applicant is either **(i) not** changing its overall method of accounting, or **(ii)** changing its overall method of accounting **and** changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions):		
a	The item(s) being changed.		
b	The applicant's present method for the item(s) being changed.		
c	The applicant's proposed method for the item(s) being changed.		
d	The applicant's present overall method of accounting (cash, accrual, or hybrid).		
15a	Attach a detailed and complete description of the applicant's trade(s) or business(es).		
b	If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe **(i)** whether each trade or business is accounted for separately; **(ii)** the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; **(iii)** the overall method of accounting for each trade or business; and **(iv)** which trade or business is requesting to change its accounting method as part of this application or a separate application.		
16a	Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method.		
b	Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method.		
c	Include either a discussion of the contrary authorities or a statement that no contrary authority exists.		
17	Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions. If "No," attach an explanation.		

Draft of New Form 3115

19a If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.

1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.
$	$	$

b If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change:
4th preceding year ended: mo. _____ yr. ____ $ _____

Part III Information for Non-Automatic Change Request (Yes | No)

20 Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? . . . . . .
If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.

21 Attach a copy of all documents related to the proposed change (see instructions).

22 Attach a statement of the applicant's reasons for the proposed change.

23 If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . . .
If "No," attach an explanation.

24a Enter the amount of **user fee** attached to this application (see instructions). ▶ $ _____

b If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).

Form **3115** (Rev. 12-2015)

Draft of New Form 3115

Form 3115 (Rev. 12-2015) Page 4

Part IV Section 481(a) Adjustment (Yes | No)

25 Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? . . . . . .
If "Yes," attach an explanation and do not complete lines 26, 27, and 28 below.

26 Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ▶ $ _____ Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant.

27 Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change?
If "Yes," check the box for the applicable elective provision used to make the election (see instructions).
☐ $50,000 de minimis election ☐ Eligible acquisition transaction election

28 Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? . . . . . .
If "Yes," attach an explanation.

Draft of New Form 3115

Schedule A—Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.)

Part I Change in Overall Method (see instructions)

1 Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting.
Present method: ☐ Cash ☐ Accrual ☐ Hybrid (attach description)
Proposed method: ☐ Cash ☐ Accrual ☐ Hybrid (attach description)

2 Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.

		Amount
a	Income accrued but not received (such as accounts receivable)	$
b	Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method.	
c	Expenses accrued but not paid (such as accounts payable).	
d	Prepaid expenses previously deducted	
e	Supplies on hand previously deducted and/or not previously reported	
f	Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II.	
g	Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. ▶	
h	**Net section 481(a) adjustment** (Combine lines 2a–2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26.	$

3 Is the applicant also requesting the recurring item exception under section 461(h)(3)? . . . . . ☐ Yes ☐ No

4 Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as, tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on both the profit and loss statement and the balance sheet, attach a statement explaining the differences.

Draft of New Form 3115

5 Is the applicant making a change to the overall cash method under Rev. Proc. 2002-28 (DCN "33")? . . ☐ Yes ☐ No
If "Yes," attach a statement that provides the applicant's NAICS code. See instructions.

Part II Change to the Cash Method for Non-Automatic Change Request (see instructions)

Applicants requesting a change to the cash method must attach the following information:

1 A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.

2 An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations.

Form **3115** (Rev. 12-2015)

Draft of New Form 3115

Form 3115 (Rev. 12-2015) Page **5**

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

1 If the applicant is requesting to change to the deferral method for advance payments described in section 5.02 of Rev. Proc. 2004-34, 2004-1 C.B. 991, attach the following information:

a A statement explaining how the advance payments meet the definition in section 4.01 of Rev. Proc. 2004-34.

b If the applicant is filing under the automatic change procedures, the information required by section 8.02(3)(a)-(c) of Rev. Proc. 2004-34.

c If the applicant is filing under the non-automatic change procedures, the information required by section 8.03(2)(a)-(f) of Rev. Proc. 2004-34.

2 If the applicant is requesting to change to the deferral method for advance payments described in Regulations section 1.451-5(b)(1)(ii), attach the following information:

a A statement explaining how the advance payments meet the definition in Regulations section 1.451-5(a)(1).

b A statement explaining what portions of the advance payments, if any, are attributable to services, whether such services are integral to the provisions of goods or items, and whether any portions of the advance payments that are attributable to non-integral services are less than five percent of the total contract prices. See Regulations sections 1.451-5(a)(2)(i) and (3).

c A statement explaining that the advance payments will be included in income no later than when included in gross receipts for purposes of the applicant's financial reports. See Regulations section 1.451-5(b)(1)(ii).

d A statement explaining whether the inventoriable goods exception of Regulations section 1.451-5(c) applies and if so, when substantial advance payments will be received under the contracts, and how the exception will limit the deferral of income.

Draft of New Form 3115

d A statement explaining whether the inventoriable goods exception of Regulations section 1.451-5(c) applies and if so, when substantial advance payments will be received under the contracts, and how the exception will limit the deferral of income.

Schedule C—Changes Within the LIFO Inventory Method (see instructions)

Part I General LIFO Information

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970,** Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:

a Valuing inventory (for example, unit method or dollar-value method).

b Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).

c Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).

d Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).

2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.

3 If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.

4 If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.

5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.

6 If changing to the IPIC method, attach a completed Form 970.

Draft of New Form 3115

are valued under each method.

6 If changing to the IPIC method, attach a completed Form 970.

Part II Change in Pooling Inventories

1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.

2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):

a A description of the types of products produced by the applicant. If possible, attach a brochure.

b A description of the types of processes and raw materials used to produce the products in each proposed pool.

c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.

d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.

e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.

f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.

Form 3115 (Rev. 12-2015)

Draft of New Form 3115

Form 3115 (Rev. 12-2015) Page 6

Part II Change in Pooling Inventories (continued)

g A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.

3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).

4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

Schedule D—Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets (see instructions)

Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8.)

1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletion) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.

2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)? . . ☐ Yes ☐ No

b If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)? . . . . ☐ Yes ☐ No

If line 2b is "No," attach an explanation.

c Is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)? . . . . . ☐ Yes ☐ No

d In computing the completion factor of a contract, will the applicant use the cost-to-cost method described in Regulations section 1.460-5(b) or the simplified cost-to-cost method described in Regulations section 1.460-5(c)? . ☐ Yes ☐ No

e If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)? . . . . . ☐ Yes ☐ No

If line 2e is "Yes," attach an explanation of what method the applicant will use to determine a contract's completion factor.

If line 2e is "No," attach an explanation of what method the applicant is using and the authority for its use.

3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)? . . . . . ☐ Yes ☐ No

Draft of New Form 3115

3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)? . . . . . ☐ Yes ☐ No

b If "Yes," attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.

4a Does the applicant enter into cost-plus long-term contracts? . . . . . ☐ Yes ☐ No

b Does the applicant enter into federal long-term contracts? . . . . . ☐ Yes ☐ No

Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8.)

1 Attach a description of the inventory goods being changed.

2 Attach a description of the inventory goods (if any) NOT being changed.

3a Is the applicant subject to section 263A? If "No," go to line 4a. . . . . ☐ Yes ☐ No

b Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)? ☐ Yes ☐ No

If "No," attach a detailed explanation. . . . . .

4a Check the appropriate boxes in the chart.

	Inventory Method Being Changed		Inventory Method Not Being Changed
	Present method	Proposed method	Present method
Identification methods:			
Specific identification			
FIFO			
LIFO			
Other (attach explanation)			
Valuation methods:			
Cost			
Cost or market, whichever is lower			
Retail cost			
Retail, lower of cost or market			
Other (attach explanation)			
b Enter the value at the end of the tax year preceding the year of change.	$	$	

Draft of New Form 3115

5 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).

a Copies of Form(s) 970 filed to adopt or expand the use of the method.

b **Only for applicants requesting a non-automatic change.** A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.

c **Only for applicants requesting an automatic change.** The statement required by section 22.01(5) of Rev. Proc. 2015-14 (or its successor).

Form **3115** (Rev. 12-2015)

Form 3115 (Rev. 12-2015) Page **7**

Part III **Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460.) See instructions.

Section A—Allocation and Capitalization Methods

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate direct and indirect costs required to be allocated to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

1 The method of allocating direct and indirect costs (for example, specific identification, burden rate, standard cost, or other reasonable allocation method).

2 The method of allocating mixed service costs (for example, direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).

Draft of New Form 3115

3 Except for long-term contract accounting methods, the method of capitalizing additional section 263A costs (for example, simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

Section B—Direct and Indirect Costs Required to be Allocated

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

Draft of New Form 3115

		Present method	Proposed method
1	Direct material		
2	Direct labor		
3	Indirect labor		
4	Officers' compensation (not including selling activities)		
5	Pension and other related costs		
6	Employee benefits		
7	Indirect materials and supplies		
8	Purchasing costs		
9	Handling, processing, assembly, and repackaging costs		
10	Offsite storage and warehousing costs		
11	Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
12	Depletion		
13	Rent		
14	Taxes other than state, local, and foreign income taxes		
15	Insurance		
16	Utilities		
17	Maintenance and repairs that relate to a production, resale, or long-term contract activity		
18	Engineering and design costs (not including section 174 research and experimental expenses)		
19	Rework labor, scrap, and spoilage		
20	Tools and equipment		
21	Quality control and inspection		
22	Bidding expenses incurred in the solicitation of contracts awarded to the applicant		
23	Licensing and franchise costs		

Draft of New Form 3115

24	Capitalizable service costs (including mixed service costs)	
25	Administrative costs (not including any costs of selling or any return on capital)	
26	Research and experimental expenses attributable to long-term contracts	
27	Interest	
28	Other costs (Attach a list of these costs.)	

Form 3115 (Rev. 12-2015)

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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