Capitalization Policy Needed to Use De Minimis “Repair” Regulations Rule

Taxpayers with Applicable Financial Statements

The following sample policy is provided for consideration in documenting a capitalization threshold policy as required to elect the de minimis safe harbor in the 2013 Final Tangible Property Regulations. For U.S. Federal income tax reporting purposes, a taxpayer with an applicable financial statement (AFS) may elect to expense up to $5,000 per invoice (or item) provided there is a matching written financial policy in place prior to the first day of the 2014 tax year. Transactional and other additional costs related to acquisition or production of such property that are included on the same invoice as the tangible property must be included when determining the cost of the property. However, if these costs are not included on the same invoice they may be excluded at the option of the taxpayer. For financial reporting and other business purposes, a taxpayer may choose a capitalization threshold policy other than $5,000, and should review any policy changes amongst its management and officer group, and with its independent auditor.

SAMPLE CAPITALIZATION THRESHOLD POLICY

A fixed asset is any tangible asset purchased for use in the day-to-day operations of [Company] from which an economic benefit will be derived over a period greater than one year. Fixed assets include items of property and equipment such as buildings, leasehold improvements, office furniture, fixtures, computers and other related technology equipment. At the time a fixed asset is acquired, its cost is capitalized unless it has a value of [$_____] or less in which case the asset is expensed in the period acquired. Amounts paid for property with an estimated useful life of 12 months or less with a value of [$_____] or less are expensed in the period acquired as well. Management will periodically review these levels and make any modifications necessary.

This policy was approved by:

________________________________
Name

________________________________
Title

________________________________
Date

[Accounting Officer or Chief Financial Officer signed prior to the first day of the 2014 tax year.]

The sample statement above is provided only as a guide to be able to use the de minimis expensing rule under the 2013 Final Tangible Property Regulations and is not intended as comprehensive capitalization policy & procedures. There are significant additional issues to be addressed related to the new tax rules. Management needs to determine and adopt the best policy taking into account all considerations. We recommend a discussion with tax advisors and independent auditors.
Any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties imposed under the Internal Revenue Code or applicable state or local tax law or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.