

## Repair and Maintenance Expenses

The Internal Revenue Service finalized regulations in 2013 regarding repair and maintenance expenses. The regulations are quite complex and lengthy and establish rules as to when you must capitalize certain purchases versus expensing them currently.

There are several de minimis safe harbor rules in the final regulations. One requirement under these regulations is that a taxpayer must establish written accounting procedures prior to the start of the year to expense certain dollar amounts up to \$500 even though the assets have a life greater than one year. While the election to expense under the policy is made on a year by year basis on your tax return, the accounting policy must be in place. While the amounts are small and you may very well be able to write off purchases under different tax code sections, at a minimum we would recommend you adopt a policy similar to the following and keep it in your permanent records.

**Company** \_\_\_\_\_ **Date Adopted** \_\_\_\_\_

### ***Capitalization Policy for the Acquisition, Management, Repair and Maintenance of Company Owned Tangible Property***

*Purpose — These guidelines shall apply to all transactions related to the acquisition, maintenance, sale or other final disposition of company owned tangible property.*

*The guidelines set forth in this document shall be known as the company's capitalization policy, and serve as the company's compliance with the Internal Revenue Code and the tangible property regulations promulgated there under. The guidelines are intended to be used for the company's financial accounting purposes.*

*Tangible Property — Refers to all tangible personal and real property acquired or produced by the company as implements, tools, materials, supplies, equipment, furniture, land, buildings, and fixtures for its place(s) of business for the purpose of carrying out all aspects of business operations. All such tangible property with an acquisition cost of more than \$500 shall be capitalized and depreciated over its estimated useful life.*

#### *Tangible Property Not Subject to Capitalization:*

*De Minimis Amounts — Amounts paid to acquire or produce tangible property not exceeding \$500 are to be charged to the appropriate de minimis property expense accounts. All tangible property expenditures with an acquisition or production cost under the stated threshold are to be charged to the expense accounts. This policy does not apply to land, buildings, and other real property.*

*De Minimis Amounts — Amounts paid to acquire or produce tangible property having an economic useful life (as defined in §1.1623(c)(3)) of 12 months or less are to be charged to the the appropriate de minimis property expense accounts. All tangible property expenditures with an economic useful life of 12 months or less are to be charged to the expense accounts. This policy does not apply to land, buildings, and other property.*

If you have questions or need further assistance, please contact our office.