CBIZ MHM

Tangible Property Regulations

New tangible property regulations were issued in late December 2011 by the IRS to guide taxpayers on how to account for amounts paid to acquire, produce or improve tangible property. Originally scheduled to be effective for tax years beginning on, or after, January 1, 2012, mandatory compliance with the new regulations has been delayed to tax years beginning on, or after, January 1, 2014.

Despite the delay, certain taxpayers may benefit from early adoption of all, or select provisions in the regulations. Regardless of whether early adoption is right for your company, it is expected that most companies will incur additional expenses next year in complying with the new regulations. The questions below are key triggers that can help you determine whether early adoption is right for your company.

DOES YOUR COMPANY:	YES	BENEFIT
Own a building?	☐	If you have replaced a significant component of your building, you may be able to write-off the old component still sitting on your books. You also may be able to use general asset accounts to group types of expenditures together, potentially increasing the ability to deduct similar future expenditures as repairs.
Have any recently completed renovation or expansion projects to your buildings?	☐	We can review your records to make sure that replaced components are written off and that new expenditures are depreciated over the shortest period allowable.
Acquire many small dollar fixed assets on an annual basis?	☐	If you have an applicable financial statement and have expensed property costing below a specified amount, the *de minimis* rule may allow you to deduct expenditures below the *de minimis* cap instead of capitalizing them.
Accumulate large expenditures to maintain equipment?	☐	You may be able to use the routine maintenance safe harbor to increase your current deductions, or at least deduct them with more certainty.
Incur a large annual cost for materials and supplies?	☐	You may be able to use the *de minimis* rule or the routine maintenance safe harbor to increase your current deductions, or at least deduct them with more certainty. The new regulations provide favorable rules to correct any impermissible methods that are used in accounting for materials and supplies.
Have Net Operating Losses (NOLs)?	☐	Early adoption of the tangible property regulations based on the facts and circumstances described above are typically negated if you have NOLs. Consult your tax provider regarding your specific circumstances.

Michael Finnegan is a Director in our tax practice with over 18 years of tax experience including time with one of the “Big 5” accounting firms and three years in the corporate tax department of a Fortune 500 company. He specializes in tax issues for closely-held businesses and their owners and tax issues for large corporations. Mike has worked with clients on planning for acquisitions, divestitures, ownership changes, LIFO, accounting methods, multi-state income taxation along with FAS 109 and FIN 48 analysis. His industry experience includes distribution, wholesale, manufacturing, technology and service companies.

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