

Dear Business Clients:

The IRS released final regulations on the capitalization of tangible property costs. The final regulations provide an important opportunity—the *de minimis* safe harbor election—that allows eligible businesses to immediately expense certain property that would otherwise have to be capitalized. To qualify for the safe harbor, businesses must have nontax accounting procedures in place at the beginning of the year, under which they expense amounts paid for property costing less than a specified dollar amount or that have a useful life of 12 months or less.

The amount that can be expensed under the safe-harbor election depends on whether the business has an Applicable Financial Statement (AFS), which includes financial statements filed with the SEC or provided to a federal or state government or agency (other than the SEC or the IRS); and certified audited financial statements used for credit purposes, reporting to owners, or other substantial nontax purposes.

- Businesses with an AFS must have *written* accounting procedures in place to make the safe harbor election. If so, they can expense property that costs up to \$5,000 (per item) if, in accordance with their written accounting procedures, the property is expensed on their AFS.
- Businesses without an AFS must have accounting procedures in place at the beginning of the year. If so, they can expense property costing up to \$500 (per item) if, in accordance with those procedures, the property is expensed in their books and records. The procedures apparently do not need to be written. However, we strongly recommend that all businesses commit their accounting procedures to writing.

The regulations do not define *accounting procedures* or describe what the procedures should include. But, the IRS is really talking about a capitalization policy. Many businesses establish a minimum dollar amount that must be spent before a cost is capitalized. Otherwise, the cost is deducted. The following is a sample capitalization policy that can be used or modified to fit a business's particular needs:

It is the business's policy to capitalize assets that cost \$500 or more individually. All capitalized assets will be depreciated in accordance with the business's depreciation policy. Assets that cost less than \$500 individually will be expensed in the period purchased.

Note: To take full advantage of the safe-harbor limit, a business with an AFS would need to increase the cost threshold to \$5,000.

Please contact our office if you have any questions on this new IRS regulation of creating a capitalization policy

Sincerely,

Lurie & Co. CPAs, P.C.

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