



## THIS MONTH:

- ◆ Do You Have a Capitalization Policy?
- ◆ Padgett in Washington, D.C.— What Are We Doing For You?

### Do you have a Capitalization Policy?

In an attempt to alleviate past confusion, the IRS issued new regulations clarifying which costs are classified as repairs and maintenance and deductible in the current year. This is versus those fixed asset expenditures that have to be capitalized and depreciated over a number of years.

**General Rule:** Taxpayer must capitalize and depreciate all costs that facilitate the acquisition or production of property. Improvements to property that better a unit of property, restore it, or adopt it to a new and different use must also be capitalized.

The regulations provide circumstances for when certain items can be expensed, rather than capitalized.

1. **De Minimis Safe Harbor:** Supplies and Materials that are \$200 or less per item, per invoice OR have a useful life of 12 months or less can be expensed in the current year.
2. **Routine Maintenance Safe Harbor:** Repairs and maintenance that keep business property in ordinarily efficient operating condition, such as inspection, cleaning, testing, and replacement of worn or damaged part can be expensed.

3. **Per Building Safe Harbor for Small Businesses:** Taxpayers with average annual gross receipts of \$10 million or less in the three preceding tax years can deduct improvements made to a building with an unadjusted basis of \$1 million or less. The deduction is limited to \$10,000 or 2% of the building's unadjusted basis. This election is made annually on a timely filed return and is on a building-by-building basis.

#### Exceptions to the General Rule:

1. A Capitalization Policy establishes the threshold (minimum cost) for capitalization and depreciation of fixed assets. Taxpayers that have a written policy for accounting procedures in place by the beginning of the tax year can deduct up to \$500 per item, per invoice (instead of \$200). The \$500 de minimis safe harbor election can be made by attaching a statement to a timely filed federal income tax return. This election is not considered a Change in Accounting Method and therefore Form 3115, *Application for Change in Accounting Method*, is not required. For businesses that had a written Capitalization Policy in place at 1/1/2014, the \$500 threshold can be applied on the 2014 Federal return. For businesses that did NOT have a policy in place can still make the election for 2015 by establishing accounting procedures for the 2015 tax year before January 1<sup>st</sup>.
2. The IRS has hinted at flexibility in the dollar ceilings where the taxpayer has the burden of showing that such treatment clearly reflects income. If you think your business model can support a higher de minimis threshold, consider filing Form 3115, *Application for Change in Accounting Method*, with the tax return for the year the change is to be effective.

These regulations are lengthy and complex, so contact your local Padgett office for assistance, as these new provisions will affect every business, even yours!



## Padgett in Washington, D.C. – What Are We Doing for You?

As a small business owner, you are undoubtedly already aware of the many services Padgett Business Services® provide that simplify and streamline your business. But, did you know that in addition to providing tax preparation, payroll, financial reporting and business advice, Padgett also serves as your advocate in Washington, D.C.?

We understand business, and we know that government policy and tax code has a dramatic impact on your business; that's why Padgett Business Services® advocates on Capitol Hill for policy and tax code changes that will benefit small business owners. This has been a very active time for Padgett Business Services® in the policy arena. We focused our attention on several areas of key interest for small businesses:

- Tax reform with simplification of the tax code,
- Policy changes that would improve cash flow,
- Working with the IRS on the implementation of the Affordable Care Act, and
- A reduction or elimination of so called “soft notices” from the IRS.

### Why Are These Issues So Important to Small Business Owners?

Each of the above issues has a clear, immediate and troublesome impact on small business. The complexity of the current tax code means that small business owners must constantly struggle to keep on top of an ever-changing and difficult-to-navigate system where errors or delays result in costly penalties and time-consuming paperwork.

On the subjects of **tax reform** and **cash flow**, Padgett Business Services® has been working with the Senate Finance Committee to push through immediate deductions for launching a new business, for inventory, and for leasehold improvements, and to make section 179 deductions a permanent part of the tax code.

We have also spent a great deal of time with the IRS trying to understand the **Affordable Care Act** and working with the IRS to make sure the implementation of the law is as smooth as possible.

The so-called “**soft tax notices**” the IRS began issuing to small business taxpayers in 2013 were intended to increase tax compliance in a simple, efficient fashion; however, in practice, these notices were confusing and time consuming. While we continue to work with our allies on the Hill to stop these notices, we feel confident that the IRS will at the very least make these notices more focused and less burdensome.

### What's Next?

Padgett will continue to monitor this activity and we will continue to support any effort that benefits small businesses and their owners.

Contact to your local Padgett office for more information on our efforts in Washington, D.C., and remember, we are here to serve you!

PADGETT BUSINESS SERVICES®  
WHERE YOUR SUCCESS TAKES ROOT™



PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

**PENALTY NOTICE:** As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.