

De Minimis Capitalization Election

The IRS has implemented the tangible property regulations (TPRs) (T.D. 9689) effective for taxable years ending on or after January 1, 2014. This new guidance determines whether certain expenditures are required to be capitalized or expensed. The TPRs provide de minimis safe harbor for taxpayer to deduct up to \$2,500 of expenditures (or \$5,000 if applicable financial statements are prepared), regardless of whether the expenditure meets the definition of a capitalizable expense. Larger expenditures may be deductible but will be subject to a greater level of scrutiny.

A taxpayer can elect to apply such de minimis safe harbor if all of the following criteria are met:

1. the taxpayer has, at the beginning of the tax year, written accounting policy treating as an expense for non-tax purposes amounts paid for property costing less than a specified dollar amount and /or amounts paid for property with an economic useful life of 12 months or less;
2. the taxpayer treats the amount paid for the property as an expense on its applicable financial statement in accordance with its written accounting policy; and
3. the amount paid for the property doesn't exceed \$5,000 per invoice (or per item as substantiated by the invoice)

An AFS is a financial statement required to be filed with SEC, a certified audited financial statement that is accompanied by the report of an independent certified public accountant, or a financial statement (other than a tax return) required to be provide to federal or a state government or any federal or state agency.

A taxpayer makes the election by attaching a statement to the taxpayer's timely filed original Federal tax return (including extensions) for the tax year in which these amounts are paid. The statement must be titled "Section 1.263(a)-1(f) de minimis safe harbor election" and include the taxpayer's name, address, taxpayer identification number, and a statement that the taxpayer is making the de minimis safe harbor election under Reg § 1.263(a)-1(f).

For taxpayer without applicable financial statement (AFS), the safe harbor threshold is reduced to \$2,500. Taxpayer without AFS are required only to have accounting procedures. Nevertheless, it is recommended that all taxpayers without an AFS also have written accounting procedures.

Sample Accounting Capitalization Procedures for Taxpayers without an AFS

Accounting Capitalization Policy for ABC Corporation

1. This accounting capitalization policy is effective as of January 1, 2017, and treats as an expense for non-tax purposes the amount paid for property that does not exceed \$2,500 per invoice (or per item as substantiated by the invoice).
2. Pursuant to this policy, the amounts described in 1. above will be treated as an expense on the books and records.

Signed: _____ Date: _____

We encourage businesses to revisit their capitalization accounting procedures to take the maximum benefit this de minimis provision allows.

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