



Client Letter on Need for Capitalization Policy under Tangible Property Regulations

(Safe Harbor Election) Must be made annually

Dear Business Client,

The IRS released final regulations in September of 2013 on the capitalization of tangible property costs. The final regulations allow the *de minimis* safe harbor election which allows eligible businesses to immediately expense certain property that would otherwise have to be capitalized.

How do you qualify for the safe harbor? You must have nontax accounting procedures in place at the beginning of the year, under which you 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). These statements include 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.

Those businesses **with** an AFS must have written accounting procedures in place to make the safe harbor election by January 1, 2014 for calendar-year businesses. Those that have made the election 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.

Those businesses **without** an AFS must have accounting procedures in place by January 1, 2017 for calendar-year businesses. If so, they can expense property costing up to \$2,500 (per item), if, in accordance with those procedures, property is **expensed** in their books and records. Even though it is not indicated that the accounting procedures have to be in writing, it may be wise to do so.

The capitalization policy must be in place by the beginning of next tax year (January 1, 2017 for calendar-year businesses) in order to make the safe harbor election.

Sincerely,

The McKillip Group CPAs

Accounting Policy Statement (Capitalization Policy)

_____ (Co. Name) considers certain fixed assets to be tangible assets purchased for use in the business operations of _____ (Co. Name) from which an economic benefit will be derived over more than one year. Fixed assets are items such as buildings, leasehold improvements, equipment, office furniture, fixtures, computers, and other related technology equipment.

The cost will be capitalized unless it has a value of \$2,500 or less, which includes transactional and other costs related to the acquisition or purchase. The cost will be expensed in the period the asset is acquired.

Also, property with an estimated useful life of 12 months or less, and with a value of \$2,500 or less, will be expensed. The above accounting procedures will be reviewed periodically in order to make any adjustments necessary.

Name

Title

January 1, 2017

Date